

Industry  
Bloomberg  
BSE CODE

Metals  
VEDL IN  
500295

## Lower commodity prices impacted performance, oil & gas production remained lower....

RATING	NEUTRAL
CMP	164
Price Target	180
Potential Upside	10%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	247/146
Mkt Capital (Rs Cr)	60981
Free float (%)	50%
Avg. Vol 1M (,000)	8805
No. of Shares (Cr)	372
Promoters Pledged %	0%

### 1QFY20 Result Update

- Consolidated revenue for the quarter was at Rs.21374cr (down 3.7% YoY), fall was on account of lower revenue at zinc India, aluminium and copper business..
- Consolidated EBITDA was at Rs.5198cr (down 17.5% YoY and 15.3% QoQ), significantly lower EBITDA in aluminium business was the primary reason of fall in overall EBITDA, lower EBITDA at zinc India also impacted the performance.
- Zinc India EBITDA for the quarter was at Rs.2429cr (down 11.5% YoY), mined metal production was at 213kt (up 0.5% YoY). Higher ore production was offset by lower grades leading to flat YoY growth.
- Zinc international EBITDA was at Rs.128cr (up 50.6% YoY). Gamsberg did volume of 23kt (vs. 14kt in 4QFY19), Skorpion and BMM did volume of 18kt (up 80% YoY) and 19kt (up 27% YoY) respectively.
- Aluminium EBITDA for the quarter was at Rs.179cr (down 85.8% YoY), sales volume was at 481kt (up 3% YoY) , however, realization was down 14% YoY. Reported CoP of aluminium was at USD 1764/t (down 9% YoY).
- Oil & Gas EBITDA for the quarter was at Rs.1825cr (down 1.5% YoY), and average daily gross production was at 180kboepd (down 7.7% YoY and 3.7% QoQ). Natural decline and maintenance activities led to lower production in the quarter.
- Power business EBITDA for the quarter was at Rs.392cr (down 7.8% YoY) and power sold in the quarter was at 3523mn units (up 6% YoY).
- Iron ore EBITDA for the quarter was at Rs.114cr (down 30.1% YoY), Karnataka volume was at 1.2mt (vs. 0.4mt in 1QFY19), Goa operations continue to remain shut (Goa mine did volume of 1mt in 1QFY19).
- Steel volume in the quarter was at 0.32mt (vs.0.07mt in 1QFY19), and EBITDA was at Rs.197cr (vs.Rs.37cr in 1QFY19). EBITDA margin on sequential basis fell to 18% (vs. 21%) due to fall in steel prices.
- Management stated that company has unwound its investment in Anglo American Plc and has realized a gain of USD 100mn.
- Management maintained its volume and CoP guidance across the segments for FY20.

### View and Valuation

Vedanta continues to remain the key beneficiary if there is an upward movement in commodity price due to its presence in ferrous, non ferrous and oil & gas businesses. However, significant fall in LME zinc and LME aluminium due to ongoing US/China trade war and difficulty in ramping up production in oil & gas business will continue to impact company's performance over near term. Our FY20 EBITDA/PAT estimates stand reduced by 8%/12%, primarily on account of lower than expected profitability in zinc international and aluminium business, but, we maintain our FY21 estimates. **We continue to maintain our NEUTRAL view on the stock with an unchanged target price of Rs.180 (3.3x FY21e EV/EBITDA).**

### Key Risks to our rating and target

- High volatility in zinc and aluminium prices and lower than expected volume growth.
- Changing zinc and lead ratio in ore at Hind zinc and difficulty in ramping up production in oil & gas business is a concern.

### RESEARCH ANALYST

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KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	72225	91866	92048	84882	96449
EBITDA	21332	25164	23103	24377	30200
EBIT	15040	18881	14911	15780	20885
Adj PAT	5629	7983	6745	5873	8135
Adj.EPS (Rs)	19	21	18	16	22
ROE (%)	9.30%	12.57%	10.83%	9.22%	12.07%
ROCE (%)	14.37%	17.77%	13.28%	12.86%	16.10%
BV	204	171	168	171	181
P/B (X)	1.35	1.63	1.10	0.96	0.90
P/E (x)	14.47	12.96	10.13	10.38	7.50

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## Aluminium segment remained the worst performer....

### 1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	22206	22705	23669	23092	21167	-4.7%	-8.3%	91,866	92,048	0.2%
Other Income	418	592	1398	1628	380	-9%	-76.7%	3,574	4,018	12.4%
Total Income	22624	23297	25067	25096	21754	-4%	-13.3%	95,440	96,066	0.7%
COGS	5830	6708	6886	6766	5334	-9%	-21.2%	46,278	44,294	-4.3%
Staff Cost	725	786	744	768	744	3%	-3.1%	2,496	3,023	21.1%
Other Exp.	9367	10003	10394	9799	10098	8%	3.1%	17,928	21,628	20.6%
Expenditure	15922	17497	18024	17333	16176	2%	-6.7%	66,702	68,945	3.4%
EBITDA	6284	5208	5645	6135	5198	-17%	-15.3%	25,164	23,103	-8.2%
Depreciation	1796	1931	2207	2258	2155	20%	-4.6%	6,283	8,192	30.4%
EBIT	4488	3277	3438	3877	3043	-32%	-21.5%	18,881	14,911	-21.0%
Interest	1546	1571	1358	1401	1341	-13%	-4.3%	5,783	5,689	-1.6%
PBT	3360	2298	3478	4104	2082	-38%	-49.3%	16,672	13,240	-21%
Excpt. Item	-	-320	-	-	-	-	-	823	(320)	-
Tax	1112	718	1146	886	138	-88%	-84.4%	3,803	3,862	2%
PAT	2248	1900	2332	3218	1944	-14%	-39.6%	13,692	9,698	-29%
Adj PAT*	1533	1023	1574	2615	1351	-12%	-48.3%	7,983	6,745	-16%

\*Adj for exceptional item and minority interest

### Revenue/EBITDA breakup

REVENUE	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Zinc-India	5197	5853	6183	5221	4647	5488	5354	4871	-6.7%
Zinc-International	853	970	822	573	541	622	1002	824	43.8%
Aluminium	5212	6514	7158	7394	7888	7708	6547	6834	-7.6%
Iron-Ore	542	843	1070	788	615	658	853	797	1.1%
Power	1431	1724	1764	1590	1718	1623	1593	1703	7.1%
Oil and Gas	2099	2413	2749	3219	3479	3350	3175	3131	-2.7%
Copper	6237	5898	7518	2797	2376	2763	2803	1777	-36.5%
Steel	-	-	-	-	1099	1198	1581	1104	-
Others	19	146	366	624	342	259	560	561	-10.1%

EBITDA	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Zinc-India	3001	3238	3640	2745	2240	2839	2777	2429	-11.5%
Zinc-International	389	446	259	85	16	206	391	128	50.6%
Aluminium	457	610	1310	1259	399	262	397	179	-85.8%
Iron-Ore	-4	231	193	163	98	101	240	114	-30.1%
Power	366	595	597	425	378	364	360	392	-7.8%
Oil and Gas	1176	1359	1509	1852	2026	1973	1805	1825	-1.5%
Copper	392	297	407	-87	2	-75	-69	-66	-
Steel	-	-	-	-	168	249	337	197	-
Others	-108	-13	-78	-158	-119	-274	-103	-102	-

## Other updates:

- Volcan Investment decided to exercise its call option on the convertible bonds and unwind its stake in Anglo American Plc. Vedanta Ltd also unwound its investment ahead of the original schedule maturity. Management stated that neither Volcan nor Vedanta will have any exposure to the shares that were held in Anglo American and that Vedanta realized gain of USD 100mn out of the investment.
- Depreciation charge higher due to capitalization of capacities as volume ramp up at Gamsberg , Depreciation is expected to remain in the same range for rest of the quarter of FY20.
- Finance cost in the quarter was lower due to higher capitalization of borrowing cost and one-time commitment charges which were there in 1QFY19, it was partially offset by higher average borrowing cost.
- Effective tax rate in the quarter was lower due to deferred tax recognition at ESL.

## Sales volume

ZINC-INDIA (KT)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Refined Zinc	193	200	210	170	160	187	177	167	-1.8%
Refined Lead	39	45	50	42	49	54	52	47	11.9%
<b>Total Zinc-Lead</b>	<b>232</b>	<b>245</b>	<b>260</b>	<b>212</b>	<b>209</b>	<b>241</b>	<b>229</b>	<b>214</b>	<b>0.9%</b>

ZINC-INTERNATIONAL (KT)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Zinc Refined	24	26	23	10	15	16	26	17	70.0%
Zinc Concentrate (MIC)	7	6	6	6	6	6	22	29	383.3%
<b>Total Zinc (Refined+Conc)</b>	<b>31</b>	<b>32</b>	<b>29</b>	<b>16</b>	<b>21</b>	<b>22</b>	<b>48</b>	<b>46</b>	<b>187.5%</b>
Lead Concentrate (MIC)	12	14	8	8	8	11	9	11	37.5%
<b>Total Zinc-Lead</b>	<b>43</b>	<b>47</b>	<b>37</b>	<b>24</b>	<b>29</b>	<b>33</b>	<b>57</b>	<b>57</b>	<b>137.5%</b>

ALUMINIUM SALES (KT)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Sales - Wire rods	87	93	115	77	94	90	106	84	9.1%
Sales - Rolled products (kt)	7	6	8	5	7	6	9	5	0.0%
Sales - Busbar and Billets (kt)	73	89	102	97	104	105	78	128	32.0%
<b>Total Value added products</b>	<b>167</b>	<b>188</b>	<b>225</b>	<b>179</b>	<b>205</b>	<b>201</b>	<b>193</b>	<b>217</b>	<b>21.2%</b>
Sales - Ingots	213	252	263	285	284	294	275	263	-7.7%
<b>Total Aluminium sales</b>	<b>380</b>	<b>441</b>	<b>487</b>	<b>465</b>	<b>489</b>	<b>494</b>	<b>467</b>	<b>481</b>	<b>3.4%</b>

IRON-ORE SALES (MN DMT)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Goa	0.10	1.00	2.40	1.00	0.10	0.10	0.00	0.00	-100%
Karnataka	0.60	0.80	0.30	0.40	0.20	0.60	1.40	1.20	200.0%
<b>Total</b>	<b>0.70</b>	<b>1.80</b>	<b>2.70</b>	<b>1.40</b>	<b>0.40</b>	<b>0.70</b>	<b>1.40</b>	<b>1.20</b>	<b>-14.3%</b>
Pig Iron (kt)	154	171	185	164	173	155	191	172	4.9%

POWER (MN UNITS)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Jharsuguda 600 MW	93	111	404	164	124	136	615	267	62.8%
TSPL 1980 MW	2582	2512	2258	2355	2725	2543	2235	2697	14.5%
BALCO 600 MW	132	466	388	656	480	438	409	425	-35.2%
HZL Wind power 274 MW	143	57	58	139	185	48	77	134	-3.6%
<b>Total Sales</b>	<b>2950</b>	<b>3146</b>	<b>3109</b>	<b>3315</b>	<b>3514</b>	<b>3165</b>	<b>3336</b>	<b>3523</b>	<b>6.3%</b>

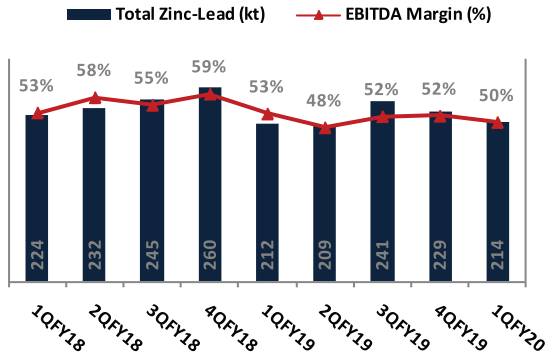
OIL AND GAS (BOEPD)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
<b>Average Daily Gross Operated Production (boepd)</b>									
Rajasthan	153238	157096	162357	164040	155194	151574	152825	149153	-9.1%
Ravva	17266	16876	16271	14217	13496	16775	15067	13491	-5.1%
Cambay	10452	10161	11543	16729	17236	18842	19170	17415	4.1%
<b>Total</b>	<b>180956</b>	<b>184133</b>	<b>190171</b>	<b>194986</b>	<b>185926</b>	<b>187191</b>	<b>187062</b>	<b>180059</b>	<b>-7.7%</b>

## Con call highlights

- **Commodity market update:** Continued trade tension and mixed outlook on global growth continue to keep commodity prices volatile. In Oil 1HCY19 saw supply exceeding demand and geopolitical tension are likely to remain high in Middle East which may impact oil prices. Zinc and lead prices remain range bound, aluminum prices have fallen to its low, management remain bullish on silver, iron ore prices increasing on the back of continued supply disruption. Prices across different commodity are expected to increase in 2HFY19.
- **Operational Performance:**
  - Aluminium business – CoP down 8% YoY led by highest ever production of alumina at Lajingarh refinery. Coal linkage improved to 72% in the quarter.
  - Zinc India – Mined Zinc and lead production was stable YoY, silver production up 15% YoY. Silver volume expected to be over 1000MT in next two years and can contribute EBITDA of USD500mn. Zinc CoP was higher by 2% YoY due to lower grade, higher power cost and water cost.
  - Zinc International - Ramp up at the Gamsberg mine is on track and is operating at 330kt/month of ore capacity with 1mt of stockpile. Management expects to exit FY20 at 250kt of annual zinc production run rate.
  - Oil & Gas – Production has been lower by 8% YoY in 1QFY20 due to natural decline and maintenance activities carried out to enhance asset reliability for a smoother ramp up going ahead. Company recently secured 10 additional blocks, company now has 58 exploration blocks. Expect to exit 1HFY20 with around 200kboepd and FY20 exit rate of 270kboepd.
  - Iron ore – sales in Karnataka tripled YoY 1.2mt and pig iron sales increased by 7% YoY 178kt. Iron ore operation at Goa and India Copper operation are still on hold.
  - ESL - Production up 34% YoY. Fall in EBITDA margin due to weaker market. The expansion from 1.5mt to 2.5mt plus capacity has been completed.
- **Financial update:**
  - Depreciation charge higher due to capitalization of capacities as volume ramp up at Gamsberg , Depreciation is expected to remain in the same range for FY20.
  - Finance cost lower due to higher capitalization. Interest cost expected to remain in the range of 8.2%-8.5% for Fy20.
  - Net debt at the end of Jun'19 was at Rs.28743cr (vs.Rs.26956cr at the end of Mar'19).
  - Average maturity of term debt continues to remain at around 3 years on a rolling basis.
  - Volcan decided to call the bond early and unwind its stake in Anglo American Plc, Vedanta also announced that it entirely unwind its structured investment ahead of the original schedule maturity. Following the unwind and Volcan exercising its call option on the convertible bonds neither Vedanta nor Volcan will have any exposure to the share that were held in Anglo American. The investment has delivered a net gain of USD 100mn to Vedanta ltd.

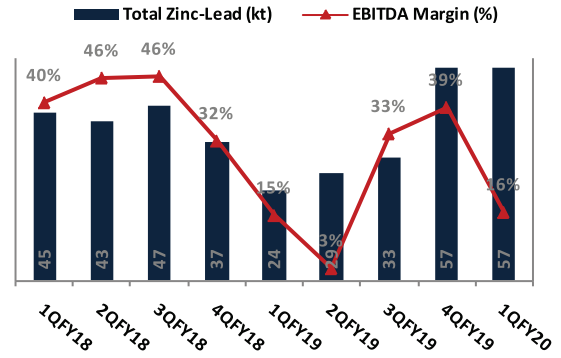
## Exhibit: Zinc India Volume and EBITDA Margin

Mined metal volume remained flat YoY due to lower grade....



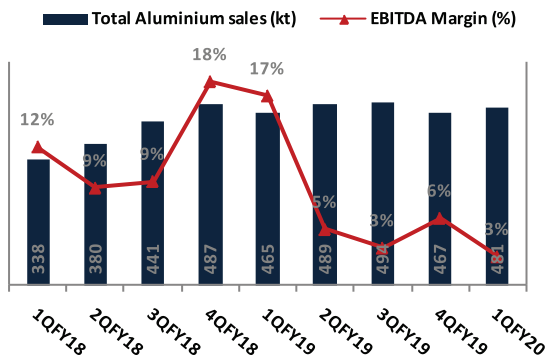
## Exhibit: Zinc Intl. Volume and EBITDA Margin

Margin contract due to significantly lower LME zinc....



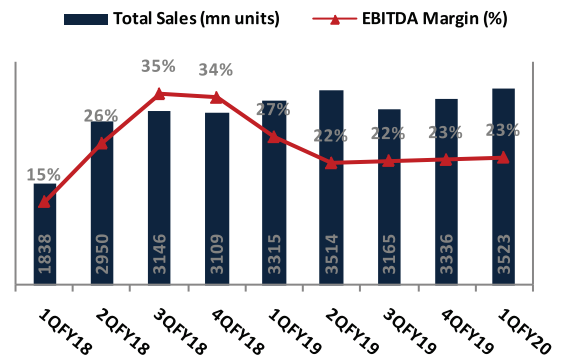
## Exhibit: Aluminium volume and EBITDA Margin

Aluminium volume improves slightly but margin have contracted due to decline in LME aluminium....



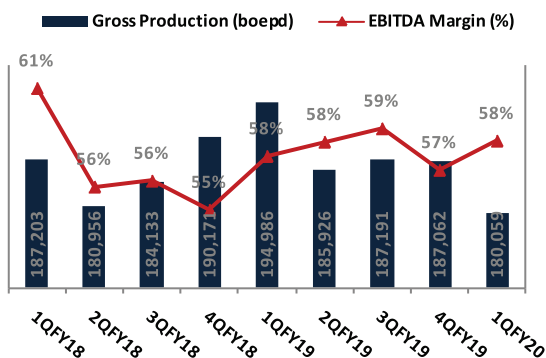
## Exhibit: Power Sale and EBITDA Margin

Steady performance by power division in terms of margin....



## Exhibit: Gross Operated Production and EBITDA Margin

Natural decline and maintenance activities led to lower volume, volume expected to pick up in 2HFY20 as per management....



## Financial Details (Consolidated)

### Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>297</b>	<b>297</b>	<b>372</b>	<b>372</b>	<b>372</b>	<b>372</b>	<b>372</b>
Reserves	53,579	43,743	60,128	63,136	61,925	63,337	67,012
Networth	53,875	44,039	60,500	63,508	62,297	63,709	67,384
Non Controlling Interest	35,530	36,561	13,928	15,957	15,227	18,279	21,647
Debt	71,966	61,668	62,500	48,740	57,703	63,721	64,721
Other Non Cur Liab	4,555	8,861	9,618	8,936	10,561	10,462	10,462
Total Capital Employed	161,371	142,268	136,928	128,205	135,227	145,709	153,752
<b>Net Fixed Assets (incl CWIP)</b>	<b>91,066</b>	<b>105,692</b>	<b>104,312</b>	<b>112,334</b>	<b>121,356</b>	<b>129,840</b>	<b>138,325</b>
Non Cur Investments	213.4	48.8	72.9	164.0	4,891.0	4,891.0	7,000.0
Other Non Cur Asst	36,345	16,647	17,849	17,186	12,280	16,215	20,463
<b>Non Curr Assets</b>	<b>127,625</b>	<b>122,388</b>	<b>122,233</b>	<b>129,684</b>	<b>142,215</b>	<b>154,634</b>	<b>171,359</b>
Inventory	8,725	8,012	9,628	11,967	13,198	12,170	13,829
Debtors	3,605	2,494	2,240	3,969	3,982	3,672	4,172
Cash & Bank	5,696	3,709	14,123	5,216	8,369	7,776	7,777
Other Curr Assets	44,631	58,629	50,805	33,962	34,201	29,564	25,309
<b>Curr Assets</b>	<b>62,658</b>	<b>72,843</b>	<b>76,796</b>	<b>55,114</b>	<b>59,828</b>	<b>53,261</b>	<b>51,165</b>
Creditors	5,278	16,162	18,459	17,843	17,352	16,001	18,182
Provisons (both)	3,795	2,402	2,347	2,771	2,983	2,983	2,983
Other Curr Liab	15,283	25,537	31,678	27,043	35,469	32,739	37,145
<b>Curr Liabilities</b>	<b>22,015</b>	<b>42,051</b>	<b>50,430</b>	<b>45,296</b>	<b>53,659</b>	<b>49,127</b>	<b>55,714</b>
Net Curr Assets	40,643	30,793	26,366	9,818	6,169	4,133	(4,549)
<b>Total Assets</b>	<b>190,282</b>	<b>195,231</b>	<b>199,030</b>	<b>184,798</b>	<b>202,043</b>	<b>207,895</b>	<b>222,524</b>

### Income Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	73,710	64,262	72,225	91,866	92,048	84,882	96,449
Change (%)	11%	-13%	12%	27%	0%	-8%	14%
Other Income	2,977	4,444	4,581	3,574	4,018	3,019	2,677
EBITDA	22,114	15,152	21,332	25,164	23,103	24,377	30,200
Change (%)	13%	-31%	41%	18%	-8%	6%	24%
Margin (%)	30%	24%	30%	27%	25%	29%	31%
Depr & Amor.	7,159	8,572	6,292	6,283	8,192	8,596	9,315
EBIT	14,955	6,579	15,040	18,881	14,911	15,780	20,885
Int. & other fin. Cost	5,659	5,778	5,855	5,783	5,689	6,283	6,369
EBT	12,274	5,245	13,766	16,672	13,240	12,516	17,194
Exp Item	(22,199)	(33,785)	(114)	823	(320)	-	-
Tax	1,448	(10,678)	3,778	3,803	3,862	3,591	5,690
Minority Int & P/L share of Ass.	4,272	(5,592)	4,358	3,350	2,633	3,052	3,368
Reported PAT	(11,373)	(17,863)	9,873	13,692	9,698	8,925	11,503
Adjusted PAT*	6,553	5,653	5,629	7,983	6,745	5,873	8,135
Change (%)	1%	-14%	0%	42%	-16%	-13%	39%
Margin(%)	9%	9%	8%	9%	7%	7%	8%

\*Adj for exceptional item and minority interest

## Financial Details (Consolidated)

### Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	12.2%	12.8%	9.3%	12.6%	10.8%	9.2%	12.1%
ROCE	10.6%	5.1%	14.4%	17.8%	13.3%	12.9%	16.1%
Asset Turnover	0.39	0.33	0.36	0.50	0.46	0.41	0.43
Debtor Days	17.85	14.16	11.32	15.77	15.79	15.79	15.79
Inv Days	43.21	45.51	48.66	47.55	52.33	52.33	52.33
Payable Days	26.14	91.80	93.29	70.89	68.81	68.81	68.81
Int Coverage	2.64	1.14	2.57	3.26	2.62	2.51	3.28
P/E	8.57	4.72	14.47	12.96	10.13	10.38	7.50
Price / Book Value	1.04	0.61	1.35	1.63	1.10	0.96	0.90
EV/EBITDA	4.63	4.77	4.57	4.97	4.10	3.85	3.11
FCF per Share	24.39	50.48	42.30	28.90	40.18	(0.11)	18.66
Div Yield	1.8%	6.5%	6.4%	7.6%	10.3%	6.1%	6.1%

### Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>(9,925)</b>	<b>(28,540)</b>	<b>13,652</b>	<b>19,569</b>	<b>13,560</b>	<b>12,516</b>	<b>17,194</b>
(inc)/Dec in Working Capital	(2,534)	7,702	1,796	(4,675)	2,128	(6,766)	(2,450)
Non Cash Op Exp	33,644	43,666	7,836	6,341	10,679	14,879	15,684
Int Paid (+)(+)	5,486	5,554	5,635	5,667	5,593	6,283	6,369
Tax Paid	(3,380)	(2,451)	(5,307)	(3,198)	(2,613)	(3,591)	(5,690)
others							
<b>CF from Op. Activities</b>	<b>17,805</b>	<b>20,377</b>	<b>17,977</b>	<b>18,037</b>	<b>23,754</b>	<b>17,039</b>	<b>24,737</b>
(inc)/Dec in FA & CWIP	(10,574)	(5,412)	(5,436)	(7,296)	(8,817)	(17,080)	(17,800)
Free Cashflow	7,231	14,965	12,541	10,741	14,937	(41)	6,937
(Pur)/Sale of Inv	(485)	(3,355)	7,071	22,207	4,319	4,174	5,003
others							
<b>CF from Inv. Activities</b>	<b>(4,160)</b>	<b>(7,863)</b>	<b>2,711</b>	<b>15,396</b>	<b>(10,530)</b>	<b>(12,906)</b>	<b>(14,906)</b>
inc/(dec) in NW	-	-	(101)	(202)	(144)	-	-
inc/(dec) in Debt	3,414	2,305	16,129	(17,269)	7,699	6,018	1,000
Int. Paid	(6,290)	(5,797)	(6,150)	(5,677)	(6,009)	(6,283)	(6,369)
Div Paid (inc tax)	(3,106)	(3,222)	(9,673)	(16,812)	(11,792)	(4,461)	(4,461)
others							
<b>CF from Fin. Activities</b>	<b>(13,956)</b>	<b>(11,303)</b>	<b>(12,319)</b>	<b>(39,926)</b>	<b>(10,242)</b>	<b>(4,726)</b>	<b>(9,829)</b>
Inc(Dec) in Cash	(284)	1,206	8,339	(6,409)	2,918	(593)	1
Add: Opening Balance	1,382	1,331	2,537	10,876	4,467	8,369	7,776
<b>Closing Balance</b>	<b>1,098</b>	<b>2,537</b>	<b>10,876</b>	<b>4,467</b>	<b>7,385</b>	<b>7,776</b>	<b>7,777</b>

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