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Q3FY21 result review
and target price revision

Metals

Target price: Rs137

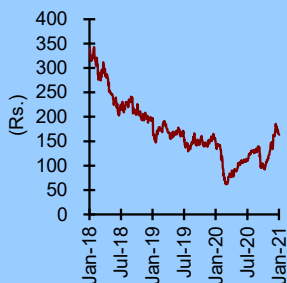
Target price revision
Rs137 from Rs110

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	50.1	50.1	55.1
Institutional investors	34.0	33.8	29.3
MFs and other	11.3	8.6	5.6
Banks & FIs	6.6	5.7	5.7
Insurance Cos.	0.8	0.7	0.7
FII's	15.3	18.8	17.3
Others	15.9	16.1	15.6

Source: BSE India

Price chart



INDIA

Vedanta

REDUCE

Maintained

Sustaining operational gains as market prices benefit **Rs161**

Vedanta has reported in-line Q3FY21 EBITDA of Rs77.6bn. Intercompany loans to parent Vedanta Resources (VRL) stood at US\$956mn as at Q3FY21-end (unchanged QoQ). Management guided for reduction of intercompany loans as per repayment schedule. Also, all dividend received from Hindustan Zinc need not be upstreamed, as per extant dividend policy and under special circumstances. While Q3FY21 was underpinned by strong operational performance, capital allocation remains uncertain. FY21E capex will be lower than previously guided. We maintain REDUCE on the stock with an increased target price of Rs137/share (earlier: Rs110) at P/B of 1x FY23E.

- **Consolidating on costs and** enjoying the benefits of higher LME prices in aluminium business. Vedanta has achieved an impressive cost reduction in its aluminium segment from US\$1690/te in FY20 to US\$1,300-1,350/te in FY21E. Next phase of aluminium CoP reduction from US\$1,300-1,350/te to US\$1,200/te in 2-3 years will be driven by: i) Lanjigarh capacity expansion from 2mtpa to 5mtpa; ii) operationalising of coal blocks {Vedanta won Radhikapur (West) coal block in the recent auctions}; and iii) incremental operational improvements across assets.
- **Zinc India's journey to 1.5mtpa mined metal production, and divestment of residual government stake, can help unlock value.** Zinc India completed 1.2mnte mined metal project activities. Vedanta has projected 1.2mnte of mined metal production in FY22/FY23 and 1.5mnte by FY25/FY26. Silver production guidance has been pegged at 800te for FY22/FY23 and at 1,000te for FY25/FY26.. CoP is expected to reduce to US\$900/te in the medium term from US\$958/te in 9MFY21. **Interestingly, minor metal extraction has been highlighted by management as one of the structural initiatives aimed at reducing costs.**
- **Gamsberg's ramp-up journey continues.** Gamsberg achieved its all-time high MIC (metal in concentrate) production at 43kte, up 39% YoY and 23% QoQ. CoP was at US\$1,240/te, down 13% YoY and almost flat QoQ, due to better recoveries; cost control measures though were offset by exchange rate appreciation. Management expects to ramp up average daily production from 469tpd to 600tpd by Q4FY21-end.
- **Oil and Gas – Q4FY21 can see the start of production recovery.** Q3FY21 gross production declined 3% QoQ. There has been delay of a quarter across growth projects in the segment. This includes polymer injection in MBA fields (will arrest decline in production), surface facility commissioning of Aishwarya Barmer Hill (**projected to increase volumes by 7kboepd**), liquid handling capacity increase at MPT (to increase volumes by 5kboepd), and exploration drilling in RJ fields (in the course of Q4FY21-Q1FY22). Drilling activities have significantly increased with 131 wells hooked up till now (98 till Q2FY21). Operating cost was at US\$7.7/boe in Q3FY21 vs US\$7.0/boe in Q2FY21, up 10% due to increase in workover activities.
- **Maintain REDUCE** with a revised target of Rs137/share.

Market Cap	Rs599bn/US\$8.2bn
Reuters/Bloomberg	VDAN.BO /VEDL IN
Shares Outstanding (mn)	3,717.2
52-week Range (Rs)	186/62
Free Float (%)	49.9
FII (%)	17.3
Daily Volume (US\$'000)	59,608
Absolute Return 3m (%)	68.4
Absolute Return 12m (%)	32.9
Sensex Return 3m (%)	16.9
Sensex Return 12m (%)	15.0

Year to March	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	844,470	843,826	1014,590	1054,264
Net Income (Rs mn)	42,010	91,422	122,101	112,964
EPS (Rs)	11.3	24.6	32.8	30.4
% Chg YoY	(37.7)	117.6	33.6	(7.5)
P/E (x)	14.3	6.6	4.9	5.3
CEPS (Rs)	35.7	45.9	58.3	56.3
EV/E (x)	4.5	3.1	2.3	2.1
Dividend Yield	2.4	11.3	12.7	11.8
RoCE (%)	9.1	14.1	16.2	15.0
RoE (%)	7.2	15.7	19.1	16.5

Research Analysts:

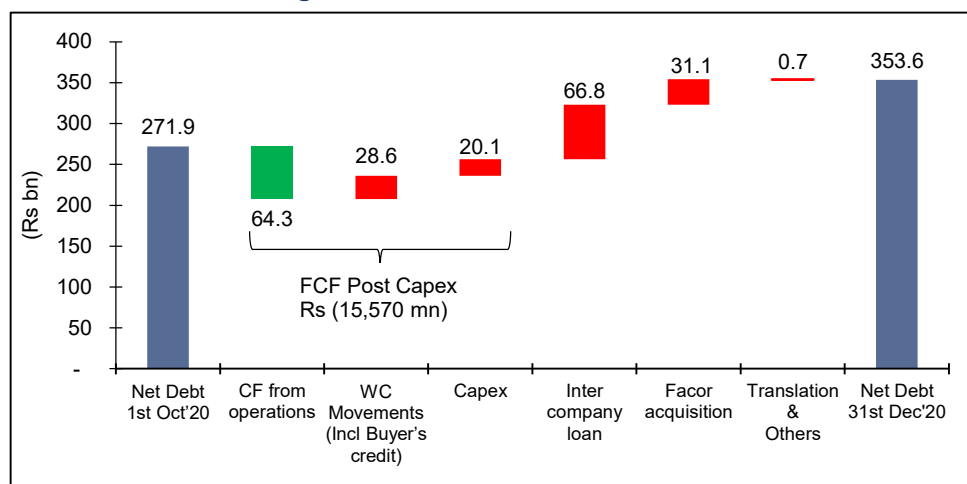
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Table 1: Vedanta's consolidated Q3FY21 result review*(Rs mn, year ending March 31)*

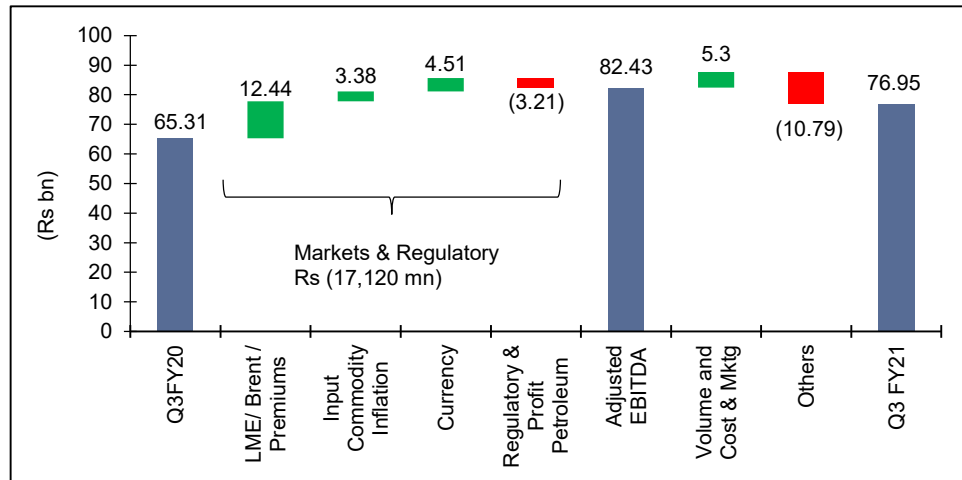
	Q3FY21	Q3FY20	% chg YoY	Q2FY21	% chg QoQ
Net sales	227,350	213,600	6.4	211,070	7.7
Total expenditure	149,780	148,460	0.9	145,760	2.8
EBITDA	77,570	65,140	19.1	65,310	18.8
<i>Cairn India</i>	8,520	27,610	(69.1)	7,940	7.3
<i>Zinc India</i>	33,080	22,740	45.5	29,120	13.6
<i>Zinc International</i>	2,830	1,060		2,610	
<i>Power business</i>	3,860	3,790	1.8	4,710	(18.0)
<i>Aluminium business</i>	20,620	7,960	159.0	16,650	23.8
<i>Copper</i>	(310)	(610)	NM	(110)	NM
<i>Iron Ore</i>	5,700	2,140	166.4	2,560	122.7
<i>Steel</i>	2,720	1,070	154.2	1,880	44.7
<i>Others</i>	550	(620)	NM	(50)	NM
Other income	8,860	6,470	36.9	6,370	39.1
Interest	13,210	12,320	7.2	13,120	0.7
PBDT	73,220	59,290	23.5	58,560	25.0
Depreciation	19,120	22,910	(16.5)	19,380	(1.3)
Extraordinary expenses	-	(1,680)		(950)	
PBT	54,100	38,060	42.1	40,130	34.8
Tax	11,860	11,410		23,690	
Reported profit after tax	42,240	26,650	58.5	16,440	156.9
Net Profit after Minority					
Interest	32,990	23,480	40.5	8,250	299.9
Adj net profit	32,990	21,800	51.3	7,300	351.9

Source: Company data, I-Sec research;

Chart 1: Net debt bridge for Q3FY21

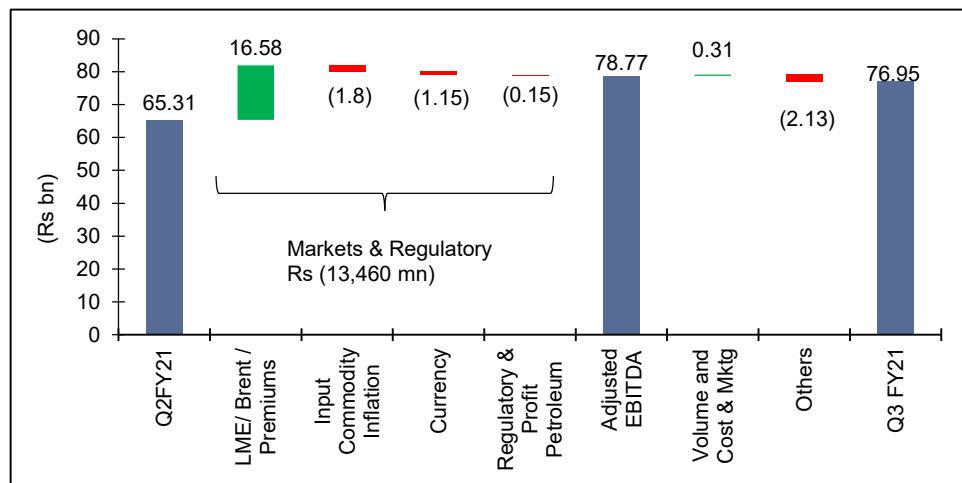
Source: Company data, I-Sec research

Chart 2: YoY EBITDA bridge



Source: Company data, I-Sec research

Chart 3: QoQ EBITDA bridge



Source: Company data, I-Sec research

Table 2: Aluminium cost breakup

(Year ending March 31)

(US\$/te)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
LME	1793	1761	1752	1690	1497	1704	1916
Ingot premium	54	61	59	62	64	47	43
Value-addition	92	83	67	72	40	66	68
Total realisation	1,939	1,905	1,878	1,824	1,601	1817	2027
Alumina costs	-712	-697	-625	-571	-517	-534	-603
Power costs	-652	-774	-698	-560	-469	-479	-484
Other hot metal costs	-400	-381	-368	-320	-281	-275	-300
Conversion costs and others	-111	-81	-90	-34	-26	-51	-76
EBITDA	64	-28	97	339	360	477	565

Source: Company data, I-Sec research

Zinc International: CoP reduces further**Table 3: Zinc International result review***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Volume ('kte)	58	53	9.4	52	11.5
CoP (US\$/te)	1,317	1,580	(16.6)	1310	0.5
Sales (Rs mn)	8,230	6,810	20.9	6320	30.2
EBITDA (Rs mn)	2,830	1,060	167.0	2610	8.4

Source: Company data, I-Sec research

- Q3FY21 production stood at 59kte; BMM at 16kte, and Gamsberg at 43kte. Q3FY21 CoP was US\$1,317/te, flat QoQ.
- Gamsberg highest ever production of 43kte in Q3FY21, up by 23% QoQ

Power: EBITDA reconciliation shows higher contribution from TSPL**Table 4: Power business result review***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Sales (mn units)	2,066	2,282	(9.5)	3,998	(48.3)
Realisation (Rs/unit)	3.1	3.9	(21.7)	3.1	(2.5)
CoP (Rs/unit) ex TSPL	2.3	3.1	(26.1)	2.2	6.9
Sales (Rs mn)	10,480	13,070	(19.8)	18,600	(43.7)
EBITDA (Rs mn)	3,860	3,790	1.8	4,710	(18.0)

Source: Company data, I-Sec research

- TSPL production declined 55% YoY.
- TSPL realisation and CoP also dropped with production. (Rs2.06/unit in Q3FY21 down 41% YoY with cost of generation at Rs1.13/unit down 53% YoY)
- Plant availability factor (PAF) in Q3FY21 stands at 60% vs 94% QoQ.

Aluminum: In-line EBITDA driven largely by sustained operational gains as prices increased**Table 5: Aluminium business***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Aluminium Production (te)	0.50	0.48	2.9	0.47	5.1
Aluminium CoP (US\$/te)	1,387	1,691	(18.0)	1,288	7.7
Jharsuguda CoP (US\$/te)	1,337	1,675	(20.2)	1,245	7.4
Revenue (Rs mn)	73,780	67,890	8.7	63,950	15.4
EBITDA (Rs mn)	20,620	7,960	159.0	16,650	23.8

Source: Company data, I-Sec research

- Aluminium CoP was at US\$1,387/te, up 8% QoQ. Lanjigarh production at 407kte was down 14% YoY and 12% QoQ.
- Lanjigarh CoP at US\$249/te was up 10% QoQ.

Copper: No resolution yet**Table 6: Copper business***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Cathode production (te)	25,000	20,000	25.0	25,000	-
Sales (Rs mn)	26,640	18,350	45.2	29,040	(8.3)
EBITDA (Rs mn)	(310)	(610)	NA	(110)	NA

Source: Company data, I-Sec research

Zinc India: CoP marginally down QoQ**Table 7: Zinc India business***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Refined Zinc production (kte)	182,000	178,000	2.2	180,000	1.1
Zinc CoP ex royalty (US\$/te)	946	1,077	(12.2)	919	2.9
Sales (Rs mn)	58,900	46,000	28.0	54,910	7.3
EBITDA (Rs mn)	33,080	22,890	44.5	29,120	13.6

Source: Company data, I-Sec research

- Ore production in Q3FY21 was at an all-time high of 4.0mnte, with mine development at a record high of 27km.
- Mined metal production was at 244kte, up 2% QoQ.

Iron ore: Expansion in sponge and iron ore margins help EBITDA beat**Table 8: Iron ore***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Iron Ore sales (mnte)	1.8	1.7	4.7	1.5	19.5
Pig Iron production (kte)	145	179	(19.0)	186	(22.0)
Sales (Rs mn)	12,840	8,360	53.6	8,780	46.2
EBITDA (Rs mn)	5,700	2,140	166.4	2,560	122.7

Source: Company data, I-Sec research

- Company capitalised on opportunity to increase Goa sales to 0.6mnte; Karnataka sales were at 1.2mnte
- Pig iron margins were significantly higher at US\$129/te

Steel: EBITDA/te expansion lower than expected**Table 9: Steel business***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Production (kte)	0.34	0.32	7.3	0.26	30.8
Sales (Rs mn)	0.33	0.32	5.0	0.27	22.9
EBITDA (Rs mn)	2,720	1070	154	1,880	44.7
EBITDA/te (Rs)	8,168	3,375	142	6,937	17.7

Source: Company data, I-Sec research

- Hot metal production was at 372kte, an all-time high since acquisition.
- EBITDA margin was robust at US\$111/te, up 18% QoQ.
- Value Added Product (VAP) mix increased to 85% in Q3FY21 from 71% in Q2FY21.

Oil & Gas: Production inching up**Table 10: Oil and gas***(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	% chg YoY	Q3FY21	% chg QoQ
Avg daily Gross prod. (boepd)	159,621	172,189	(7.3)	165,045	(3.3)
Avg daily working int prod. (boepd)	100,998	110,656	(8.7)	102,216	(1.2)
Avg realisation (US\$/boe)	42	55	(23.5)	39	9.9
Sales (Rs mn)	18,920	39,300	(51.9)	16,660	13.6
EBITDA (Rs mn)	8,520	27,610	(69.1)	7,940	7.3

Source: Company data, I-Sec research

- Average Daily Gross Operated Production was at 160kboepd, down 3% QoQ.
- New gas facility has been commissioned; gas production is being ramped up by ~15kboepd.

Entity-wise net debt and debt maturity profile

Table 11: Vedanta (consolidated): Entity-wise cash and debt*(Rs bn)*

	Dec'20			Sep'20			Dec'19		
	Debt	Cash & LI	Net Debt	Debt	Cash & LI	Net Debt	Debt	Cash & LI	Net Debt
Vedanta Limited Standalone (excluding Cairn India)	338	30	308	328	20	308	366	38	328
Cairn India Holdings	28	11	17	36	46	(10)	32	69	(37)
Zinc India	100	211	(110)	98	277	(179)	30	225	(195)
Zinc International	3	4	(1)	3	3	0	4	4	0
BALCO	36	7	29	39	4	35	42	0	42
Talwandi Sabo	74	1	73	78	2	76	63	2	61
Others	44	7	29	46	4	41	50	14	36
Vedanta Limited Consolidated	624	271	345	628	356	272	586	352	234

Source: Company data, I-Sec research

Valuation methodology and key risks

We maintain **REDUCE** on the stock. We continue to value the company on P/B basis. Our implied P/B at the target price of Rs137 is 1x FY23E (increased from 0.8x FY23E P/B earlier). Continuation of the practice of extending intercompany loans warrants higher discount to the target multiple, in our view. Improving operational outlook and higher visibility on RoE allows us to increase our target P/B (FY23E). For our calculation of target price, we have considered the FY20 reported book value of Rs89/share.

Key risks

Key upside risks: i) higher commodity prices, ii) commodity upcycle allowing structural stability at the parent level leading to lower cashflow concerns. Key downside risk: i) focus on inorganic growth risking cashflow and capital structure predictability, and ii) commodity price decline.

Financial summary

Table 12: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Op. Income (Sales)	844,470	843,826	1,014,590	1,054,264
Operating Expenses	637,600	574,369	684,965	730,120
EBITDA	206,870	269,457	329,625	324,144
% margins	24.5	31.9	32.5	30.7
Depreciation and amortisation	90,930	79,215	94,644	96,369
Gross Interest	49,770	48,850	40,000	40,000
Other Income	25,100	26,119	27,150	26,216
EBIT	141,040	216,361	262,130	253,990
Extraordinaries	173,860	-	-	-
PBT	(82,590)	167,511	222,130	213,990
Less: Taxes	(35,160)	51,688	71,606	70,969
PAT	(47,430)	123,228	156,980	149,477
Minority interest	19,200	31,826	34,919	36,553
Profit from share of associate	(10)	20	40	40
PAT after minority	(66,640)	91,422	122,101	112,964
Adjusted PAT	42,010	91,422	122,101	112,964

Source: Company data, I-Sec research

Table 13: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	359,730	578,467	655,416	746,797
of which cash & cash eqv.	125,020	339,737	382,391	467,091
Total Current Liabilities & Provisions	357,120	378,433	418,286	433,158
Net Current Assets	2,610	200,034	237,129	313,640
Investments	247,530	165,090	165,090	165,090
Marketable	246,580	163,730	163,730	163,730
Net Fixed Assets	1,048,590	1,025,205	1,038,561	1,050,191
CWIP	168,370	169,520	169,520	169,520
Goodwill	26,300	8,830	8,830	8,830
Other non-current assets	154,070	196,270	196,270	196,270
Total Assets	1,479,100	1,595,429	1,645,880	1,734,021
Liabilities				
Borrowings	704,500	742,820	712,227	721,527
Other liabilities	57,130	56,450	56,450	56,450
Minority Interest	171,120	178,786	213,704	250,258
Equity Share Capital	3,720	3,720	3,720	3,720
Face Value (Rs)	1	1	1	1
Reserves & Surplus	542,630	613,654	659,779	702,067
Net Worth	546,350	617,374	663,499	705,787
Total Liabilities	1,479,100	1,595,429	1,645,880	1,734,021

Source: Company data, I-Sec research

Table 14: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating CF before WC change	202,370	225,174	264,475	259,631
Working Capital Changes	(9,390)	1,303	5,559	8,190
Capital Commitments	(78,470)	(45,500)	(108,000)	(108,000)
Free Cashflow	64,740	132,127	122,033	119,821
Cashflow from Financing activities				
Inc (Dec) in Borrowings	(83,580)	67,770	(30,593)	9,300
Dividend paid	(14,400)	(67,636)	(75,976)	(70,676)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balance	(21,430)	158,420	42,654	84,701

Source: Company data, I-Sec research

Table 15: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
Recurring EPS	11.3	24.6	32.8	30.4
Reported EPS	(17.9)	24.6	32.8	30.4
Recurring Cash EPS	35.7	45.9	58.3	56.3
Dividend per share (DPS)	3.9	18	20	19
Book Value per share (BV)	146.9	166.0	178.4	189.7
Adj. BV per share (ABV)	139.8	163.6	176.0	187.4
Growth Ratios (%)				
EBITDA	(10.5)	30.3	22.3	(1.7)
Diluted Recurring EPS	(37.7)	117.6	33.6	(7.5)
Diluted Recurring CEPS	(11.0)	28.4	27.0	(3.4)
Valuation Ratios				
P/E	14.3	6.6	4.9	5.3
P/CEPS	4.5	3.5	2.8	2.9
P/BV	1.10	0.97	0.90	0.85
EV / EBITDA	4.5	3.1	2.3	2.1
EV / FCF	14.4	6.3	6.3	5.8
Operating Ratios				
Other Income / PBT (%)	(30.4)	15.6	12.2	12.3
Effective Tax Rate (%)	42.6	30.9	32.2	33.2
NWC / Total Assets (%)	0.2	12.5	14.4	18.1
Inventory Turnover (days)	194.6	199.3	216.3	188.1
Receivables (days)	25.1	17.5	15.3	15.1
Payables (days)	362.5	398.8	355.6	341.1
Net D/E Ratio (x)	0.6	0.4	0.3	0.1
Profitability Ratios (%)				
Recurring Net Income Margins	5.0	10.8	12.0	10.7
RoCE	9.1	14.1	16.2	15.0
RoNW	7.2	15.7	19.1	16.5
Dividend Payout Ratio	NM	74.0	62.3	5.6
Dividend Yield	2.4	11.3	12.7	11.8
EBITDA Margins	24.5	31.9	32.5	30.7

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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