Vedanta Limited

PICK OF THE WEEK • FUNDAMENTAL RESEARCH

CMP INR: 350
Target Price INR: 388
Expected Return: 11%
Date: 10th Dec, 2021

Business Overview

Vedanta Limited (VEDL) 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.

Key highlights

- VEDL's portfolio of resources business provides advantages of scale, diversification and strong balance sheet. The company benefits from ownership of low cost, cash rich oil & gas (Cairn) and zinc-lead-silver (Zinc India) businesses.
- It has globally competitive unit production costs in zinc, led by its quality captive mines. This aspect will help the company better withstand margin pressures during price downturns.
- Despite the relatively subdued operating performance at the Zinc-India and Zinc international divisions, we view the continuous uptick at the Al division and stabilising production at the O&G division as key positives.
- We believe integrated metal volume from Zinc-India is likely to improve in H2FY22 aided by higher mine production and existing concentrate inventory. Besides, we see availability of TSPL improving, resulting in a stable earnings stream.
- The Al division will continue to deliver a robust performance aided by: i) captive alumina from the Lanjigarh refinery; ii) improving coal security; and iii) high LME Al price
- In case of Zn (both India and International), we expect production ramp-up at low cost- aiding earnings in H2FY22.
- We also view higher production at the Rajasthan block a positive, coming at the time of higher Brent price while we see steel and FACOR benefitting from production curtailments in China.

Risks

- Cash allocation.
- Fall in commodity prices.

QUICK DATA

Face Value (Rs.)	1.0
Div. Yield (%)	2.7
No of shares ('cr)	371.7
52-week High/Low (Rs.)	386 / 130
NSE Symbol	VEDL
BSE Code	500295
Bloomberg Code	VEDL
Market cap (Rs. bn)	1295

SHAREHOLDING PATTERN (%)

Promoters	65.2
FIIs	8.7
MFs & DIIs	4.0
Others	22.1

EDELWEISS CLASSIFICATION

Market Cap	Large Cap
Relative Risk	High
Relative Reco	Outperform
Sector Rating	Equalweight

Edelweiss Ratios

Company	VEDL
1 Wk Price performance (%)	1.0
3 M Price performance (%)	13.3
PE (x)	11.7
EV/EBITDA (x)	4.5
Return on Capital Employed (%)	19.2

Financial Snapshot

Year to March	FY21	FY22E	FY23E	FY24E
Net Revenue (INR cr.)	88,021	1,14,939	1,15,641	1,17,645
EBITDA (INR cr.)	27,318	45,491	44,623	44,410
EBITDA Margin (%)	31.0	39.6	38.6	37.8
Adjusted PAT (INR cr.)	11,117	20,389	18,923	18,577
Adjusted diluted EPS (INR)	30	55	51	50
PAT Growth (%)	51.5	83.4	-7.2	-1.8
ROAE (%)	19.8	30.0	24.0	21.0
ROCE (%)	19.2	31.5	26.9	24.2

Technical View

	S1	S2	R1	R2
VEDL	328.9	320.5	364.3	372.7

Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla(W)
Board: (91-22) 4272 2200

Vinay Khattar
Head Research
vinay.khattar@edelweissfin.com

VINAY KHATTAR

Digitally signed by VINAY KHATTAR
Date: 2021.12.10 15:58:17 +05'30'

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