

## Vedanta Ltd – Deleveraging + Project Execution Focus

We visited Vedanta Ltd's world-class assets in Odisha and Rajasthan and saw operations of its i) Aluminium smelter which is the world's largest single-location smelter located at Jharsuguda, Odisha placed at 1<sup>st</sup> quartile of the cost curve, ii) SK Mine at Dariba, Rajasthan, which is one of the largest zinc-lead producing assets globally and world's second-largest silver producing mine, and lastly iii) Its Oil & Gas operations at Cairn India, which included Mangala well pads, Central polymer facility, and Mangala processing terminal visit.

Vedanta Resources Ltd (VRL) has de-levered its balance sheet by \$3.7 Bn to \$6.0 Bn in the last two years (see Exhibit 12). In Jan-Feb'24, the company managed to reprofile and smoothen its near-term bond maturities of ~\$4 Bn via a successful liability management exercise. Since 1<sup>st</sup> Feb'24, the stock has outperformed the broader index and has delivered a 64% return to date post the liability management exercise (see Exhibit 1). The outperformance was also aided by the recent rally of its underlying commodities, mainly Aluminium, Zinc, and Silver prices (see Exhibit 2).

Management has earlier guided for \$3 Bn in debt reduction at VRL by FY27 through brand fees and dividends available from subsidiaries without raising further leverage at Vedanta Ltd (VEDL). The group (VEDL+VRL) has \$2.6 Bn debt, which is up for maturity in FY25. It also has debt of \$3.1 Bn in FY26 and \$8.2 Bn for FY27 onwards, which includes \$3 Bn of bonds at VRL. At the VRL level, the group targets an EBITDA of \$6 Bn in FY25 and \$6.5-7.5 Bn in FY26/27, which along with strategic action (asset sale), will lead to deleveraging. This will bring down the group Net debt/EBITDA to <1.25x by FY27. **Post the recent rally in the share prices, timely execution of the growth and backward integration projects, progress on strategic actions/demerger and headway towards deleveraging will assume further importance for the stock performance in future.** A fall in the Aluminium, Silver, and Zinc prices remains the key risk for the stock.

### Key takeaways from the Site visit:

**Aluminium Segment:** Aluminium segment targets EBITDA/t of \$1,350/t. At the current LME Aluminium prices, the aluminium segment is making an EBITDA/t of ~\$1,000-1,050/t (vs. \$598/t in Q4FY24). The company's target is to achieve an EBITDA/t of \$1,350/t for which it assumes a cost of \$1,650/t (vs. 1,767/t in Q4FY24), LME of \$2,700/t (\$2,199/t in Q4FY24), and NEP of \$300/t (vs \$166/t in Q4FY24). The company is increasing its aluminium production to 3.1 mtpa from 2.4 mtpa in FY24 and the work is on track.

**Zinc India:** Guidance is unchanged for mined and refined metal for FY25. FY25 Mined metal is expected to be between 1,100-1,125kt (1.2MT target) and refined metal production is in the range of 1,075-1,100kt. FY25 saleable silver production is projected to be between 750-775 MT (1,000 MT target). Zinc cost of production in FY25 is expected to be between \$1,050-1,100/t (\$1,000/t target). Project Capex for the year is expected to be in the range of \$270-325 Mn. VAP share guidance of 23% in FY25 (vs. 20% in FY24). **A 160 ktpa new roaster at Debari is expected to come online by Q3FY25. DAP/NPK Fertiliser Plant at Chanderiya (510 ktpa) is to be completed by Q2FY26.**

**Oil & Gas:** Cairn India's R&R grew by 19% YoY in FY24 to 1,376 mmbob, driven by resource addition. Out of the 1,376 mmbob, 256 mmbob, i.e., 19% is gas. The company's focus is to monetise the 1,376 mmbob R&R and achieve near-term production of 150 kboepd (127.5 kboepd gross daily production in FY24) with an EBITDA of \$900 Mn (\$1,170 Mn in FY24). **In the next 3 years, it has a production target of 300 kboepd, led by an expanded resource base to >2 Bnbob.**

**Demerger:** As per media reports, Vedanta Demerger received a go-ahead from the key creditors, including SBI last week. Demerger will result in 6 pure-play businesses with a high degree of homogeneity. Debt split across demerged entities will be a key monitorable to watch out for going ahead.

**Asset sale:** The company plans to sell its ESL Bokaro steel plant of 1.5 mtpa. It has spent \$133 Mn so far for 1.5 to 3 mtpa expansion (total Capex bookmarked is \$349 Mn). The management said it is not in a hurry for a distress sale. The site has ~2,300 acres of land and a Natural Gas pipeline and all other required infrastructure. As a rule of thumb, 1 tonne of steel plant should fetch \$1 Bn in valuation.

**Valuation:** On a 12MF consensus basis, Vedanta Ltd is trading at 5.0x EV/EBITDA.

### Key Financials (Consolidated)

(Rs Cr)	FY19	FY20	FY21	FY22	FY23	FY24
Net Sales	92,048	83,171	88,021	1,32,732	1,47,308	1,43,727
EBITDA	23,103	19,411	27,318	44,824	34,422	35,198
EBITDA %	25%	23%	31%	34%	23%	24%
Underlying Net Profit	6,900	3,262	9,630	17,355	10,791	1,436
EPS (Rs) Underlying	18.1	28.8	33	52.6	28.3	3.8

Source: Company, Axis Securities

(CMP as of 14<sup>th</sup> Jun 2024)

CMP (Rs)	447
High/Low (Rs)	506/207
Market cap (Cr)	166,196
Avg. daily vol. (6m) Shrs.	1,65,94,385
No. of shares (Cr)	372

### Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	63.71	63.71	61.95
FII	7.82	7.74	8.77
Mutual Funds / UTI	0.83	1.42	3.55
Financial Institutions	0.00	0.00	0.00
Others	27.64	27.13	25.73

### Relative performance

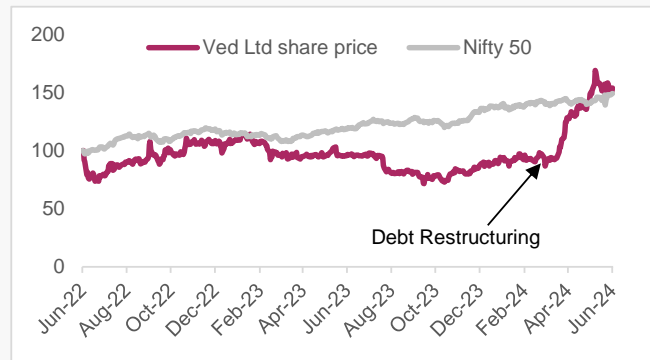


Source: ACE Equity, Axis Securities

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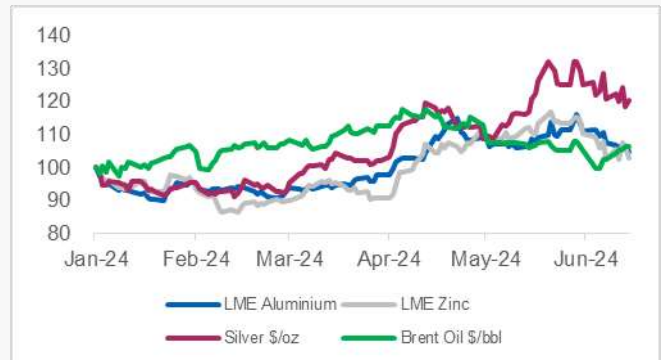
## Key Charts

**Exhibit 1: Vedanta Ltd outperformed Nifty 50 post-debt restructuring**

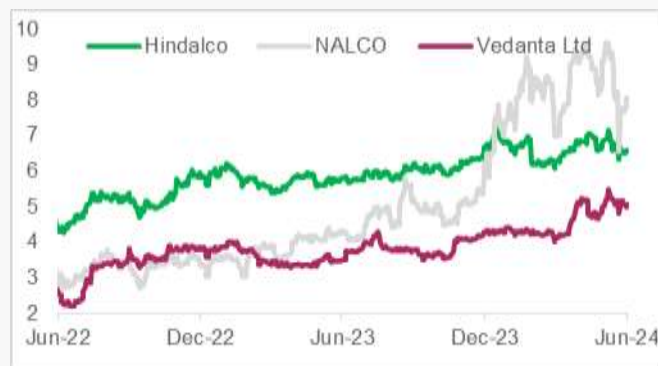


Source: LSEG Workspace

**Exhibit 2: Underlying commodities have also rallied recently aiding Vedanta's outperformance**

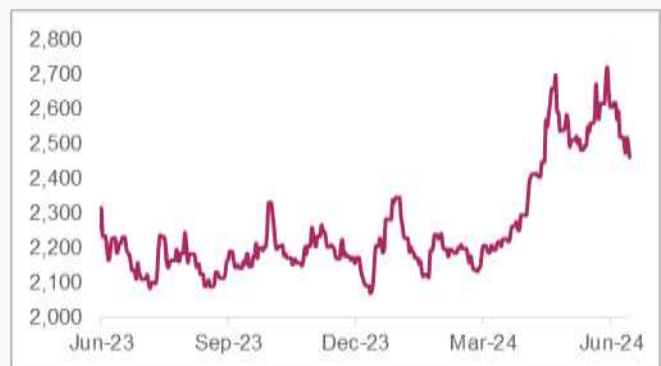


**Exhibit 3: 12MF EV/EBITDA – Valuations are stretched across peers**



Source: LSEG Workspace

**Exhibit 4: In Jun'24, LME Aluminium prices have corrected. Spot LME at \$2,461/t.**



**Exhibit 5: Vedanta's EBITDA has the highest sensitivity to LME Aluminium prices now.**

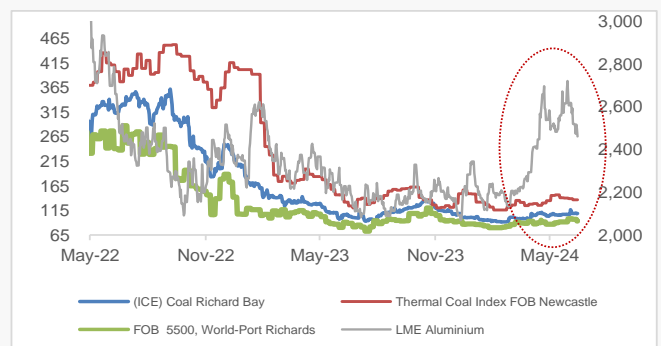
Foreign Currency - Impact of ₹1 depreciation in FX Rate		
Currency	Increase in EBITDA	
INR/USD	= ₹ 800 crore / year	

Commodity prices - Impact of a 10% increase in Commodity Prices		
Commodity	FY24 Average price	Impact on EBITDA (\$m)
Oil (\$/bbl)	83	85
Zinc (\$/t)	2,475	218
Aluminium (\$/t)	2,200	420
Lead (\$/t)	2,122	52
Silver (\$/oz)	24	60

Source: Company PPT, LSEG Workspace

**Exhibit 6: Spread between Thermal coal and LME Aluminium is still high, beneficial for Aluminium smelters**



**Exhibit 7: Vedanta Group Debt maturity profile – Bonds pushed beyond FY27- providing comfort**

Debt Maturity Profile (\$ Bn)	FY25	FY26	FY27 onwards
Ved Ltd (mostly secured loan)	1.70	2.20	4.40
Ved Rcs loan	0.90	0.90	0.80
Ved Rcs Bond	-	-	3.00
<b>Total Funds needed</b>	<b>2.60</b>	<b>3.10</b>	<b>8.20</b>

Source: Company PPT

**Exhibit 8: Growth Projects under execution – at advanced stage of completion**

Alumina Refinery	( 3.5 → 5 MTPA )
BALCO Smelter	( 0.6 → 1 MTPA )
Aluminium Value Addition	( 60% → 90% )
Gamsberg Phase 2	( 250 → 500 KTPA )
Zinc 1.2 MTPA Silver 800 TPA	( 1.1 → 1.2 MTPA )
Mining Ramp up : IOK, Goa and WCL	( 13 → 30 MTPA )
FACOR Expansion	( 145 → 450 KTPA )
Merchant Power : Athena and Meenakshi	( 2.9 → 5 GW )

Source: Company PPT

**Exhibit 9: Segment-wise EBITDA targets – LME Price assumptions are aggressive.**

Aluminium	Zinc India	Oil and Gas	Iron & Steel	Others
Volume: 3.1 MTPA LME: 2700 \$/t NEP: 380 \$/t Cost: 1650 \$/t EBITDA: \$ 4.2 bn	Zinc Vol: 1.2 MTPA Silver Vol: 800 tonnes Zn LME: 3000 \$/t Zn NEP: 250 \$/t Zn Cost: 1900 \$/t Zn EBITDA: \$ 1.7 bn Ag EBITDA: \$ 1 bn	Volume: 150 kbopd Brent: 65 \$/bbl Cost: 12 \$/bbl EBITDA: \$ 0.9 bn	Iron Ore Vol: 30 MTPA Price: 115 \$/t Iron Ore EBITDA: \$ 0.9 bn Steel Vol: 3 MTPA Steel EBITDA: \$ 0.4 bn	JD EBITDA: \$ 0.3 bn Merchant Power EBITDA: \$ 0.4 bn FACOR EBITDA: \$ 0.1 bn Others EBITDA: \$ 0.2 bn

**Exhibit 10: Segment-wise Net Debt and Valuation based on consensus**

Company	Mar 31, 2024			Dec 31, 2023			Mar 31, 2023				FY26
	Debt	Cash & Cash Eq	Net Debt	Debt	Cash & Cash Eq	Net Debt	Debt	Cash & Cash Eq	Net Debt		
Vedanta Limited Standalone	42,232	2,385	39,847	44,134	1,052	43,082	42,023	7,364	34,659	EBITDA	17,744
Calm India Holdings Limited <sup>1</sup>	1,835	1,191	644	1,839	879	960	2,862	1,610	1,052	EV/EBITDA target multiple	7.00
Hindustan Zinc Limited	8,455	10,188	(1,731)	10,111	9,743	368	11,841	10,061	1,780	EV	1,24,205
Zinc International	436	378	60	223	382	(158)	-	683	(683)	Net Debt (Mar'24)	-1,731
THLZV <sup>2</sup>	7,433	49	7,384	7,412	16	7,396	-	-	-	Equity value	1,25,936
BALCO	2,050	305	1,745	1,899	240	1,658	1,129	470	659	Ved Ltd stake (64.9%)	81,733
Talvandi Sabo	6,050	206	5,844	6,173	54	6,119	6,378	78	6,300	Ved stake post Hold Co Discount (20%)	65,386
ESL	1,906	382	1,524	2,059	151	1,907	2,274	301	1,973	<b>HZL Contribution</b>	<b>176</b>
Meenakshi Energy	776	1	775	737	5	732	-	-	-	<b>Ved Ltd Ex HZL</b>	<b>FY26</b>
Others <sup>3</sup>	586	340	246	640	212	429	(125)	375	(500)	EBITDA	29,753
Vedanta Limited Consolidated	71,759	15,421	56,338	75,227	12,734	62,493	66,182	20,922	45,260	EV/EBITDA target multiple	6.00
										EV	1,78,520
										Net Debt (Mar'24)	58,069
										Equity value	1,20,451
										<b>Ved Ltd Ex HZL Contribution</b>	<b>324</b>
										<b>Fair Value</b>	<b>500</b>

Source: Company PPT. Note: The Fair value is based on LSEG workspace consensus FY26 EBITDA estimates and our assumption of 7.0x and 6.0x target multiple for HZL and VEDL excluding HZL. Please note that we do not have any rating and target price for the stock and it is currently in our "Not rated" category.

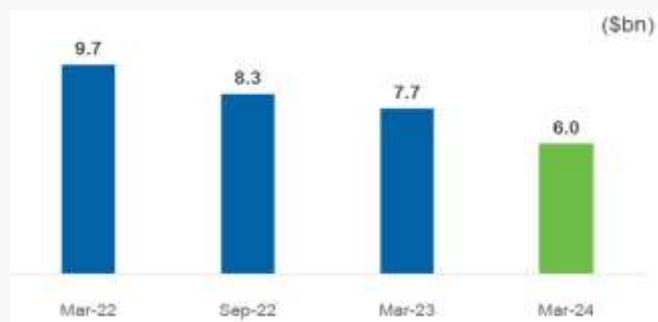
**Exhibit 11: Consensus EBITDA and Net Debt Forecast (Vedanta Ltd and HZL)**

Vedanta Ltd	FY2023	FY2024	FY2025E	FY2026E	FY2027E
EBITDA Consensus Rs Cr	34,422	35,198	42,980	47,497	47,900
Net Debt consensus	57,374	44,805	65,371	65,009	71,686

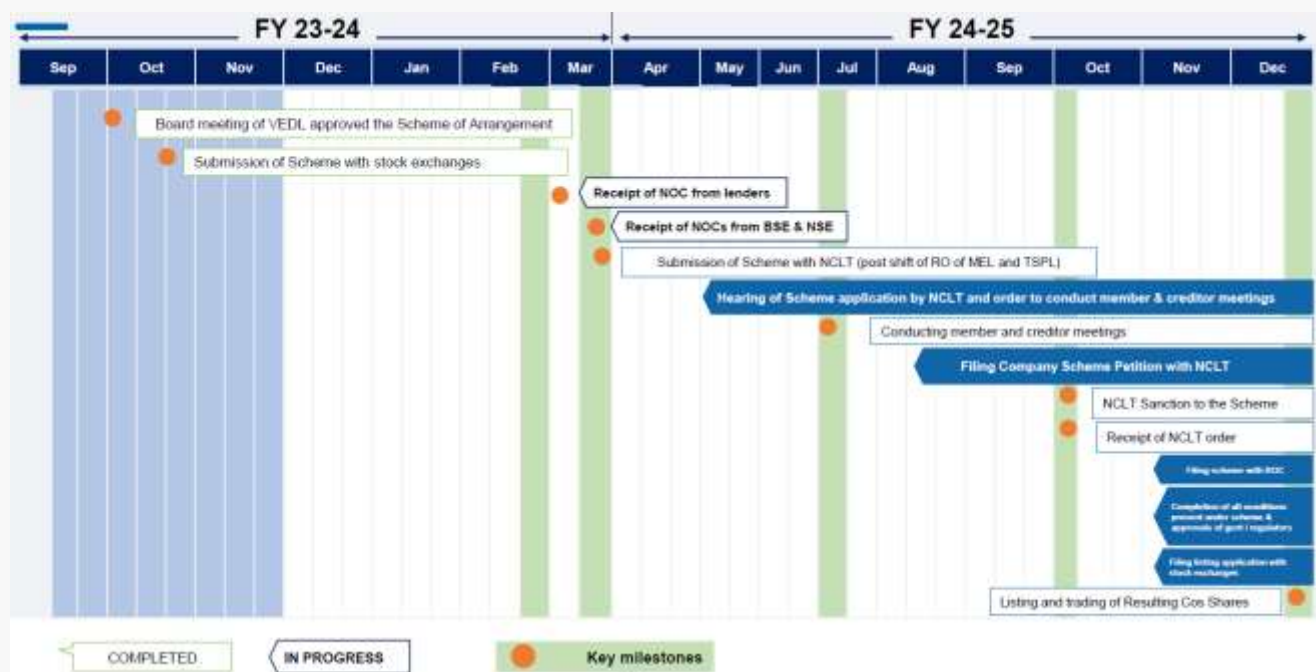
HZL	FY2023	FY2024	FY2025E	FY2026E	FY2027E
EBITDA Consensus Rs Cr	17,596	13,656	16,594	17,744	17,157
Net Debt consensus	10,429	-1,386	-2,003	-2,633	250

Source: LSEG Workspace

**Exhibit 12: Net debt at VRL (Vedanta Resources) Standalone.**


Source: Company PPT

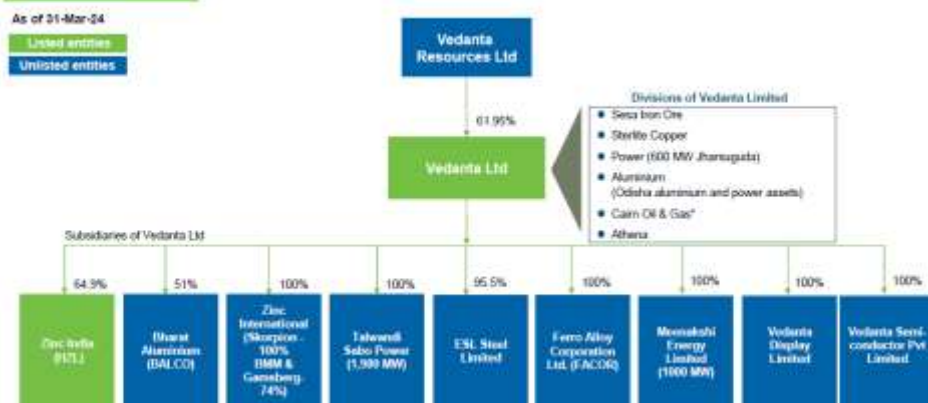
**Exhibit 13: Restructured Debt Profile**

**Exhibit 14: Vedanta Demerger – Indicative Timeline for Implementation**


Source: Company PPT.

Source: LSEG Workspace

**Exhibit 15: Group structure – Current and post demerger**



Source: Company PPT

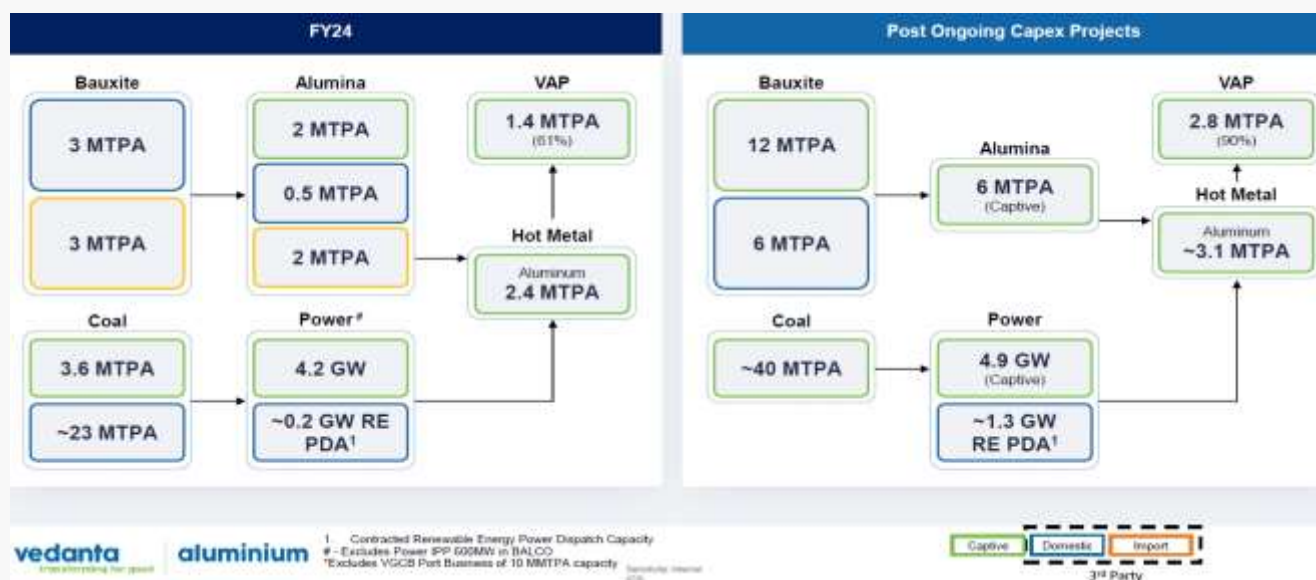
## Aluminium Segment – Jharsuguda smelter site visit

**Aluminium Segment targets \$1,350/t EBITDA/t:** At the current LME Aluminium prices the aluminium segment is making an EBITDA/t of ~\$1,000-1,050/t (vs. \$598/t in Q4FY24). The company's target is to achieve an EBITDA/t of \$1,350/t for which it assumes a cost of \$1,650/t (vs. 1,767/t in Q4FY24), LME of \$2,700/t (\$2,199/t in Q4FY24) and NEP of \$300/t (vs \$166/t in Q4FY24). From the current \$1,000-1,050/t EBITDA margin, to achieve the \$1,350/t target, the company has near-term visibility for another \$150/t cost savings and \$50-75/t premium on VAP led by increased downstream and domestic share of sales volumes (VAP share to increase from 60% to 90%).

### Aluminium Expansion projects:

- **Aluminium Production 3.1 mtpa target:** The Company's focus on increasing its aluminium production to 3.1 mtpa from 2.4 mtpa in FY24 is on track
- **Alumina refinery (2-6 mtpa):** In Q4FY24, a 1.5 mtpa (Train I) Alumina refinery unit at Lanjigarh was commissioned taking total Alumina capacity to 3.5 mtpa. The 3.5 to 5 mtpa is on track (by Q2FY25). Further debottlenecking will take it to 6mtpa by FY26.
- **Coal Mines:** Captive coal capacity will increase to ~40mtpa from the current 3.6 mtpa. Currently company sources 23mtpa from domestic sources and 3.6 mtpa from captive. Jamkhani (3mtpa) is operational, while Radhikapur (6mtpa) and Kuraloi (8mtpa) are expected to start from Q3FY25. Ghogharapalli (20 mtpa) is expected to start in FY26 and Barra (6 mtpa) is under exploration.
- **Bauxite Mines:** Currently out of the total 6mtpa Bauxite, the company imports 3mtpa and sources the remaining 3 mtpa through domestic sources. Post the ongoing expansion of Capex, the company will have 12mtpa captive bauxite and source the remaining 6mtpa bauxite (a total of 18 mtpa needed for 6mtpa Alumina production) from domestic sources. The 12 mtpa Sijimali Bauxite mine is expected to start towards the end of FY25.

**Exhibit 16: Projects underway to achieve ~3.1 MTPA of Integrated Supply**



Source: Company PPT

**Exhibit 17: Coal Mines – 100% integration target**

COAL MINES		BAUXITE MINES	
	Jamkhani		Sijimali
MINERABLE RESOURCE (MnT)	120		300
CAPACITY (MTPA)	3		12
	Kuraloi		OMC/Others
MINERABLE RESOURCE (MnT)	150		70
CAPACITY (MTPA)	8		3-5
	Ghogharapalli		Total
MINERABLE RESOURCE (MnT)	600		~370
CAPACITY (MTPA)	20		15-18
	Radhikapur		
MINERABLE RESOURCE (MnT)	130		
CAPACITY (MTPA)	6		
	Barra*		
MINERABLE RESOURCE (MnT)	TBC		
CAPACITY (MTPA)	6		
	Total		
	~950		
	~40		

**Bauxite 18 MnT Volume**  
**Coal 40 MnT Volume**

Source: Company PPT

**Exhibit 18: Mine Development timelines**



## Zinc India

As per ILZSG Group (International Lead and Zinc Study Group) global supply of refined zinc metal will exceed demand in 2024 with the extent of the surplus currently forecast at 56,000 tonnes.

India remains the net imported of Zinc. India's growing steel industry, and auto and infrastructure focus will lead to higher Zinc demand in future. India's steel demand is expected to grow by 8.2% YoY to 156MT in FY25 as per WSA (World Steel Association SRO Apr'24).

**Exhibit 19: Adjusted EBITDA (Rs Mn)**



Source: The Company

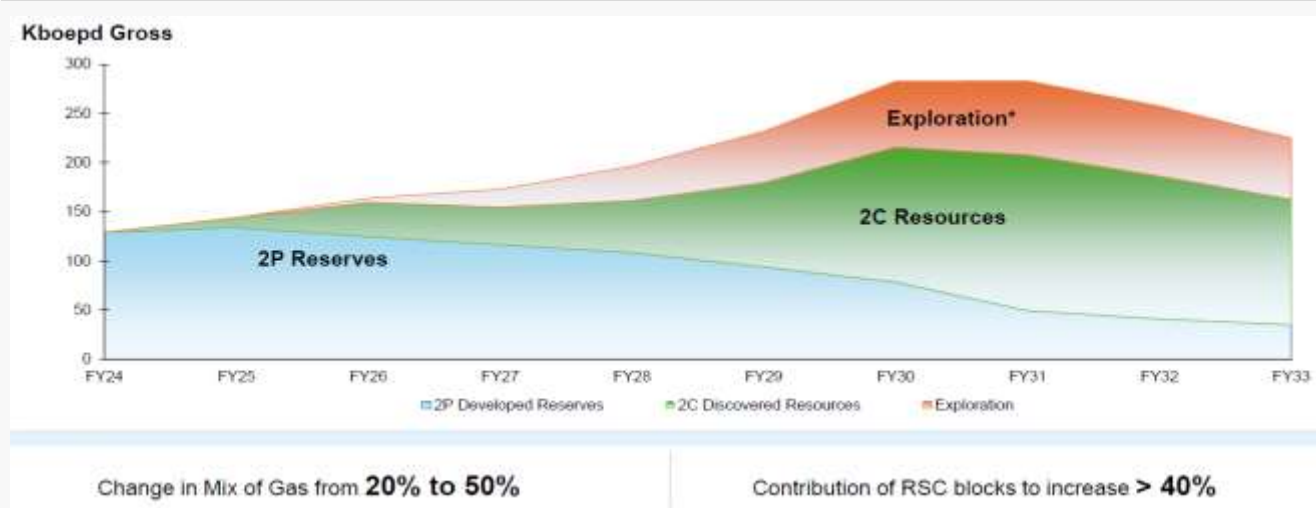
**Exhibit 20: PAT (Rs Mn)**



## Oil and Gas

To arrest the decline in daily oil equivalent production, Cairn will expand its resource base to >2 Bnboe (1.4 Bnboe currently) in the next 3 years, with a production target of 300 kboepd. (Gross production stood at 127.5 kboepd in FY24, down 11% YoY).

**Exhibit 21: Sales Volume (Tonnes)**



Source: The Company

**Exhibit 22: Development – From Potential to Production Accelerating Resources Conversion (Mmboe)**



Source: The company. Note: (1) 25% chance of Success (2) Shale Prospective Resources (3) Short-term reserves include Post PSC (2030) Resources of 196 MMBOE

## Financials (Consolidated)

### Profit & Loss

(Rs Mn)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24
<b>Net Sales</b>	<b>9,18,660</b>	<b>9,20,480</b>	<b>8,31,710</b>	<b>8,80,210</b>	<b>13,27,320</b>	<b>14,73,080</b>	<b>14,37,270</b>
Total Expenses	6,67,020	6,89,450	6,37,600	6,07,030	8,79,080	11,28,860	10,85,290
<b>EBITDA</b>	<b>2,51,640</b>	<b>2,31,030</b>	<b>1,94,110</b>	<b>2,73,180</b>	<b>4,48,240</b>	<b>3,44,220</b>	<b>3,51,980</b>
As % of Net Sales	27.4	25.1	23.3	31.0	33.8	23.4	24.5
DDA	62,830	81,920	90,930	76,380	88,950	1,05,550	1,07,230
<b>EBIT</b>	<b>1,88,810</b>	<b>1,49,110</b>	<b>1,03,180</b>	<b>1,96,800</b>	<b>3,59,290</b>	<b>2,38,670</b>	<b>2,44,750</b>
Finance cost	57,830	56,890	49,770	52,100	47,970	62,250	94,650
Other income	35,740	40,180	25,100	34,210	26,000	28,510	25,500
<b>PBT</b>	<b>1,66,720</b>	<b>1,32,400</b>	<b>78,510</b>	<b>1,78,910</b>	<b>3,37,320</b>	<b>2,04,930</b>	<b>1,75,600</b>
Tax	57,430	38,620	-31,000	21,800	92,550	57,700	1,28,260
Rate (%)	34.4	29.2	-39.5	12.2	27.4	28.2	73.0
<b>PAT</b>	<b>1,09,290</b>	<b>93,780</b>	<b>1,09,510</b>	<b>1,57,110</b>	<b>2,44,770</b>	<b>1,47,230</b>	<b>47,340</b>
Exceptional expense/(Income)	-8,230	-3,200	1,56,940	-950.0	7,680.0	2,170.0	-28,030.0
<b>PAT (after EO)</b>	<b>1,17,520</b>	<b>96,980</b>	<b>-47,430</b>	<b>1,58,060</b>	<b>2,37,090</b>	<b>1,45,060</b>	<b>75,370</b>
Minority interests	33,500	26,330	19,200	34,300	49,080	39,290	33,000
Share in Associate	0	0	-10	-10	10	-30	20
<b>Attrib. PAT (after MI &amp; asso)</b>	<b>75,790</b>	<b>68,998</b>	<b>32,617</b>	<b>96,304</b>	<b>1,73,551</b>	<b>1,07,910</b>	<b>14,360</b>
Change (YoY %)	34.7	-9.0	-52.7	195.3	80.2	-37.8	-86.7

Source: Company, Axis Securities

### Balance Sheet

(Rs Mn)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Share Capital	3,720	3,720	3,720	3,720	3,720	3,720	3,720
Reserves	6,31,360	6,19,250	5,42,630	6,19,060	6,50,110	3,90,510	3,03,500
<b>Net Worth</b>	<b>6,35,080</b>	<b>6,22,970</b>	<b>5,46,350</b>	<b>6,22,780</b>	<b>6,53,830</b>	<b>3,94,230</b>	<b>3,07,220</b>
Minority Interest	1,59,570	1,52,270	1,71,120	1,51,380	1,73,210	1,00,040	1,13,470
Total Loans	7,25,200	8,35,360	7,57,220	6,85,680	5,34,330	6,66,280	7,27,710
Deferred Tax Liability	-8,560	10,090	-40,040	-36,450	-6,500	-25,730	74,630
<b>Capital Employed</b>	<b>15,11,290</b>	<b>16,20,690</b>	<b>14,34,650</b>	<b>14,23,390</b>	<b>13,54,870</b>	<b>11,34,820</b>	<b>12,23,030</b>
Gross Block	18,09,670	21,76,030	21,82,280	22,81,180	23,92,240	27,44,000	28,88,440
Less: Accumulated Depreciation	8,47,730	11,84,830	12,75,760	13,52,140	14,41,090	17,66,000	18,73,230
<b>Net Fixed Assets</b>	<b>9,61,940</b>	<b>9,91,200</b>	<b>9,06,520</b>	<b>9,29,040</b>	<b>9,51,150</b>	<b>9,78,390</b>	<b>10,15,210</b>
Capital WIP	1,61,400	2,22,360	1,68,370	1,38,800	1,42,300	1,74,340	2,03,310
Investments in Subsidiaries	1,640	48,910	950	1,560	1,510	5,140	9,870
<b>WC. Assets</b>	<b>6,73,660</b>	<b>7,23,210</b>	<b>6,91,490</b>	<b>7,28,970</b>	<b>8,40,190</b>	<b>7,20,740</b>	<b>6,52,790</b>
Inventory	1,19,670	1,31,980	1,13,350	99,230	1,43,130	1,50,120	1,30,010
Account Receivables	53,160	76,700	58,080	66,490	81,650	65,460	60,160
Cash and Bank Balance	3,37,520	3,65,430	3,71,600	3,31,330	3,27,320	2,18,900	1,52,090
Loans and advances	1,63,310	1,49,100	1,48,460	2,31,920	2,88,090	2,86,260	3,10,530
<b>WC. Liability &amp; Prov.</b>	<b>2,87,350</b>	<b>3,64,990</b>	<b>3,32,680</b>	<b>3,74,980</b>	<b>5,80,280</b>	<b>7,43,790</b>	<b>6,58,150</b>
Trade payables	84,260	92,360	80,270	78,920	2,15,310	2,47,440	2,50,300
Provisions & Others	2,03,090	2,72,630	2,52,410	2,96,060	3,64,970	4,96,350	4,07,850
<b>Net WC. Assets</b>	<b>3,86,310</b>	<b>3,58,220</b>	<b>3,58,810</b>	<b>3,53,990</b>	<b>2,59,910</b>	<b>-23,050</b>	<b>-5,360</b>
Miscellaneous Expense							
<b>Appl. of Funds</b>	<b>15,11,290</b>	<b>16,20,690</b>	<b>14,34,650</b>	<b>14,23,390</b>	<b>13,54,870</b>	<b>11,34,820</b>	<b>12,23,030</b>

Source: Company, Axis Securities

## About the Analyst



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