

Vedanta Ltd (VEDL IN)

Strong operational performance

INDIA | METALS | Quarterly Update

28 October 2015

Top takeaways from Q2FY16

- ✓ Revenues were 9% ahead of estimates at Rs 163.5bn driven by strong volume growth
- ✓ Cost optimisation and volume growth saw operating profits at Rs 40bn, almost 5% higher than our estimates
- ✓ Higher operating profits and forex gains helped net profits (Rs 9.8bn) beat our estimates by 80%
- ✓ Interim dividend doubled to Rs 3.5 per share

Key highlights: Strong volume growth helped the company partly offset the impact of lower commodity prices — cost control initiatives also helped. The company continues to optimise opex and capex (reduced to US\$ 700mn in FY16 from US\$ 1bn) across segments in the wake of falling commodity prices. Gross debt stood at Rs 794.3bn, flat qoq, while net debt reduced by Rs 53.4bn to Rs 271bn.

Conference call takeaways:

- ✓ Aluminium division (majorly Balco) is expected to see further cost controls, which will help partly mitigate the impact of falling prices. Cost rationalisation measures include shutting down of old and loss-making plants and replacing them with higher efficient plants. Company estimates the potential cost reduction at Balco of US\$200-250/tonne. Further fall in raw material prices (alumina and coal) will drive down costs for the segment (both VAL and Balco).
- ✓ Final approval for conversion from IPP to CPP at unit 4 of its 2400MW power plant in Jharsuguda is expected in November 2015, which will help increase volumes at its 1.25mn tonne aluminium smelter.
- ✓ Captive coal mining at Chotia to begin in Q3FY16, thereby reducing costs for Balco.
- ✓ The company has all requisite approvals for iron ore mining in Goa and is looking at operating at its rated capacity of 5.5mn tonnes.
- ✓ It is expected to commission various power plants (at Balco and TSPL), thereby driving profitability.
- ✓ Has already rolled over US\$ 0.5bn of debt maturing in FY16 and received in-principle approval for the balance US\$ 1bn.
- ✓ Strong Tc/Rc and higher value addition will drive copper segment's profitability.
- ✗ No further clarity provided on the Cairn-Vedanta merger.

Outlook and valuation: The company is taking various steps to control costs in order to sail through the commodity down-cycle. While these will help it to stay afloat, they will impact profitability. We factor in lower commodity prices and accordingly lower our earnings. We retain our Buy rating on the stock with a revised target price of Rs 130 (from Rs 153 earlier).

BUY(Maintain)

CMP RS 105 / TARGET RS 130 (+24%)

COMPANY DATA

O/S SHARES (MN) :	2965
MARKET CAP (RSBN) :	303
MARKET CAP (USDBN) :	4.7
52 - WK HI/LO (RS) :	264 / 77
LIQUIDITY 3M (USDMN) :	20.4
PAR VALUE (RS) :	1

SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	59.5	59.5	59.5
FII / NRI :	16.3	17.4	17.0
FI / MF :	6.8	5.7	5.9
NON PRO :	2.4	2.5	2.5
PUBLIC & OTHERS :	15.0	15.0	15.2

Key Financials

Rs mn	FY15	FY16E	FY17E
Net Sales	725,153	684,361	799,654
EBIDTA	220,446	181,190	214,843
Net Profit	64,832	38,420	61,413
EPS, Rs	21.9	10.3	16.5
PER, x	4.8	10.2	6.4
EV/EBIDTA, x	4.7	5.0	4.1
ROE, %	12.0	5.8	8.7
Debt/Equity (%)	144.3	118.3	112.0
BLM Cons EPS, Rs	6.5	12.1	17.1

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	751,388	854,934	-8.9%	-6.5%
EBITDA	214,326	234,972	-15.5%	-8.6%
Core PAT	66,334	88,469	-42.1%	-30.6%
EPS (Rs)	17.8	23.8	-41.9%	-30.6%

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(Rsbn)	Q2FY16	Q2FY15	yoy growth %	Q1FY16	qoq growth %	vs. expectations %	Comments
Total Operating Income	165,609	195,494	-15.3%	170,169	-2.7%	10%	Higher volumes drives performance
Operating Expenditure	125,611	132,673	-5.3%	130,249	-3.6%		
Operating profits	39,998	62,821	-36.3%	39,920	0.2%	-73%	All segments except aluminium and iron ore reported strong profits
Other Income	7,211	6,861	5.1%	8,934	-19.3%	-15%	
Depreciation	16,602	20,033	-17.1%	17,175	-3.3%	-6%	
Interest	14,181	14,644	-3.2%	13,578	4.4%	2%	
EBT	16,426	35,006	-53.1%	18,101	-9.3%	-87%	
Exceptional Items & Forex (gain)/ loss	(4,940)	(2,073)	138.4%	(2,546)	94.1%	65%	
PBT	21,366	37,078	-42.4%	20,647	3.5%	-84%	
Tax	2,040	5,601	-63.6%	3,525	-42.1%	-33%	
Net Profit	19,326	31,477	-38.6%	17,122	12.9%	-85%	
Minority Interest	9,587	15,284	-37.3%	8,461	13.3%		
Profit from Associates	1	-		(2)	-131.6%		
Consolidated Profit	9,740	16,193	-39.9%	8,659	12.5%	-92%	

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	650,227	725,153	684,361	799,654
Growth, %	2,290	12	-6	17
Other income	11,297	11,942	0	0
Total income	661,524	737,095	684,361	799,654
Other Operating expenses	-465,279	-516,650	-503,170	-584,811
EBITDA (Core)	196,246	220,446	181,190	214,843
Growth, %	4,116.3	12.3	(17.8)	18.6
Margin, %	30.2	30.4	26.5	26.9
Depreciation	-68,823	-71,592	-66,194	-69,078
EBIT	127,422	148,854	114,996	145,765
Growth, %	4,654.7	16.8	(22.7)	26.8
Margin, %	19.6	20.5	16.8	18.2
Interest paid	-50,944	-56,588	-55,744	-44,994
Other Non-Operating Income	20,735	29,772	30,607	29,410
Non-recurring Items	-2,288	-221,289	0	0
Pre-tax profit	105,745	-99,210	89,860	130,182
Tax provided	8,469	-14,484	-16,336	-33,260
Profit after tax	114,213	-113,694	73,523	96,922
Others (Minorities, Associates)	-51,228	-42,764	-35,103	-35,510
Net Profit	62,985	-156,458	38,420	61,413
Growth, %	183.6	(0.7)	(40.7)	59.8
Net Profit (adjusted)	65,273	64,832	38,420	61,413
Unadj. shares (m)	2,965	2,965	3,717	3,717
Wtdavg shares (m)	2,965	2,965	3,717	3,717

Balance Sheet

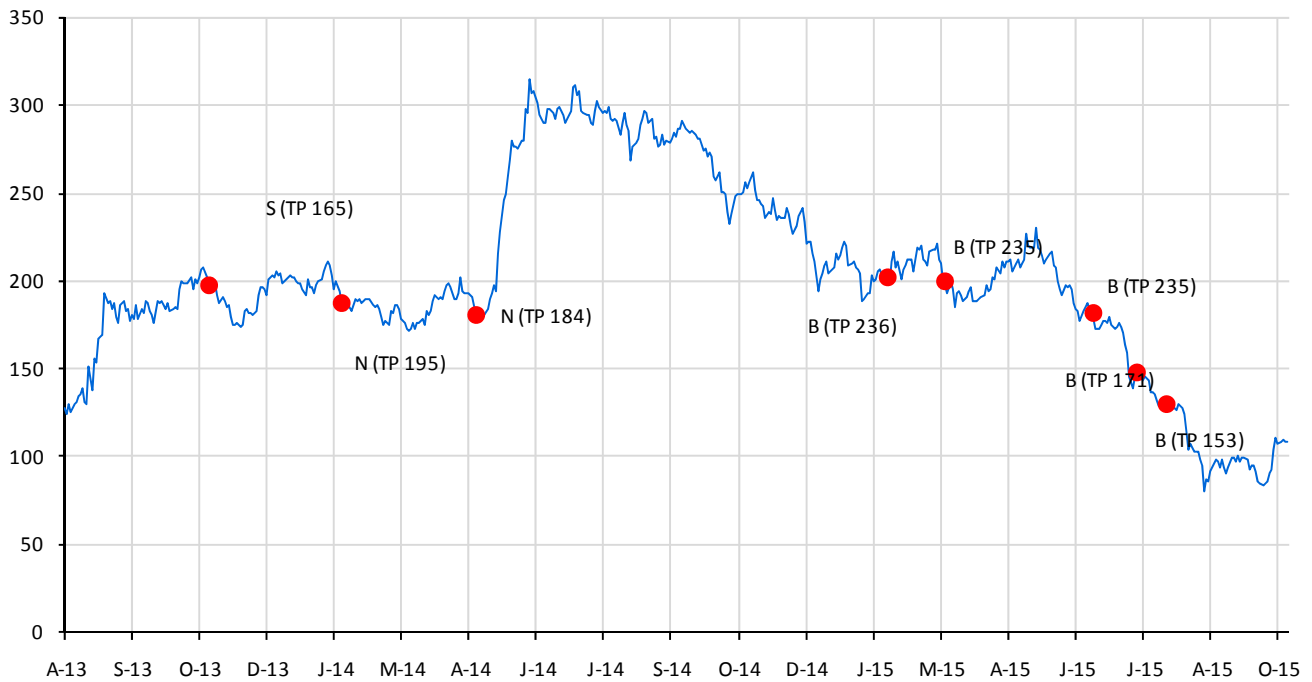
Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	76,841	56,963	271,197	295,178
Debtors	46,537	36,051	33,749	39,435
Inventory	90,338	87,250	93,748	109,542
Loans & advances	172,146	208,362	213,571	218,910
Other current assets	72,895	29,568	31,046	32,598
Total current assets	458,757	418,194	643,311	695,663
Investments	379,096	396,060	483,382	534,395
Net fixed assets	1,303,331	1,088,558	935,547	904,444
Total assets	2,141,184	1,902,812	2,062,240	2,134,502
Current liabilities	267,895	159,991	161,390	168,865
Provisions	54,273	37,951	38,900	39,872
Total current liabilities	322,168	197,942	200,290	208,737
Non-current liabilities	750,955	810,820	824,220	827,883
Total liabilities	1,073,123	1,008,762	1,024,510	1,036,620
Paid-up capital	2,965	2,965	11,237	11,237
Reserves & surplus	727,122	535,788	654,497	692,033
Shareholders' equity	1,068,061	894,050	1,037,730	1,097,882
Total equity & liabilities	2,141,184	1,902,812	2,062,240	2,134,502

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
EPS (INR)	22.0	21.9	10.3	16.5
Growth, %	(16.9)	(0.7)	(52.7)	59.8
Book NAV/share (INR)	246.2	181.7	179.1	189.2
FDEPS (INR)	22.0	21.9	10.3	16.5
CEPS (INR)	46.0	120.6	28.1	35.1
CFPS (INR)	44.7	(57.2)	28.0	32.4
DPS (INR)	3.3	4.1	4.0	4.0
Return ratios				
Return on assets (%)	12.4	(3.8)	5.5	6.0
Return on equity (%)	8.9	12.0	5.8	8.7
Return on capital employed (%)	14.0	(4.3)	6.0	6.5
Turnover ratios				
Asset turnover (x)	0.9	0.5	0.6	0.7
Sales/Total assets (x)	0.5	0.4	0.3	0.4
Sales/Net FA (x)	1.0	0.6	0.7	0.9
Working capital/Sales (x)	0.2	0.3	0.3	0.3
Working capital days	64.0	101.3	112.4	105.7
Liquidity ratios				
Current ratio (x)	1.7	2.6	4.0	4.1
Quick ratio (x)	1.4	2.1	3.4	3.5
Interest cover (x)	2.5	2.6	2.1	3.2
Total debt/Equity (%)	99.1	144.3	118.3	112.0
Net debt/Equity (%)	88.6	133.7	77.6	70.0
Valuation				
PER (x)	4.8	4.8	10.2	6.4
Price/Book (x)	0.4	0.6	0.6	0.6
Yield (%)	3.1	3.9	3.8	3.8
EV/Net sales (x)	1.5	1.4	1.3	1.1
EV/EBITDA (x)	4.9	4.7	5.0	4.1
EV/EBIT (x)	7.5	6.9	7.9	6.1

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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