

BSE SENSEX 65,828 S&P CNX 19,638

**CMP: INR223 TP: INR250 (12%) Neutral**



Bloomberg	VEDL IN
Equity Shares (m)	3717
M.Cap.(INRb)/(USDb)	827.3 / 10
52-Week Range (INR)	341 / 208
1, 6, 12 Rel. Per (%)	-8/-36/-31
12M Avg Val (INR M)	3260
Free float (%)	31.9

#### Financials Snapshot (INR b)

Y/E March	2023	2024E	2025E
Sales	1,473	1,378	1,457
EBITDA	344	311	352
EBITDA margin	23.4	22.6	24.2
Adj. PAT	108	94	115
Adj. EPS (INR)	29.0	25.3	30.9
EPS Gr(%)	-44.9	-12.7	22.2
BV/Sh. (INR)	106.0	94.4	102.9

#### Ratios

Net D:E	1.1	1.5	1.3
RoE (%)	20.6	25.3	31.3
RoCE (%)	21.5	20.6	22.8
Payout (%)	349.9	127.9	72.3

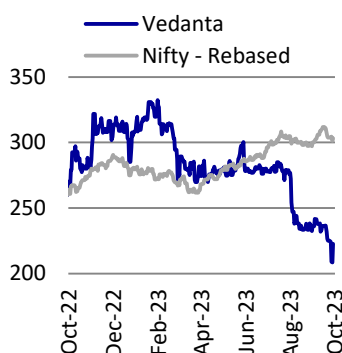
#### Valuations

P/E (x)	7.7	8.8	7.2
P/BV (x)	2.1	2.4	2.2
EV/EBITDA (x)	4.6	5.5	4.9
Div. Yield (%)	45.7	14.6	10.1
FCF Yield (%)	23.3	12.5	19.8

#### Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	68.1	68.1	69.7
DII	10.1	10.3	11.6
FII	7.6	8.0	8.9
Others	14.3	13.6	9.8

#### Stock Performance (1-year)



## Proposes demerger into independent 'pure play' commodity companies

- VEDL announced its plan to demerge its existing business verticals into six independent 'pure play' companies. This move aims to unlock stakeholder value, attract strategic investment, improve competencies, and ensure transparency.
- The proposed demerger is anticipated to conclude, with separate units being listed, within the next 12-15 months, subject to all the necessary approvals from shareholders, lenders, creditors, and regulatory authorities.
- The proposed demerger will be a simple vertical split, i.e., for every one share held in VEDL, the shareholders will receive one additional share of the newly listed five entities.
- VEDL will remain listed and will include the newly proposed semiconductor and display verticals while also functioning as the holding company for HZL.

### Highlights from the analyst/institutional investors conference call

- The company hosted an analyst call to discuss the proposal in greater details. Following are the key takeaways:

### The proposed demerger

- The existing company will be split into Vedanta Aluminum, Vedanta Oil and Gas, Vedanta Power, Vedanta Steel and Ferrous Materials, Vedanta Base Metals and VEDL. Shareholders will receive additional one share of each newly listed entity for one share held in VEDL.
- The demerger and listing of separate business units is expected to take 12-15 months, subject to all the necessary approvals from shareholders, lenders, creditors, and regulatory authorities.
- The newly listed demerged companies are expected to unlock stakeholder value, attract strategic investment, improve competencies, and ensure better customer alignment and transparency.

### VEDL to be an incubator

- Post the demerger, VEDL will act as an incubator for the Vedanta Inc group, while also functioning as the holding company for HZL.
- VEDL will not have any cross holdings in the newly listed entities. This will ensure a transparent and non-cluttered capital allocation policy across zinc, semi-conductors, stainless steel, and technology verticals.
- VEDL's proposed foray into the semiconductor and display vertical marks a significant transition for the company, evolving it from a pure commodities enterprise into a technology-focused company.
- VEDL has finalized a technology partnership with Taiwanese firm Innolux for display manufacturing.
- VEDL will be run by Mr. Arun Misra (current CEO, HZL).

**Dividend/brand fee**

- The proposed demerger will not adversely impact brand fee structure for the VRL (HoldCo).
- VEDL, along with other five newly listed entities, will adhere to a prudent dividend payout policy. The board of respective newly listed entities will conduct an independent assessment for dividend payout.

**Debt profile**

- As on 1QFY24, VEDL (consolidated) carries a net debt of INR591b, out of which, almost 72% is in the books of standalone entity (INR429b).
- VEDL will follow relevant Companies Act guidelines and plans to rope in a consultant for the same.
- Debt at a consolidated level is expected to remain consistent and will be allocated appropriately among the individual business units.

**Timeline and approval**

- VEDL expects the entire demerger process to be completed by Sept'24; however, VEDL during its conference call gave a rough timeline estimate of 12-15 months.
- VEDL will submit the proposal to stock exchange in Oct'23 and is expected to file the scheme with NCLT by Dec'23/Jan'24.
- VEDL might require state/local authority's approval for transferring some of the assets to respective newly demerged entities.
- Approval would also be required from lenders/creditors to VEDL; however, no such approval is required at HoldCo. level.

**Capex**

- The ongoing capex programme, aimed at enhancing capacity across various assets, will remain unaffected by the demerger.
- Post demerger, the company will ensure autonomy of business management. Capital allocation policy for each asset will be decided independently.

**Other insights:**

- The BoD has initiated a review of HZL's corporate structure to unlock value by establishing distinct legal entities for Zinc & Lead, Silver, and Recycling business units. The proposal is currently under evaluation by consultants, and additional details will be disclosed in due course.
- Outcome of pledge post demerger does not change.
- VEDL is currently in the process of reviewing its copper and ferrous assets for monetization. The company's stance on this matter has remained unchanged since the beginning of 2023.

**Valuation and view**

- The demerger into different entities is expected to simplify the corporate structure, enhance risk mitigation framework, ensure autonomy, and improve transparency.
- However, the debt positions at both VEDL and HoldCo. remain unchanged. HoldCo./VEDL continue to face refinancing/repayment risks, considering substantial portion of debt maturing by CY25. The developments concerning the company's debt will be a key monitorable moving forward.



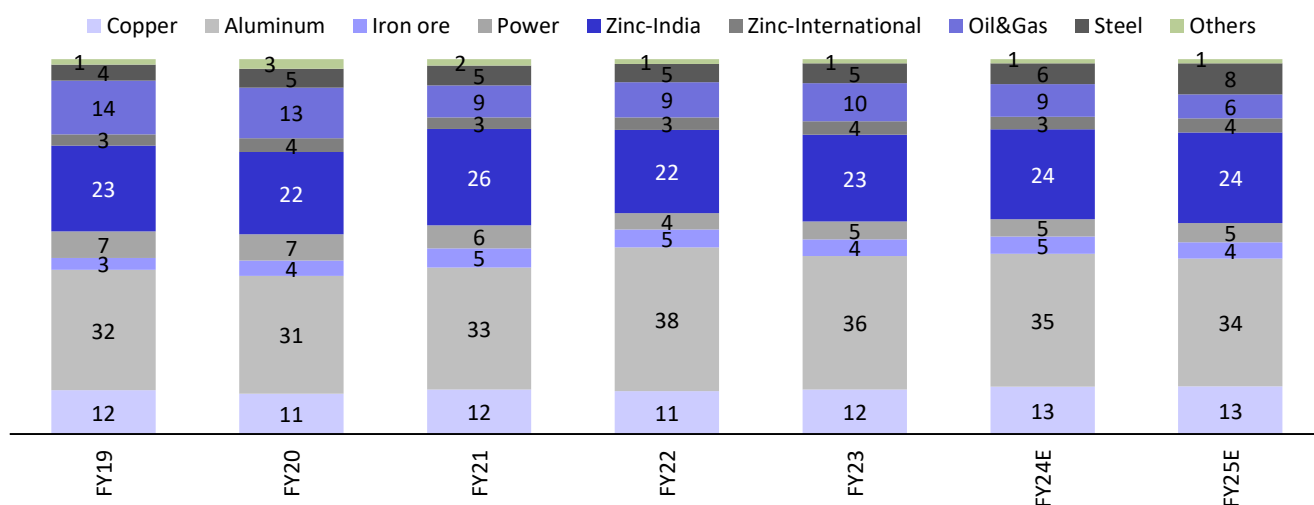
**Exhibit 3: Business verticals post demerger**

Key verticals	Zinc-Lead Silver	Aluminum	Zinc International	Oil & Gas	Power	Iron ore	ESL Steel	Other verticals
	<b>(Incl. HZL)</b>	<b>(Incl. BALCO)</b>			<b>(Incl. TSPL)</b>			
<b>Key Highlights</b>	<ul style="list-style-type: none"> <li>❖ World's largest UG Mine at Rampura Agucha</li> <li>❖ Fifth largest silver producer</li> <li>❖ R&amp;R 460mt/Mine life 25 years+</li> <li>❖ Ramping up R&amp;R to 500mt+ by FY25E</li> <li>❖ Ramping up production to 1.2mt by FY25E</li> </ul>	<ul style="list-style-type: none"> <li>❖ 41% market share among India primary aluminum producers</li> <li>❖ Largest aluminum manufacturer in India</li> <li>❖ 2mt alumina refinery to reach 5mt</li> <li>❖ Smelting capacity of 2.3mt to reach 2.8mt</li> <li>❖ VAP to reach 90%</li> </ul>	<ul style="list-style-type: none"> <li>❖ Part of Vedanta Base Metals entity</li> <li>❖ Ore production post expansion at Gamsberg to reach 8mt</li> <li>❖ Zinc International production expected 500kt by FY26E</li> </ul>	<ul style="list-style-type: none"> <li>❖ Largest private producer in India</li> <li>❖ 65,000sq.kms. footprint</li> <li>❖ R&amp;R 1,156mmb toe</li> <li>❖ Mid-term vision to reach 300kboepd</li> </ul>	<ul style="list-style-type: none"> <li>❖ 4.8gw power portfolio</li> <li>❖ One of the largest power producers in India's private sector</li> <li>❖ Long-term PPA at Jharsuguda for 25 years (600mw IPP)</li> <li>❖ 1200mw Athena to be commissioned by FY25E</li> <li>❖ 1000mw Meenakshi under acquisition process</li> </ul>	<ul style="list-style-type: none"> <li>❖ R&amp;R 129mt</li> <li>❖ Mine life 9 years</li> <li>❖ EC 7.2mt</li> <li>❖ Liberia R&amp;R 4bt</li> <li>❖ Liberia EC 1.5mt</li> <li>❖ Total iron ore production to reach 13mt by FY25E</li> </ul>	<ul style="list-style-type: none"> <li>❖ Capacity expansion to 3mt by Jun'24</li> <li>❖ Long steel manufacturer</li> </ul>	<ul style="list-style-type: none"> <li>❖ Ferro chrome production to reach 225kt by FY25E</li> <li>❖ Sesa Vazare 108kt met coke capacity</li> <li>❖ GNRE 0.6mt met coke capacity</li> </ul>
<b>KMP</b>	❖ Arun Misra	❖ John Slaven	❖ Chris Griffith	❖ Steve Moore	❖ Vibhav Agarwal	❖ Navin Jaju	-	
<b>Listed Entity</b>	❖ VEDL	❖ Vedanta Aluminum	❖ Vedanta Base Metals	❖ Vedanta Oil & Gas	❖ Vedanta Power	❖ Vedanta Steel and Ferrous Materials	-	

Note: Copper business: Tuticorin smelter has been non-operational and Silvassa refinery has a total capacity of 216kt.

Source: MOFSL, Company

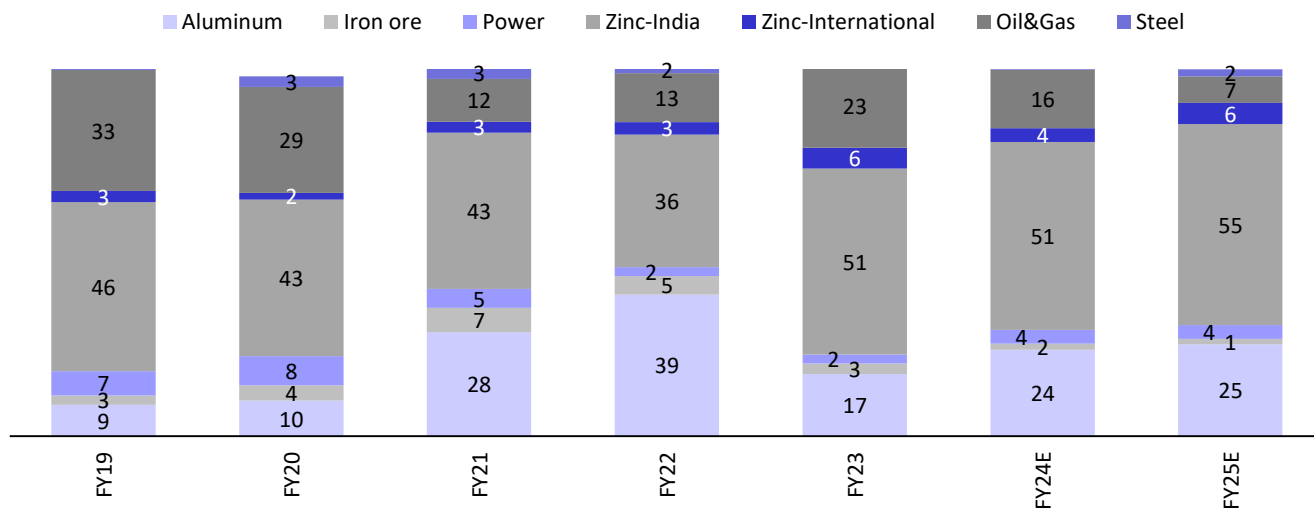
**Exhibit 4: Business-wise revenue break-up (%)**



Source: MOFSL, Company

- The share of aluminum has gradually increased to 36% in FY23 from 32% in FY19 and it is expected to be around 34-35% going forward.
- The contribution from HZL has been stable at around 22-23% of total revenue and it is expected to gradually increase to 23-25% by FY25E.
- Aluminum, HZL, and Cairn India contribute around 70% of total revenue.
- Power (Incl. TSPL) and ESL contribute ~5% each to VEDL’s revenue.

**Exhibit 5: Business-wise EBITDA break-up (%)**



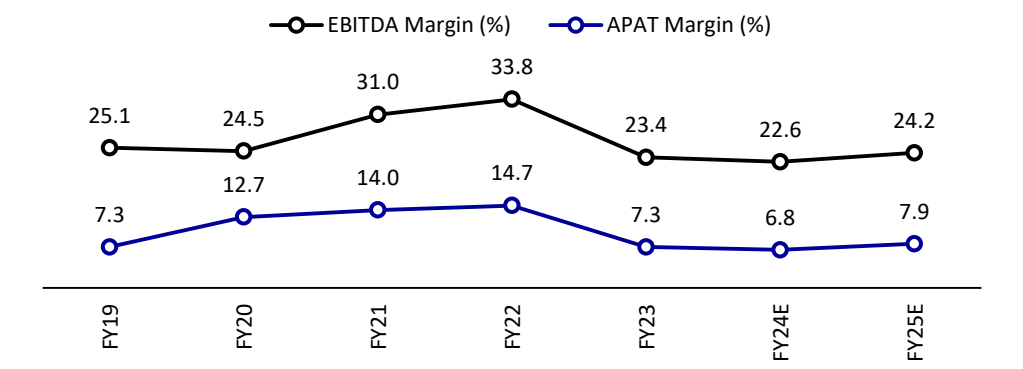
Source: MOFSL, Company

- Unlike the steady, gradual growth seen in revenue, EBITDA growth over the last few years has been quite volatile.
- Copper continues to be a drag and has been continuously posting losses since FY19.
- In FY22, Aluminum contributed the most to VEDL’s EBITDA; however, in FY23, it was replaced by HZL as the leading contributor to VEDL’s EBITDA.
- HZL’s contribution to EBITDA is expected to remain over 50%.

## Margins expected to be under pressure in FY24; to pick up from FY25

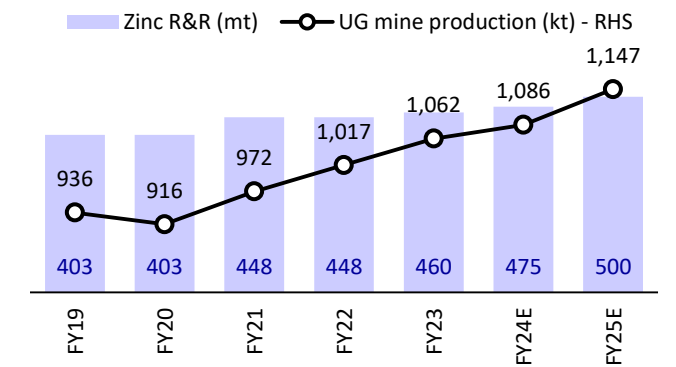
- EBITDA margins, which stood at over 26% in 1QFY23, corrected in 2QFY23 and 3QFY23.
- Metal prices have been under pressure due to macro-economic volatility, lower-than-expected pickup in China, volatile input costs, high interest rates, etc.
- We believe metal prices will continue to remain range-bound for the remaining part of FY24, which would adversely impact the margins in FY24. However, as metal demand increases and VEDL’s new facilities come on stream, margins are expected to improve from FY25 onwards.

**Exhibit 6: Consolidated EBITDA and APAT Margin (%)**



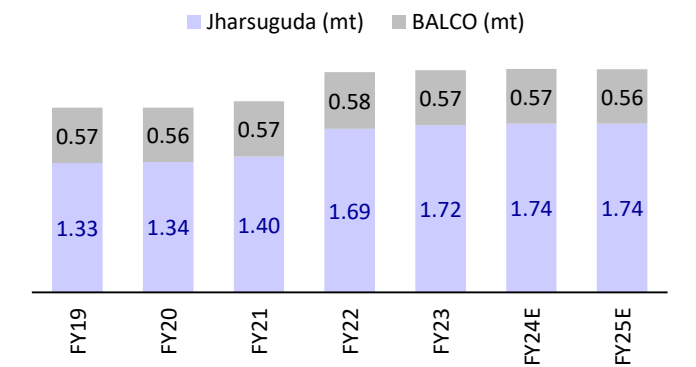
Source: MOFSL, Company

**Exhibit 7: Zinc-lead production (kt) to total R&R (mt)**



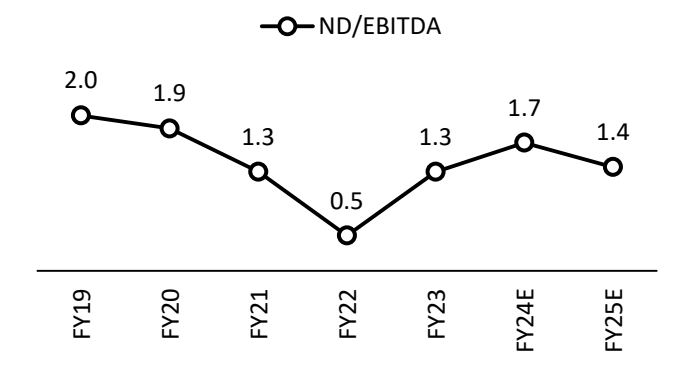
Source: MOFSL, Company

**Exhibit 8: Aluminum production (mt)**



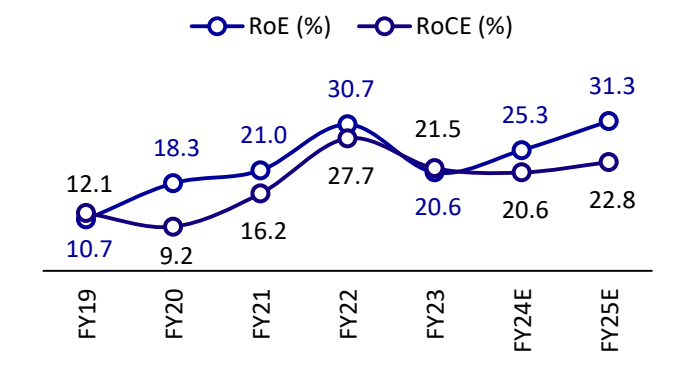
Source: MOFSL, Company

**Exhibit 9: Net debt/EBITDA ratio expected to remain elevated**



Source: MOFSL, SteelMint

**Exhibit 10: ROE and ROCE (%)**



Source: MOFSL, Company

**Exhibit 11: SOTP Calculation**

(INR b)	EBITDA FY25E	EV/ EBITDA (x)	EV FY25E	Per Share
<b>VEDL (ex HZL)</b>				
Copper	1	3.5	4	1
Aluminum	88	5.5	482	130
Iron ore	5	4.5	23	6
Steel	7	5.0	34	9
Power	13	5.0	66	18
Zinc-Int	21	5.0	102	27
Oil & Gas	26	5.0	128	34
Sub. Tot.	161	5.2	838	225
Less: Net Debt			479	129
<b>Equity Value</b>			<b>359</b>	<b>97</b>
<b>Hind. Zinc</b>				
HZL	193	5.5	1,055	283
Add: Net Cash			142	38
<b>Equity Value</b>			<b>1,197</b>	<b>322</b>
HZL@64.92% (25% Hold Co. discount)			583	157
VEDL (ex HZL)			359	97
<b>Equity value</b>			<b>942</b>	
Shares outstanding (bn)			3.7	
<b>Target price (INR/sh)</b>			<b>250</b>	<b>12.6%</b>

Source: MOFSL

**Exhibit 12: Global peers**

Company	M-Cap USD mn	P/E (x)		EV/EBITDA (x)		P/B (x)		RoE (%)	
		CY22/FY23	CY23/FY24	CY22/FY23	CY23/FY24	CY22/FY23	CY23/FY24	CY22/FY23	CY23/FY24
Vedanta*	9,964	7.7	8.8	4.6	5.5	2.1	2.4	20.6	25.3
BHP	1,45,655	10.6	11.5	5.7	5.9	3.3	3.0	31.1	27.5
Rio	1,07,510	9.2	9.1	4.9	4.8	1.9	1.7	20.8	19.4
Glencore	71,562	9.9	10.7	4.9	4.8	1.6	1.6	15.2	14.0
Anglo	34,418	9.8	8.5	4.6	4.1	1.2	1.2	12.4	13.9
South 32	10,007	10.6	12.8	4.0	4.9	1.0	1.0	9.7	7.1

Source: MOFSL



## Financials and valuations

### Income Statement (Consolidated)

	INR b								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>722</b>	<b>919</b>	<b>920</b>	<b>844</b>	<b>880</b>	<b>1,327</b>	<b>1,473</b>	<b>1,378</b>	<b>1,457</b>
Total Expenses	509	667	689	638	607	879	1,129	1,067	1,105
<b>EBITDA</b>	<b>213</b>	<b>252</b>	<b>231</b>	<b>207</b>	<b>273</b>	<b>448</b>	<b>344</b>	<b>311</b>	<b>352</b>
<b>EBITDA attribute</b>	<b>176</b>	<b>203</b>	<b>189</b>	<b>173</b>	<b>219</b>	<b>368</b>	<b>277</b>	<b>246</b>	<b>275</b>
DDA	63	63	82	91	76	89	106	106	112
<b>EBIT</b>	<b>150</b>	<b>189</b>	<b>149</b>	<b>116</b>	<b>197</b>	<b>359</b>	<b>239</b>	<b>205</b>	<b>241</b>
Finance cost	59	58	57	50	52	48	62	67	60
Other income	46	36	40	25	34	26	29	28	22
<b>PBT</b>	<b>138</b>	<b>167</b>	<b>132</b>	<b>91</b>	<b>179</b>	<b>337</b>	<b>205</b>	<b>166</b>	<b>203</b>
Tax	38	57	39	-35	22	93	58	44	51
Rate (%)	27.4	34.4	29.2	-38.5	12.2	27.4	28.2	26.4	25.2
<b>PAT</b>	<b>100</b>	<b>109</b>	<b>94</b>	<b>126</b>	<b>157</b>	<b>245</b>	<b>147</b>	<b>122</b>	<b>152</b>
EO expense /Income	-1	8	3	-170	-7	-8	-2	-18	0
<b>PAT (after EO)</b>	<b>99</b>	<b>118</b>	<b>97</b>	<b>-43</b>	<b>150</b>	<b>237</b>	<b>145</b>	<b>140</b>	<b>152</b>
<b>Attrib. PAT (after MI &amp; asso)</b>	<b>54</b>	<b>76</b>	<b>67</b>	<b>107</b>	<b>123</b>	<b>196</b>	<b>108</b>	<b>94</b>	<b>115</b>
Change (YoY %)	-74.9	40.4	-11.0	59.0	14.5	59.4	-44.9	-12.7	22.2

### Balance Sheet (Consolidated)

	INR b								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	4	4	4	4	4	4	4	4	4
Reserves	601	631	619	543	619	650	391	347	379
<b>Net Worth</b>	<b>605</b>	<b>635</b>	<b>623</b>	<b>546</b>	<b>623</b>	<b>654</b>	<b>394</b>	<b>351</b>	<b>383</b>
Total Loans	906	725	835	757	686	534	665	672	662
Deferred Tax Liability	-54	-9	10	-40	-36	-7	-26	-26	-26
<b>Capital Employed</b>	<b>1,597</b>	<b>1,511</b>	<b>1,621</b>	<b>1,435</b>	<b>1,423</b>	<b>1,355</b>	<b>1,133</b>	<b>1,125</b>	<b>1,183</b>
Gross Block	1,641	1,810	2,176	2,182	2,281	2,392	2,525	2,648	2,734
Less: Accum. Deprn.	775	848	1,185	1,276	1,352	1,441	1,547	1,653	1,765
<b>Net Fixed Assets</b>	<b>866</b>	<b>962</b>	<b>991</b>	<b>907</b>	<b>929</b>	<b>951</b>	<b>978</b>	<b>995</b>	<b>969</b>
Capital WIP	177	161	222	168	139	142	174	216	269
Investments	1	2	49	1	2	2	5	5	5
<b>WC. Assets</b>	<b>872</b>	<b>674</b>	<b>723</b>	<b>691</b>	<b>729</b>	<b>840</b>	<b>721</b>	<b>639</b>	<b>682</b>
Inventory	96	120	132	113	99	143	150	140	149
Account Receivables	34	53	77	58	66	82	65	61	65
Cash and Bank Balance	610	338	365	372	331	327	219	151	183
Loans and advances	131	163	149	148	232	288	286	286	286
<b>WC. Liability &amp; Prov.</b>	<b>319</b>	<b>287</b>	<b>365</b>	<b>333</b>	<b>375</b>	<b>580</b>	<b>745</b>	<b>729</b>	<b>743</b>
Trade payables	71	84	92	80	79	215	247	232	245
Provisions & Others	248	203	273	252	296	365	498	498	498
<b>Net WC. Assets</b>	<b>553</b>	<b>386</b>	<b>358</b>	<b>359</b>	<b>354</b>	<b>260</b>	<b>-24</b>	<b>-91</b>	<b>-60</b>
<b>Appl. of Funds</b>	<b>1,597</b>	<b>1,511</b>	<b>1,621</b>	<b>1,435</b>	<b>1,423</b>	<b>1,355</b>	<b>1,133</b>	<b>1,125</b>	<b>1,183</b>



## Financials and valuations

### Cash Flow Statement

	INR b								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA	213	252	231	207	273	448	344	311	352
Non cash exp. (income)	2	7	11	7	18	6	4	0	0
(Inc)/Dec in Wkg. Cap.	18	-47	21	-9	-30	-48	46	-2	2
Tax paid	-20	-32	-26	-11	-21	-57	-64	-42	-51
<b>CF from Op. Activity</b>	<b>212</b>	<b>180</b>	<b>238</b>	<b>193</b>	<b>240</b>	<b>350</b>	<b>331</b>	<b>267</b>	<b>303</b>
(Inc)/Dec in FA + CWIP	-55	-74	-89	-77	-69	-105	-138	-164	-139
<b>Free Cash Flow</b>	<b>157</b>	<b>107</b>	<b>149</b>	<b>116</b>	<b>171</b>	<b>245</b>	<b>193</b>	<b>103</b>	<b>164</b>
(Pur)/Sale of Investments	27	14	42	42	9	47	92	0	0
Interest & Dividend Income	11	14	9	8	20	19	17	28	22
Investment in subsidiaries	-30	-9	-69	-5	0	0	-3	0	0
Others	0	0	0	0	0	-42	-91	-2	0
<b>CF from Inv. Activity</b>	<b>-47</b>	<b>-55</b>	<b>-107</b>	<b>-31</b>	<b>-40</b>	<b>-81</b>	<b>-122</b>	<b>-138</b>	<b>-118</b>
Equity raised/(repaid)	-1	-2	-1	-1	0	0	0	0	0
Debt raised/(repaid)	66	-173	77	-87	-96	-27	149	-10	-10
Dividend (incl. tax)	-129	-168	-118	-14	-91	-193	-411	-120	-83
Interest paid	-62	-57	-60	-53	-53	-53	-55	-67	-60
Others	0	1	-1	0	1	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-126</b>	<b>-398</b>	<b>-103</b>	<b>-156</b>	<b>-240</b>	<b>-273</b>	<b>-317</b>	<b>-197</b>	<b>-153</b>
<b>(Inc)/Dec in Cash</b>	<b>40</b>	<b>-273</b>	<b>28</b>	<b>6</b>	<b>-40</b>	<b>-4</b>	<b>-108</b>	<b>-68</b>	<b>32</b>
Add: Opening Balance	570	610	338	365	372	331	327	219	151
<b>Closing Balance</b>	<b>610</b>	<b>338</b>	<b>365</b>	<b>372</b>	<b>331</b>	<b>327</b>	<b>219</b>	<b>151</b>	<b>183</b>

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>14.5</b>	<b>20.4</b>	<b>18.1</b>	<b>28.8</b>	<b>33.0</b>	<b>52.6</b>	<b>29.0</b>	<b>25.3</b>	<b>30.9</b>
Cash EPS	31.4	37.3	40.2	53.3	53.5	76.5	57.4	53.9	60.9
BV/Share	162.7	170.7	167.5	146.9	167.4	175.8	106.0	94.4	102.9
DPS	19.5	21.2	18.9	3.9	9.5	45.0	101.5	32.4	22.4
Payout (%)	134.0	104.1	104.0	13.5	28.8	85.5	349.9	127.9	72.3
<b>Valuation (x)</b>									
P/E	15.3	10.9	12.2	7.7	6.7	4.2	7.7	8.8	7.2
Cash P/E	7.1	6.0	5.5	4.2	4.1	2.9	3.9	4.1	3.6
P/BV (incl.-goodwill)	1.4	1.3	1.3	1.5	1.3	1.3	2.1	2.4	2.2
EV/Sales	1.7	1.4	1.5	1.5	1.4	0.8	0.9	1.0	0.9
EV/EBITDA	6.9	6.4	7.2	7.5	5.6	3.0	4.6	5.5	4.9
Dividend Yield (%)	8.8	9.5	8.5	1.8	4.3	20.3	45.7	14.6	10.1
<b>Return Ratios (%)</b>									
EBITDA Margins	29.5	27.4	25.1	24.5	31.0	33.8	23.4	22.6	24.2
Net Profit Margins	7.5	8.3	7.3	12.7	14.0	14.7	7.3	6.8	7.9
RoE	9.3	12.2	10.7	18.3	21.0	30.7	20.6	25.3	31.3
RoCE (pre-tax)	12.4	14.5	12.1	9.2	16.2	27.7	21.5	20.6	22.8
RoIC (pre-tax)	15.2	17.5	12.3	10.0	18.3	33.9	24.6	21.7	24.4
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	0.9	1.0	0.9	0.9	1.0	1.4	1.5	1.4	1.5
Receivable (Days)	17	21	30	25	28	22	16	16	16
Inventory (Days)	49	48	52	49	41	39	37	37	37
Trade payable (Days)	36	33	37	35	33	59	61	61	61
<b>Leverage Ratio (x)</b>									
Current Ratio	2.7	2.3	2.0	2.1	1.9	1.4	1.0	0.9	0.9
Interest Cover Ratio	3.4	3.9	3.3	2.8	4.4	8.0	4.3	3.5	4.4
Net Debt/EBITDA	1.4	1.5	2.0	1.9	1.3	0.5	1.3	1.7	1.4
Net Debt/Equity	0.5	0.6	0.8	0.7	0.6	0.3	1.1	1.5	1.3

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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