YES SECURITIES
INSTITUTIONAL EQUITIES

February 27, 2024

COMPANY UPDATE | Sector: Metals and Mining

Vedanta Ltd

Debt, Capex and the Demerger story to unfold

We attended the analyst day meet at Vedanta Ltd held on the 27th of February 2024. The analyst meet focused on the demerger story and potential value unlocking from the same. The meet also laid out the expansion plans under different verticals for the company. At the CMP, the company currently trades at 5.01x EV/EBITDA at FY24E as per Bloomberg estimates.

Demerger aimed to unlock potential value

On 29th September 2023, the Vedanta board approved a pure-play, asset-owner business model that will ultimately result in six separate listed companies. We see this move to benefit the company in value unlocking by – Firstly, it makes the complex business structure simpler with sector focused operations. Secondly, the demerger makes it easier for the investors to value businesses individually and invest in more value accretive sectors that would down the line be the compounders of wealth. Thirdly, majority of the capex is being put into minerals-based sectors – zinc, aluminium, and copper. The growth of the use of the base metals is expected from the upcoming sustainability goals for the company and the economy in general which could see these businesses to become the next cash-cows for the group.

Capex plans to focus on the non-ferrous space especially Aluminium

Vedanta operates in the non-ferrous space and has majorly been known for its cash cow business in Hindustan Zinc which has been providing great sustainable margins and has operated on being in the first quartile of the cost curves. However, we are seeing the company's focus also shift towards other verticals – with the Aluminium business expected to see a huge focus in the upcoming years. As per the company's guidance, over the next couple of years, the aluminium capacities are expected to go up from the current levels of 2.30 mtpa to 2.80 mtpa along with backward integration projects as well thereby aiming to keep the upstream business in the first quartile of the global cost curves. With the expected increase for Aluminium demand in the upcoming years driven by EVs, green power and sustainability programs, we see that with this move the company aims to capture the uptick in demand of the metal.

Aggressive debt reduction plans for both Vedanta Resources (VRL) and Vedanta Limited (VDL)

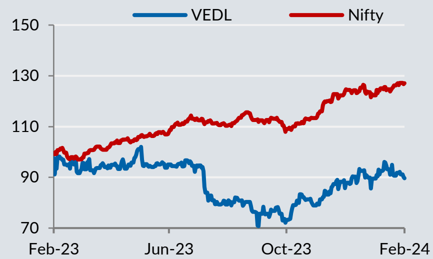
Vedanta has been in focus due the large amount of debt on its books as well as meeting the short-term bond repayments. The company has outlaid a plan on securing funding through internal accruals, asset monetization, and potential refinancing to meet its debt requirements. During the analyst meet the company was focused on showcasing the plans of setting targets for deleveraging for both VRL and VDL. VRL has $1.1bn of debt obligations to be met in FY25 and expects to generate an EBITDA of $6bn during the same period. The company maintained that the debt figure will be partially addressed through internal accrual and partly by other key strategic actions such as asset monetization. On the VDL front, the $1.5bn of debt is to mature in FY25. The company expects to garner pre-capex cash flows of ~$3.5-4.0bn during the same period which would be sufficient to meet the maturity amount in addition to having a refinance option. Additionally, the gross debt amount can also see an uptick for their project capex which is to be funded through debt and surplus internal accruals.

Reco	:	NOT RATED
CMP	:	Rs 264
Target Price	:	NA
Potential Upside	:	NA

Stock data (as on Feb 27, 2024)

Nifty	22,198
52 Week h/l (Rs)	301 / 208
Market cap (Rs/USD mn)	985363 / 11889
Outstanding Shares (mn)	3,715
6m Avg t/o (Rs mn):	2,710
Div yield (%):	37.6
Bloomberg code:	VEDL IN
NSE code:	VEDL

Stock performance



	1M	3M	1Y
Absolute return	0.1%	13.7%	-8.2%

Shareholding pattern (As of Dec'23 end)

Promoter	63.7%
FII+DII	19.0%
Others	17.2%

Financial Summary

(Rs mn)	FY21	FY22	FY23
Revenue	880,210	1,327,320	1,473,080
YoY Growth	4.2%	50.8%	11.0%
EBIDTA	273,180	448,240	344,220
EBITDA (%)	31.0%	33.8%	23.4%
EBIT	196,800	359,290	238,670
EBIT (%)	22.4%	27.1%	16.2%
PAT	150,330	237,090	145,060
EPS	31.1	50.4	28.3

MANAV GOGIA
Research Analyst
manav.gogia@ysil.in

KEY HIGHLIGHTS FROM THE ANALYST MEET

HoldCo Debt

- The company has been involved aggressively in its liability management programme. In FY25, the upcoming debt payments would be $1.1bn instead of $4.1bn before the reprofiling.
- Carrying out the reprofiling of the short-term debt has led to the average maturity time to increase from 1 year to 2.5 years.
- The company believes that Vedanta Ltd.'s estimated cash flow pre-capex in FY25 should be sufficient enough to meet short-term debt maturities along with refinancing as an additional option.
- The management seems to be very comfortable with its debt profile. The current debt of $6bn lays on the balance sheet while the asset coverage is approximately 5x of the same.

Copper Business

- The company is positive on receiving the approval from the Supreme Court on the Tutucorin plant and expects a conclusion to be provided over the next 3 months.
- Once the verdict is out, the timeline to restart the plant according to the government specifications is expected to be between 4-6 months. The plant automatically adds 250kt of custom copper cathode production.

Aluminium Business

- The company had an EBITDA/t of $578/t for Q3FY24. The target is to take this number to $1,000/t on the upstream side.
- In addition to increasing the capacity from 2.3 mtpa to 2.8 mtpa, the capex plans are also intended towards cost reductions by form of backward integration.
- The COP for Q3FY24, stood at $1,735/t. With the upcoming cost optimization plans, expect this number to go down significantly making the company one of the lowest cost producers of the metal.
- The company aims to have captive bauxite mining as well as thermal coal for its energy needs.

Steel Business

- On the steel front, the company is under procedure for selling its assets to meet the debt obligations. The bidding process for the steel plant should start in the next 1-2 months.
- The company sees iron ore as an attractive opportunity and terms its entry as the "New kid on the Block."
- In Liberia, the company is expanding rigorously from the current 2 mtpa to 31 mtpa
- On the ferro alloys front, the company has very aggressive plans to expand its production capacities from 67 ktpa to 500 ktpa over the next 4 years. The company wants to be the largest Ferro-chrome player in the country by FY27.
- With expansion into the ferro-chrome business, we can also see a future entry point for the stainless-steel business.
- The company is also entering the DI Pipes segment in order to protect its operations from the fluctuations in the prices of pig iron.

Zinc India

- The company remains the 2nd largest zinc player globally and the 5th largest silver producer.
- The company continues to maintain its EBITDA margins at 50% and aims to carry on with the same strategy in the near future with the upcoming capex plans.
- The capex is intended towards increasing its metal refining capacity from 1.032 mtpa to 1.200 mtpa by the end of FY25. On the cost front, the target is to reduce the COP to $1,000/t from the current $1,125-1,175/t.
- The share of VAP is aimed to exceed 20% from the current 16% levels.

Guidance provided by the management

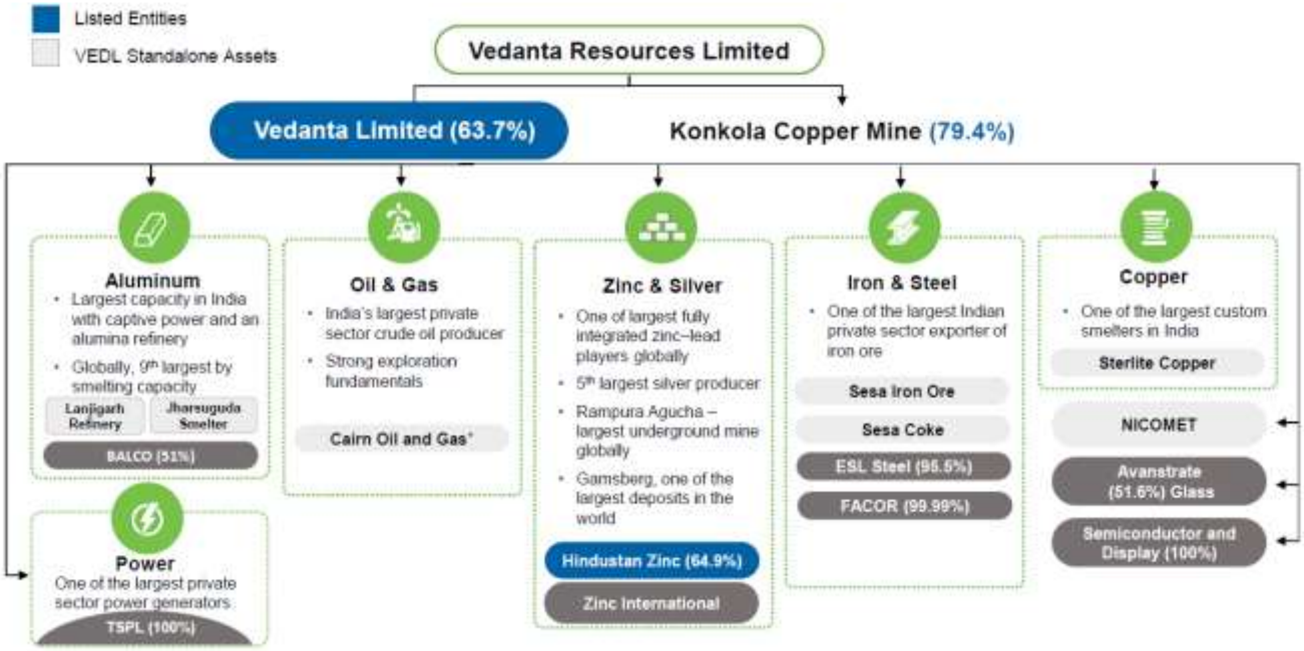
- On the group (Vedanta Resources) EBITDA front, the company aims to achieve an EBITDA of $5bn in the current fiscal, $6bn in FY25 and $7.5bn in FY26.
- Strong deleveraging plans were revealed showcasing the debt reduction guidance – Net Debt in FY24 is expected to be $13bn, < $12bn by end of FY25 and < $8bn by FY26.
- On the ratios front, the management guides to bring down the Net Debt/EBITDA to a 1x to 1.5x range at the HoldCo level.

Others

- The company sees the semiconductor business as an exciting opportunity down the line however details of the same will be provided later on as the discussions are still going on.
- The upcoming plans are for both Vedanta Ltd and Vedanta Resources to be deleveraged instead of re-routing its debt from HoldCo to OperatingCo.
- Post the demerger, Vedanta Ltd standalone debt should be between $2-2.5bn.
- On the promoter stake sale front, the company did not deny the possibility however mentioned clearly that it is not actively considering this option.

DEMERGER IN CHARTS

Exhibit 1: How does the group look like?

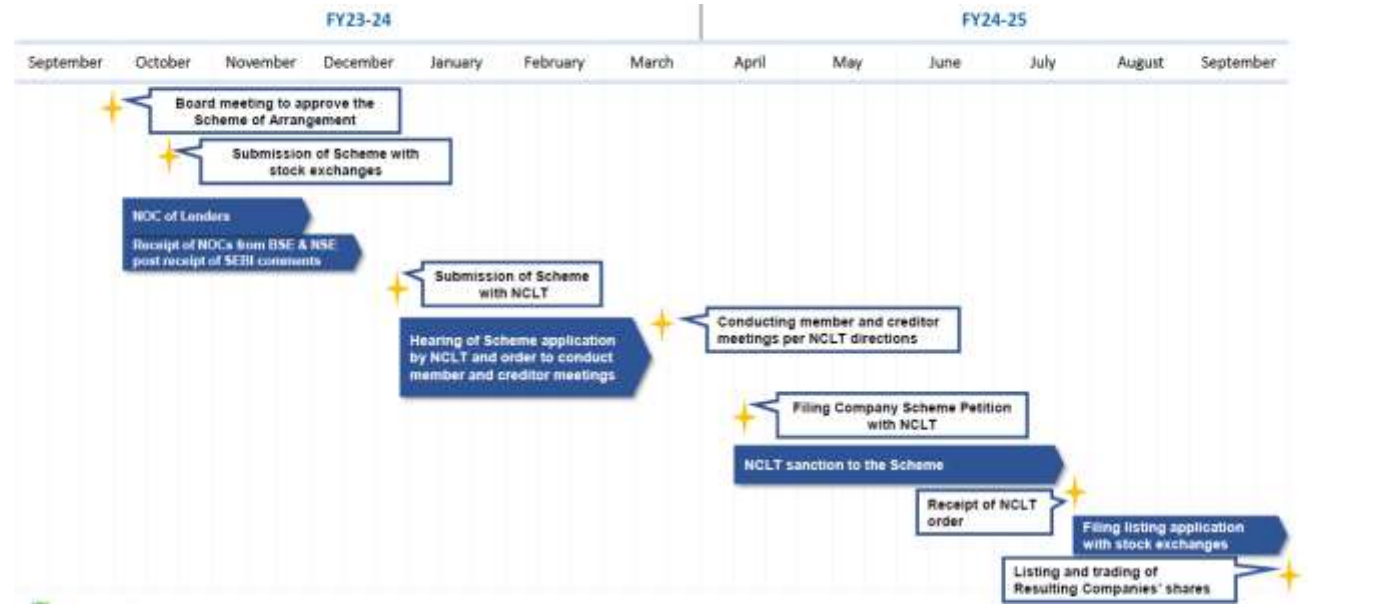


Source: Company Presentations

Exhibit 2: Post Demerger Scenario

Source: Company Presentations

Exhibit 3: Timeline of the demerger



Source: Company Presentations

Exhibit 4: Share entitlement ratio

Source: Company Presentations

FINANCIALS

Exhibit 5: Income Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23
Revenue	844,470	880,210	1,327,320	1,473,080
COGS	391,090	373,560	564,200	751,000
Employee Cost	26,720	28,610	28,110	30,980
Other Expenses	219,790	204,860	286,770	346,880
Total Expenditure	637,600	607,030	879,080	1,128,860
EBITDA	206,870	273,180	448,240	344,220
EBITDA (%)	24.5%	31.0%	33.8%	23.4%
Depreciation & Amortization	90,930	76,380	88,950	105,550
EBIT	115,940	196,800	359,290	238,670
EBIT (%)	13.7%	22.4%	27.1%	16.2%
Other Income	25,100.0	34,210.0	26,000.0	28,510.0
Interest	49,770	52,100	47,970	62,250
Exceptional Items	(173,860)	(6,780)	(7,680)	(2,170)
PBT	(82,590)	172,130	329,640	202,760
Tax	(35,160)	21,800	92,550	57,700
PAT	(47,430)	150,330	237,090	145,060
EPS	(17.86)	31.09	50.38	28.32

Source- Company Annual Reports, YES Sec

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23
Net Block	880,220	894,290	919,900	936,070
CWIP	16,837	13,880	14,230	17,434
Other Non-current Assets	363,963	386,880	366,310	404,986
Inventory	11,335	9,923	14,313	15,012
Receivables	26,970	34,910	49,460	40,140
Cash & Bank	125,020	166,290	153,550	92,540
Other Current Assets	411,875	350,797	466,057	457,378
Total Assets	1,836,220	1,856,970	1,983,820	1,963,560
Share Capital	3,720	3,720	3,720	3,720
Other Equity	542,630	619,060	650,110	390,510
Non-current Liabilities	485,530	491,570	501,830	589,030
Current Liabilities	633,220	591,240	654,950	880,260
Total Equity & Liabilities	1,836,220	1,856,970	1,983,820	1,963,560

Source- Company Annual Reports, YES Sec

Exhibit 7: Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23
Profit before Tax	(82,590)	172,130	329,640	202,760
Add: Non-cash charges	82,590	(172,130)	(329,640)	(202,760)
Cash flow from Operations	204,350	260,880	406,990	394,220
Taxes Paid	(11,350)	(21,080)	(57,360)	(63,570)
Net Cash flow from Operating Activities	193,000	239,800	349,630	330,650
Capex	(78,140)	(68,860)	(106,300)	(137,870)
Other Investments	19,200	1,360	83,770	130,940
Net Cash flow from Investing Activities	(58,940)	(67,500)	(22,530)	(6,930)
Free Cash Flow	114,860	170,940	243,330	192,780
Net Cash flow from Financing Activities	(155,470)	(175,650)	(289,030)	(341,420)
Opening Cash Balance	72,890	51,170	48,540	86,710
Net Change in Cash	(21,410)	(3,350)	38,070	(17,700)
FX Changes	(310)	720	100	250
Ending Cash Balance	51,170	48,540	86,710	69,260

Source- Company Annual Reports, YES Sec

Exhibit 8: Key Ratios

Y/e 31 Mar	FY20	FY21	FY22	FY23
Growth (%)				
Total Sales	-	4	51	11
EBITDA	-	32	64	-23
EBIT	-	70	83	-34
PAT	-	(417)	58	-39
Profitability (%)				
GP Margins	54	58	57	49
EBIDTA Margins	24	31	34	23
EBIT Margins	14	22	27	16
PAT Margins	(6)	17	18	10
ROCE	(4)	12	18	13
ROE	(7)	19	29	29
Per Share Data (Rs)				
EPS	(17.9)	31.1	50.4	28.3
BVPS	192.2	207.4	221.6	132.4

Source- YES Sec

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West), Mumbai – 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL & NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338.

Details of Compliance Officer: Name: Aditya Goenka, **Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

Vedanta Ltd

DISCLOSURE OF INTEREST

Name of the Research Analyst : Manav Gogia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

MANAV GOGIA Digitally signed by MANAV GOGIA
Date: 2024.02.27 23:19:28 +05'30'

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.