

BSE SENSEX 27,803
S&P CNX 8,541

CMP: INR157

TP: INR172 (+9%)

Buy

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Stock Info

Bloomberg	VEDL IN
Equity Shares (m)	2,964.7
52-Week Range (INR)	175/58
1, 6, 12 Rel. Per (%)	31/147/27
M.Cap. (INR b) / (USD b)	466.2/6.9
Avg Val, INR m	1,686
Free float (%)	37.1

Financials Snapshot (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	644.3	743.8	810.0
EBITDA (INR b)	147.7	205.5	228.6
Net Profit	31.9	41.2	52.5
EPS	10.8	13.9	17.7
EPS gr. (%)	-46.6	29.2	27.4
BV/Sh. (INR)	150.7	148.6	161.1
P/E (x)	8.5	10.6	13.0
P/BV (x)	7.6	10.8	12.0
RoE (%)	12.6	9.7	7.6
RoCE (%)	0.9	0.9	0.8

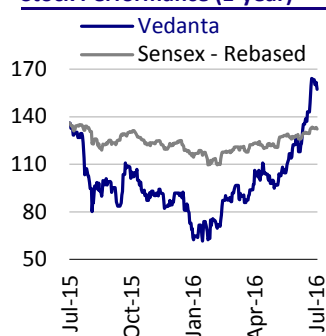
Shareholding pattern (%)

As On

Promoter	62.9	62.9	59.5
DII	9	8.6	5.7
FII	12.5	13.9	24.8
Others	15.7	14.6	10

FII Includes depository receipts

Stock Performance (1-year)



Attractive revised merger terms improve deal likelihood

Vedanta sweetens Cairn merger deal by INR30/share

Vedanta Limited's (VEDL) board today (22nd July, 2016) approved "revised and final" terms for the Vedanta-Cairn India merger deal. VEDL is now offering three additional preference shares (face value of INR10 each) with coupon of 7.5% and tenure of 18 months to minority shareholders of Cairn India. Thus, the revised deal includes: (a) One equity share of Vedanta Limited for every share of Cairn India, (b) Four redeemable preference shares of INR10 each with coupon of 7.5% and tenure of 18 months. Our Oil & Gas team ascribes a fair value of INR168/share (assuming long-term crude price of USD55/bbl); it would be INR187/share at the company's crude price assumptions (USD62/bbl and 2.5% escalation). The revised terms, at VEDL's last closing share price, represent ~24% premium to Cairn's fair value. We believe the likelihood of the merger getting cleared by Cairn India's minority shareholders has improved significantly with the revised deal.

Merger to improve VEDL's fungible cash flow coverage ratios

As mentioned in our notes earlier, we view the merger as positive for VEDL as it materially improves the fungible flow of cash/debt across its various set of commodities, although it now does come at a higher price. Net debt to EBITDA is estimated to improve from ~12.2-13.6x pre-merger to ~5.7-6.5x post-merger for the fungible cash flow businesses (Exhibit 3) in FY17-18E. Although the outlook for VEDL's fungible cash businesses has improved materially over the past few months amid a recovery in aluminum and iron ore prices, cost benefits and volume growth (thus improving debt serviceability), the merger would further ease pressure on debt obligations. The merger will help in optimizing capital structure of the group and in reducing cost of funding.

The events for the merger process remain as earlier (Exhibit 1 and Exhibit 2). The company has completed the application to the high court. Meeting of shareholders will be held on 8th and 12th September. Management expects the transaction to be completed by 1QCY17. Shareholding of Vedanta PLC in Vedanta Limited will come down from 62.9% currently to 50.1% post the deal (unchanged).

Cairn India shareholders better placed at current commodity prices

We believe the revised deal terms are better for Cairn shareholders given the additional redeemable preference shares of INR30 and the current Brent price at USD46/bbl (v/s ~USD60/bbl during the earlier merger announcement in June-15). Holders of preference shares will have an option to redeem the shares for cash within the first 30 days. However, we believe there are some issues which still need to be addressed before the completion of the deal: (a) Approvals by Petroleum Ministry and FIPB, (b) unexpected opposition by minority shareholders and (c) ability of Cairn Energy to vote (management believes that Cairn Energy can vote). Value of merger to Vedanta shareholders can change based on (a) contingent tax liability and (b) terms of PSC extension.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Transaction timeline

Events	Expected date
BSE, NSE and SEBI approvals sought	Done
BSE, NSE and SEBI approvals	Done
Application to High Court in India	Done
Vedanta plc posting of UK Circular	August 2016
Vedanta plc EGM	September 2016
Vedanta Limited shareholder meeting	8th September 2016
Cairn India Limited shareholder meeting	12th September 2016
Foreign Investment Promotion Board approval	Q4 CY 2016
High Court of India approval	Q1 CY 2017
MoPNG approval	Q1 CY 2017
Transaction completion	Q1 CY 2017

Source: MOSL, Company

Exhibit 2: Key transaction approvals required for completion of the deal

- Majority of minority shareholders of Vedanta Limited and Cairn India through postal ballot.
- High court directed meeting, 8th Sep for Vedanta Limited and 12th Sep for Cairn India.
 - Majority in number and 75% in value of shareholders present and voting.
 - Vedanta PLC and Vedanta Limited can vote at meeting of Vedanta Limited and Cairn India, respectively.
- For Vedanta Limited, majority in number and 75% in value of creditors present and voting in creditors meeting.
- Vedanta PLC shareholders simple majority (meeting planned for September 2016).
- MoPNG - for vesting of Cairn PSC's to Vedanta Limited.

Source: MOSL, Company

Exhibit 3: Debt servicing among fungible cash flow businesses pre- and post-merger

(INR m)	Pre-merger		Post-merger	
	FY17E	FY18E	FY17E	FY18E
EBITDA	55,348	61,582	80,319	86,958
Standalone	48,534	54,708	48,534	54,708
Zinc-Int	6,814	6,874	6,814	6,874
Cairn			24,971	25,376
Bloom				
Net Debt	754,050	752,517	521,648	498,830
Standalone	353,140	342,818	395,621	390,172
Zinc-Int	-77,059	-82,868	-77,059	-82,868
Cairn			-274,883	-301,041
Bloom	477,969	492,568	477,969	492,568
Net Debt / EBITDA (x)	13.6	12.2	6.5	5.7

Source: MOSL, Company

Exhibit 4: Change to EPS, Book Value and RoE pre and post-merger

	Pre-merger		Post-merger		change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
EPS	13.9	17.7	12.6	15.8	-9.6	-10.9
BVPS (ex-goodwill)	129.6	142.1	102.9	112.9	-20.6	-20.6
RoE (%)	10.6	13.0	10.7	14.6	0.7	12.2

Source: MOSL, Company

Exhibit 5: SOTP-based target price post-merger FY18

	Net Sales	EBITDA (A)	PAT	Net Debt (G)	Net Worth	Valuations Basis (B)	EV C=(AxB)	CWIP (D)	Equity Value	Stake (%)	Attrib. Equity	INR/share
Stand-alone #	350	55	8	381	411	6.5 x EBITDA	356	1	-24	100	-24	-7
Acquisition SPVs			-17	497	-112	6.5 x EBITDA			-497	100	-497	-134
Hindustan Zinc	171	93	83	-330	490	6.5 x EBITDA	606	20	956	64.9	621	167
Balco	75	15	3	59	43	6.5 x EBITDA	96	1	38	51	19	5
CMT+inter seg.	39	4	-15	-36	-817	6.5 x EBITDA	24	7	67	100	67	18
Zinc International	21	7	4	-83	111	6.5 x EBITDA	45		128	100	128	34
TSPL	50	13	0	75	31	DCF	110		35	100	35	9
Cairn India	105	42	23	-301	513	179 =Cairn TP(INR/sh)		49	341	100.0	341	92
Attributable	684	183	51	349	484			71		SOTP	689	185

Aluminium = USD 1650/ton, Zinc = USD 2000/ton, lead prices = USD1800/ton Silver = USD17/oz, USD/INR =70; FY18 estimates, Brent crude = USD 55/bbl

Source: MOSL, Company

Exhibit 6: SOTP-based target price post-merger FY17

Sum-of-the-parts Valuation: Vedanta Ltd (FY17 estimates)											INR billion	
	Net Sales	EBITDA (A)	PAT	Net Debt (G)	Net Worth	Valuations Basis (B)	EV C=(AxB)	CWIP (D)	Equity Value	Stake (%)	Attrib. Equity	INR/share
Stand-alone #	321	49	1	387	418	6.5 x EBITDA	315	9	-63	100	-63	-17
Acquisition SPVs			-16	480	-95	6.5 x EBITDA			-480	100	-480	-129
Hindustan Zinc	158	84	74	-280	429	6.5 x EBITDA	544	20	844	64.9	548	147
Balco	54	9	1	64	40	6.5 x EBITDA	60	22	18	51	9	2
CMT+inter seg.	39	4	-14	-36	-817	6.5 x EBITDA	24	7	67	100	67	18
Zinc International	21	7	4	-77	107	2.0 x EBITDA	14		91	100	91	24
TSPL	59	12	2	81	31	DCF	111		30	100	30	8
Cairn India	93	42	21	-275	497	163 =Cairn TP(INR/sh)		55	310	100.0	310	83
Attributable	662	172	47	412	439			95		SOTP	511	138

Aluminium = USD 1609/ton, Zinc = USD 2005/ton, lead prices = USD1780/ton Silver = USD17/oz, USD/INR =68; FY18 estimates, Brent crude = USD 50/bbl

Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	92,051	83,101	25,544	725,850	749,223	644,336	743,797	809,979
Change (%)	57.1	-9.7	-69.3	2,741.5	3.2	-14.0	15.4	8.9
EBITDA	52,063	35,001	4,808	256,640	221,381	147,731	205,461	228,586
EBITDA Margin (%)	56.6	42.1	18.8	35.4	29.5	22.9	27.6	28.2
Depreciation	964	1,061	1,975	84,250	71,616	67,109	74,644	77,218
EBIT	51,099	33,939	2,833	172,390	149,765	80,621	130,816	151,368
Interest	901	4,333	4,394	61,110	56,687	57,045	65,102	68,454
Other Income	5,399	2,346	539	23,090	28,910	44,543	40,578	43,401
Extraordinary items	0	0	0	580	-186,441	-125,266	0	0
PBT	55,597	31,952	-1,022	134,950	-64,452	-57,147	106,292	126,315
Tax	13,372	10,214	-429	10,000	19,488	4,330	29,442	33,510
Tax Rate (%)	24.1	32.0	42.0	7.4	-30.2	-7.6	27.7	26.5
Min. Int. & Assoc. Share	0	0	0	73,430	42,704	31,869	35,617	40,262
Reported PAT	42,225	27,616	-593	51,520	-126,644	-93,346	41,233	52,542
Adjusted PAT	42,225	26,955	-1,310	50,940	59,797	31,920	41,233	52,542
Change (%)	60.6	-36.2	-104.9	-3,988.3	17.4	-46.6	29.2	27.4

Balance Sheet							(INR Million)	
Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	869	869	869	2,965	2,965	2,965	2,965	2,965
Reserves	127,235	150,313	173,885	727,122	535,788	443,758	437,686	474,660
Net Worth	128,104	151,182	174,754	730,087	538,753	446,723	440,651	477,625
Debt	9,995	37,413	45,015	805,660	777,523	779,520	755,181	764,450
Deferred Tax	682	1,046	253	27,352	33,297	31,959	35,226	35,864
Total Capital Employed	138,781	189,641	220,022	1,901,073	1,704,870	1,587,877	1,585,542	1,661,948
Gross Fixed Assets	15,903	25,976	29,314	770,871	881,415	1,099,083	1,293,970	1,369,507
Less: Acc Depreciation	6,492	7,651	9,626	291,200	358,233	425,343	487,284	554,002
Net Fixed Assets	9,411	18,325	19,689	479,671	523,181	673,741	806,686	815,505
Capital WIP	7,287	9,830	7,225	431,277	387,480	276,969	113,506	78,748
Investments	1	136,626	158,820	2,086	2,134	2,174	2,174	2,174
Current Assets	124,530	24,484	21,481	835,766	812,120	877,619	784,396	895,004
Inventory	7,374	8,752	9,610	90,338	87,250	80,791	91,793	101,087
Debtors	6,830	5,494	1,424	46,537	36,051	25,501	42,187	45,381
Cash & Bank	96,968	6,017	2,130	453,850	450,889	502,051	446,976	545,095
Loans & Adv, Others	13,358	4,222	8,318	245,041	237,929	269,276	203,440	203,440
Curr Liabs & Provns	17,193	14,370	8,870	240,110	197,942	291,895	170,489	178,753
Curr. Liabilities	11,695	11,502	5,471	41,346	52,782	63,275	62,940	69,974
Provisions	5,498	2,868	3,398	198,764	145,160	228,620	107,549	108,779
Net Current Assets	107,337	10,114	12,612	595,656	614,178	585,724	613,906	716,251
Total Assets	138,781	189,641	220,022	1,901,073	1,704,870	1,594,935	1,592,600	1,669,006

E: MOSL Estimates

Financials and Valuations

Ratios


Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	48.6	31.0	-1.5	17.2	20.2	10.8	13.9	17.7
Cash EPS	49.7	32.2	0.8	45.6	44.3	33.4	39.1	43.8
Book Value	147.4	174.0	201.1	246.2	181.7	150.7	148.6	161.1
DPS	3.5	3.5	3.5	3.3	3.5	4.5	4.5	4.5
Payout (incl. Div. Tax.)	8.4	13.2	-271.7	22.1	20.3	48.9	37.9	29.7
Valuation(x)								
P/E					6.7	12.6	9.7	7.6
Price / Book Value					0.7	0.9	0.9	0.8
EV/Sales					1.2	1.4	1.2	1.0
EV/EBITDA					5.7	7.9	5.7	4.8
Dividend Yield (%)					2.6	3.3	3.3	3.3
Profitability Ratios (%)								
RoE	40.7	19.3	-0.9	11.8	17.1	8.5	10.6	13.0
RoCE	40.7	25.7	1.9	10.8	9.9	7.6	10.8	12.0
RoIC (pre-tax)	159.3	94.7	6.4	16.8	15.9	9.6	14.2	14.6
Turnover Ratios (%)								
Asset Turnover (x)	0.8	0.5	0.1	0.7	0.4	0.4	0.5	0.5
Debtors (No. of Days)	27	24	20	23	18	14	21	20
Inventory (No. of Days)	29	38	137	45	43	46	45	46
Creditors (No. of Days)	107	87	96	32	36	47	43	44
Leverage Ratios (%)								
Net Debt/Equity (x)	-0.8	0.2	0.3	0.5	0.5	0.4	0.4	0.3

Cash Flow Statement

(INR Million)

Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Adjusted EBITDA	52,063	35,001	4,808	256,640	221,381	147,731	205,461	228,586
Non cash opr. exp (inc)	1,270	-3,458	-1,426	-46,653	15,811	0	0	0
(Inc)/Dec in Wkg. Cap.	-1,570	-235	-2,818	-10,239	-25,345	26,650	-38,518	-6,815
Tax Paid	-13,372	-10,214	429	-43,741	-33,796	-5,847	-25,644	-29,690
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	38,391	21,094	993	156,008	178,051	168,533	141,298	192,081
(Inc)/Dec in FA & CWIP	-9,637	-12,617	-733	-72,836	-106,561	-42,811	-13,520	-30,832
Free cash flows	28,754	8,477	260	83,172	71,490	125,722	127,778	161,249
(Pur)/Sale of Invt	-28,754	-145,103	19,088	-4,105	60,735	-9,503	-33,404	-16,996
Others	3,343	14,112	-26,443	14,967	4,371	44,543	40,578	43,401
CF from Inv. Activity	-35,048	-143,608	-8,088	-61,974	-41,455	-7,772	-6,346	-4,428
Inc/(Dec) in Net Worth	9,376	0	0	0	0	0	0	0
Inc / (Dec) in Debt	-9,611	27,419	7,602	18,380	-45,596	-29,849	-54,700	9,270
Interest Paid	-901	-4,333	-4,394	-46,752	-62,898	-57,045	-65,102	-68,454
Divd Paid (incl Tax) & Others	-3,559	0	0	-22,144	-31,063	-22,706	-66,878	-26,297
CF from Fin. Activity	-4,696	23,086	3,208	-50,516	-139,558	-109,600	-186,680	-85,481
Inc/(Dec) in Cash	-1,353	-99,428	-3,887	43,518	-2,961	51,162	-51,728	102,172
Add: Opening Balance	69,566	96,968	6,017	410,333	453,850	450,889	502,051	446,976
Closing Balance	68,213	-2,460	2,130	453,850	450,889	502,051	450,323	549,148

E: MOSL Estimates



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Metals

Companies	PG
Indoco Ltd	12
Coal India	16
JSW Steel	21
Steelcast Ltd	22
Industries Ltd	29
Volvo	33
Yashoda	35
JSW Steel Ltd	36
JSW Steel Ltd Power	37
AMDC	52

Worst is behind for Indian steel; we like only JSW Steel

Base metal: steel/other hard abrasives; BUY/INFLX, Hold or Hindaco

■ Global steel demand has started recovering; H2H1, flat/flat with change in steel import and export data. India's steel demand is expected to yet another year of decline in 2018, which will keep the global steel businesses under pressure. However, the Indian steel sector looks bright because of growing domestic demand, measures to curb imports and flat exportation. We like JSW Steel for its non-integrated operation and strong volume growth, which is also reflected in its strong performance. Despite sharp correction from last prices, we suggest avoiding Tata Steel and JSW because of high fixed operating costs and financial weakness. We also have SAIL rating on 'sell' and 'based on SIFPI'.

■ Sharp fall in domestic and zinc prices in H2H1. Primarily, number of contracts, Aluminum production has come to great extent. Similarly, the number of zinc mining down has reduced. Domestic and global aluminum has increased. Supply side response has reduced the domestic stock and stabilized prices.

■ We find volatilities in domestic and global prices of non-commodity priced like coal or base metal, integrated operation and expectation of increase in dividend payment/backflow are plus positive for them.

■ Volatiles has major liquidity issues. Domestic steel debt is about USD10B-17B; while the foreign corporate price for servicing debt could be around USD750B. India's steel market has highly imported and exported. Domestic steel volatiles. We believe that the domestic risk to metal prices has minimized, but are not sure of recovery. Therefore, we will avoid Volatiles.

■ We believe Hindalco is better placed because commercial business of copper, bauxite & boulders remains insulated from volatility in metal prices. Novelis is expected to deliver growth in these operating cash flows. Production cost of copper & boulders even at current INR, but is a key source of opportunity if prices were to increase.

■ We like Coal India and JSW for strong coal and market mix improvements.

■ JSW Steel, Hindalco and Novelis need to benefit most from INR depreciation.

Affiliate & Related activities

	Price	WAP	EPS	EPS (100%)	EPS (100%)	EPS (100%)	EPS (100%)	EPS (100%)	EPS (100%)
Steel									
Indoco	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Steelcast	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Industries	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Yashoda	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
AMDC	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Coal India	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel Ltd	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel Ltd Power	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
AMDC	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Novelis	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Hindalco	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Volvo	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Yashoda	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
AMDC	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Coal India	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel Ltd	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel Ltd Power	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
AMDC	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Novelis	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Hindalco	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Volvo	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Yashoda	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
AMDC	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
Coal India	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	28.0
JSW Steel Ltd	Buy	1,000	1,000	7.45	30.0	28.0	28.0	28.0	

NOTES

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