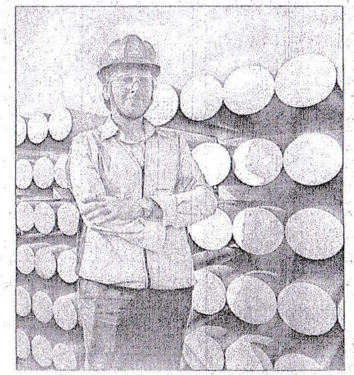
RATING: BUY

Vedanta: Aluminium, zinc key growth drivers

To expand capacity in steel, power, and base metal divisions as well

FINANCIALS

Y/E March (₹ crore)	FY23A	FY24A	FY25E	FY26E
Net revenue	1.47	1.43	1.5	1.67
Ebitda	34,422	35,198	44,454	52,342
Ebitda margin (%)	23.4	24.5	29.6	31.3
Net Profit	10,577	4,237	18,224	23,501
EPS (₹)	28.5	11.4	49.0	63.2
EPS % Chg YoY	-39.8	-67.8	285.0	29.0
P/E (x)	12.8	39.9	10.4	8.0
EV/Ebitda (x)	6.8	7.0	5.6	4.6
RoCE (%)	13.6	5.7	20.7	23.8
RoE (%)	16.0	9.3	43.6	47.3



WE RESUME COVERAGE on Vedanta with a Buy rating. We believe Vedanta's growth narrative is anchored by two 'Vs' and one 'C': volume, value, and cost reduction, particularly in its Aluminium (Al) and Zinc-India (Zn-India) divisions. Key points: Significant aspirations for volume growth across all divisions; Al and Zn-India are expected to be pivotal earnings growth drivers; Oil & Gas production is projected to reach its low point by FY26E; Growth initiatives at Vedanta may facilitate a $3 billion reduction in debt over the next three years and we anticipate the dividend yield to remain above 5% per annum. Overall, we project an Ebitda CAGR of 25% y-o-y through FY26e, with a RoE of 40–45% over the next two years.

Vedanta has outlined ambitious growth plans across its key divisions with a long-term vision extending to FY30. In our assessment, management has established solid plans to enhance volume in both the Zinc (India and international) and oil and gas divisions. For the Aluminium division, management is targeting a near-term cost of production of $ 1,650 a tonne, primarily leveraging captive alumina, bauxite, and coal resources. In our view, Vedanta exemplifies a scenario where all divisions are poised to perform optimally. While the Aluminium and Zinc-India divisions are expected to benefit from cost and volume leadership, respectively, we also foresee improvements in the Oil & Gas and Zinc-International divisions. Additionally, the emphasis on value-added products in both the Al and Zn-India divisions is anticipated to enhance performance in the medium term. Looking ahead, there are plans to expand capacity in the steel, power, and base metal divisions as well. We believe that the upcoming demerger will create distinct growth trajectories for each division, providing investors with the opportunity to invest in focused, growth-oriented companies. However, it will be essential to monitor the allocation of standalone debt among the various divisions, particularly in Aluminum segment.

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