

Analysts see limited impact of Sterlite closure

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The Tamil Nadu government's decision to "permanently close" down the Vedanta group's Sterlite copper plant in Tuticorin has affected street sentiment.

Vedanta's stock price has corrected by 13.5 per cent in May.

However, looking at the large product portfolio of the natural resources major, which has interests in other base metals as aluminium, zinc, lead

and nickel, along with oil and gas, iron ore and power, and considering that the expansions done in most of these segments, analysts see a limited impact of the unit's closure.

Analysts at Kotak Institutional Equities say the contribution of copper operations was only 3-4 per cent to Vedanta's 2019-20 earnings before interest, depreciation, taxation and amortisation (EBITDA) and 6 per cent to earnings.

However, the contribution of copper operations would have declined through 2019-21

owing to a volume ramp-up in other segments.

Analysts at ICICI Securities, stating similar views, had said with oil and gas, zinc and aluminium assets as key value drivers for Vedanta and even with a moderate assumption on Brent, the volume increase as projected by the management was stated to increase oil and gas EBITDA to more than ₹100 billion in 2019-20.

Hence, even as they have slightly cut their target prices, analysts maintain their positive stance on Vedanta.

The reduction in India's copper output may affect some user industries. Rupesh Sankhe at Reliance Securities says rising copper prices affect power transmission companies, transformer manufacturers and many other cable producers as well as consumer durable companies.

Metals such as copper and aluminium, being good conductors of electricity, are used extensively by these industries. Transmission and distribution players who have seen lower than expected orders of late

may feel the heat. Skipper, Techno Electric, Siemens and Cummins have seen soft quarterly performance, says Sankhe.

However, some analysts say the impact of rising prices may be temporary or limited to smaller manufacturers. Also, since many products can see costs pass through, only those manufacturers and products, having a limited ability of passing costs, may feel the heat.

It is the copper prices on the London Metal Exchange that matter most, says Sankhe. Analysts say rising domestic copper prices may fall in line with international prices after initial spikes.

Larger players (users) may import if Indian prices rise and hence domestic prices will soon fall in tandem.

Soumen Chatterjee, head of research at Guinness Securities, says any price hike may be temporary. Vedanta may challenge the state government's decision in court and should receive a favourable judgment, says Chatterjee.

On the other hand, owing to initial spikes in copper prices, Hindalco may be the immediate beneficiary.

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