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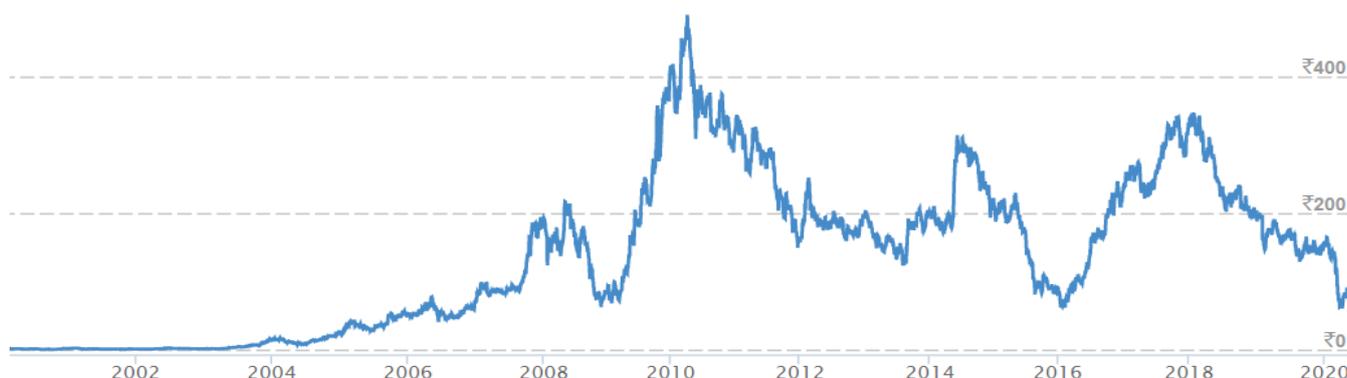
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## Vedanta's delisting: Yet another replay

***Vedanta's promoter group's debt repayment pressures have driven corporate actions in the past: we argue that delisting Vedanta Limited is one more of such actions. Vedanta Limited's board of directors need to take a decisive step in guiding shareholders on the proposed delisting and not shrug their shoulder in saying that as the reverse book build will determine the price, we leave it to shareholders. As in the past, this announcement too, seems to suggest, that minority shareholders are a hinderance to the promoters' ambition.***

Vedanta Resources Limited's (VRL) proposed delisting of Vedanta Limited (Vedanta) at a floor price of Rs.87.50 is opportunistic. The stock is currently trading close to its 52-week low, and at a steep discount to its historic five-year average - a natural fallout of the current economic environment and the impact of the COVID-19 crisis on equity markets. Vedanta's current market price does not reflect the fundamental value of the company's equity.

### Exhibit 1: Vedanta Ltd. stock price performance



Source: [www.moneycontrol.com](http://www.moneycontrol.com)

We believe the compulsions of having better financial flexibility to support group debt is a key driver of Vedanta's delisting.

#### The Vedanta group's debt pressures

The group has funded almost all its recent corporate actions using debt. The acquisition of a stake in Anglo American and the delisting of VRL all resulted increasing debt at the holding company level. The aggregate debt across the group (Vedanta, VRL and other holding companies) is **estimated at \$17bn in March 2020**<sup>1</sup>. Repayment pressures on the group are also high

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<sup>1</sup> Source: [Standard and Poor's Bulletin on Vedanta Resources Limited](#) dated 13 May 2020

- [around \\$1.9bn is will need to be refinanced](#)<sup>2</sup>, which includes a \$670 mn bond due in June 2021<sup>1</sup>.

Cash generation for the group is through the operating subsidiaries, Vedanta and Hindustan Zinc Limited – which are listed and limits the promoters' access to that cash. [Vedanta Limited, on 31 December 2019, reported cash balance of about \\$4.7bn](#)<sup>3</sup>. By owning 100% of Vedanta (from the current 50.14%), VRL's consolidated EBITDA will likely double.

In the past, the group has undertaken transactions bypassing shareholder approval to access cash in these companies. The 2015 \$125 mn loan by one of Cairn India's subsidiaries to one of Vedanta's subsidiaries is one such transaction<sup>4</sup>. In December 2018, Vedanta's overseas subsidiary Cairn India Holdings Limited (CIHL) [paid a part sum of \\$200 mn](#) (Rs 14.31 bn) towards purchase of an economic interest in a structured investment in Anglo American PLC from Volcan. The ownership of the underlying shares, and the associated voting interest, remained with Volcan.

Past mergers and acquisitions can be attributed, to an extent, to improve financial flexibility of the group and manage debt repayments. The August 2013 merger of Sesa Goa into Sterlite Industries Limited (Sterlite) allowed Sterlite to manage its debt better with a lighter and cash-rich balance sheet of Sesa Goa. The 2016 merger of Cairn India with Vedanta Limited once again allowed Vedanta's debt-heavy balance sheet to leverage on Cairn's cash-heavy balance sheet.

Vedanta's delisting will likely be funded through debt, which will add to group leverage. The free float market capitalization is currently at around \$2.2bn: IiAS expects VRL will likely shell out significantly more, if the delisting is to go through.

### **Vedanta's board needs to guide investors**

Vedanta's independent directors have a fiduciary responsibility to guide shareholders on VRL's delisting bid. This is in line with the practice followed in other markets. For example, [independent directors of Essar Energy in 2014 rejected Essar Global Funds Ltd's bid to delist](#) – the committee of independent directors had termed that bid "opportunistic". The issues are not very different here.

Independent directors must avoid taking cover from regulation. Delisting guidelines protect the rights of minority shareholders when companies want to delist. It will be a shame if the board throws these regulations back at shareholders saying that as the price is going to be determined by reverse book-building, you decide the price.

<sup>2</sup> Source: [Moody's rating action on Vedanta Resources Limited](#) dated 24 March 2020.

<sup>3</sup> [CRISIL's rating rationale on Vedanta Limited](#) dated 3 April 2020

<sup>4</sup> At the time of this transaction, Cairn India was not merged into Vedanta and was a separately listed company in India.

Vedanta's independent directors, at the 18 May 2020 board meeting, must articulate whether shareholders must vote in support of the delisting, and indicate a price range that they believe reflects the intrinsic value of the stock.

**Exhibit 2: Vedanta's board composition**

S No	Name	Category	Age	Tenure	AC	NRC	SRC	CSR	FY19 Pay (Rs.mn)
			(yrs)	(yrs)					
1	Navin Agarwal (P)	ED	59	7		M			307.1
2	G R Arun Kumar (CFO)	ED	49	3			M		63.0
3	Anil Agarwal (C) (P)	NED	66	<1					NA
4	Priya Agarwal (P)	NED	31	3				M	8.1
5	<b>Aman Mehta</b>	NED*	74	3	M	C		M	8.6
6	<b>Ms. Lalita Gupte</b>	ID	72	6	C	M	C		8.6
7	<b>U K Sinha</b>	ID	68	2	M		M	M	8.4
8	<b>K Venkataramanan</b>	ID	75	3			M	M	8.2
9	<b>Mahendra Kumar Sharma</b>	ID	73	<1	M	M		C	Nil

ED: Executive Director, WTD: Wholetime Director, ID: Independent Director, NED: Non-executive Non-independent director, (P): Promoter, (C): Chairperson

Committees: AC-Audit, NRC-Nomination & Remuneration, SRC-Stakeholders Relationship, CSR-Corporate Social Responsibility  
\* Aman Mehta was Independent Director of Vedanta Resources Limited, UK from November 2004 to August 2017. IiAS considers him as a non-independent director due to long association with the group. We expect a cooling-off period of three years before being classified as an independent director

Anil Agarwal was appointed on the board as Non-Executive Chairperson w.e.f. 28 March 2020. Navin Agarwal, former Chairperson was subsequently designated as Executive Vice-Chairperson

S Venkatakrishnan, former CEO, resigned from the board w.e.f. 5 April 2020. Sunil Duggal was appointed as Interim CEO - he is listed as a KMP and is not a director on the board

Tarun Jain's term as Non-Executive director expired on 31 March 2020

Source: IiAS research

**Regulation protects minority shareholders**

The delisting resolution is a special resolution: the votes cast by the public shareholders in favour of the resolution must be at least two times the number of votes cast against it.

The SEBI (Delisting of Equity shares) Regulations, 2009 provide sufficient protection to minority shareholders. The delisting will be determined via a reverse book building process. The price at which VRL can acquire public shareholding that takes VRL's shareholding to at least 90% of the paid-up capital will be the discovered price – at which point VRL can decide if wishes to proceed with the delisting. Therefore, although the floor price is set at Rs.87.50, the discovered price – based in the bids put in by investors – will likely be much higher.

Institutional investors have a role to play in protecting the interests of all minority shareholders. [Mutual funds together owned 10.9% of voting](#)

[rights on 31 March 2020](#). There are several large shareholders too – these can together ensure that their delisting bids reflect the intrinsic value of the business.

**Exhibit 3: Key shareholders in Vedanta Limited on 31 March 2020**

Name of the shareholder	% of voting rights
ICICI Prudential Equity Arbitrage Fund	5%
HDFC Infrastructure Fund	3%
SBI Arbitrage Opportunities Fund	1%
Life Insurance Corporation of India - ULIF00220091	7%
PTC Cables Private Ltd	1%

Source: [BSE](#)

**All-in-all, how is it better for Vedanta to delist?**

The group's past behaviour seems to suggest that minority shareholders are a hinderance to the promoters' ambition. Cash flowing from the operating companies to the holding companies has been an element of concern for shareholders, and some of the transactions have taken investors by surprise. To that extent, delisting the company and allowing the promoter full rein is in the longer-term interest of all stakeholders. That does not take away from the low price being offered. Investors need to take advantage of the regulatory protection and put in a bid that reflects the value of the company.

IiAS believes, however, that the board should not take cover of regulations, but proactively guide shareholders on what it considers is the correct price at which the delisting must take place. Vedanta's set of well-established and seasoned independent directors are possibly the best placed to articulate a reasonable stance on the issue.

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### **Office**

Institutional Investor Advisory Services  
Ground Floor, DGP House,  
88C Old Prabhadevi Road,  
Mumbai - 400 025  
India

### **Contact**

[solutions@iias.in](mailto:solutions@iias.in)

T: +91 22 6123 5509/ +91 22 6123 5555