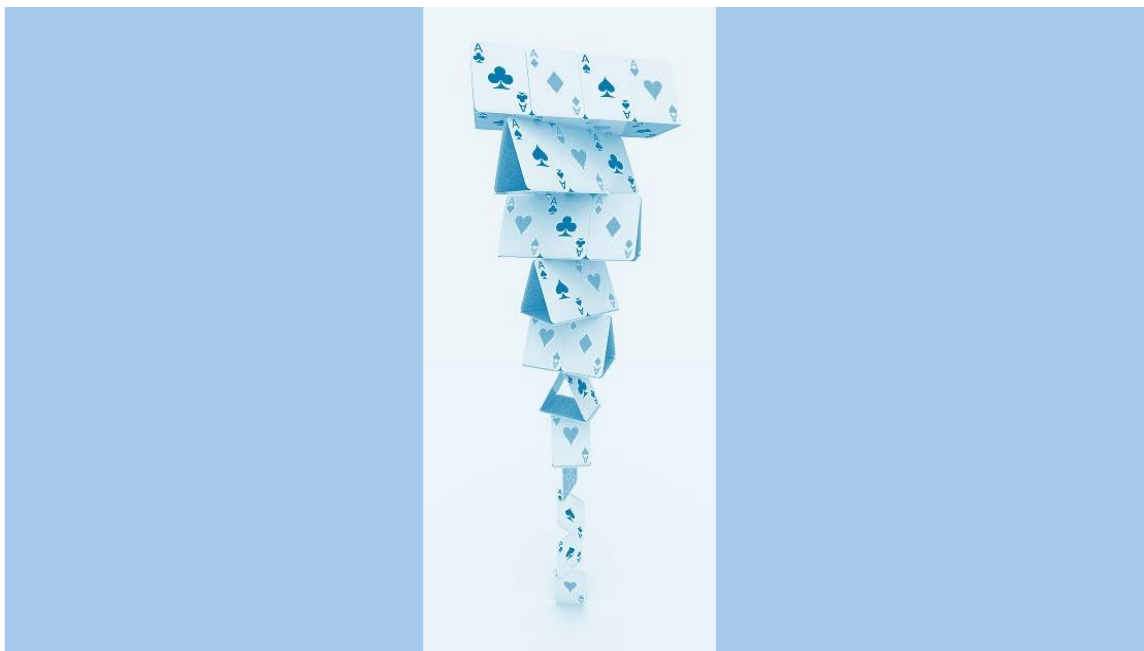


Vedanta: The house that debt built

As Vedanta enters the next phase of its journey, we look back at the financial model that has shaped it. Can it break from the past and move towards a model that relies more on operational strength and financial discipline?



As Vedanta enters the next phase of its journey, we look back at the financial model that shaped it. Few Indian conglomerates illustrate this as clearly as Vedanta, whose evolution and growth, from a metal trader to a sprawling natural resources empire, has been driven by acquisitions, leverage, and the movement of cash across group entities including its holding company.

Anil Agarwal's entry into metals and mining is widely described as beginning in Mumbai in the 1970s, when he moved into scrap trading after working in his father's business. According to published accounts, soon after he acquired Shamsheer Sterling Corporation, subsequently renamed Sterlite, using borrowed funds. The oft-told story is that he liquidated the stock, repaid the loan with interest within a month, and retained a profit. It was, in essence, a primitive leveraged buyout - asset-backed, cash-flow driven, and executed with speed.

Whether or not every detail of that early transaction is independently verifiable, the broader point is clear, it provided him with a template that has endured: use debt to acquire assets, extract cash quickly, and recycle capital. Over time, this has

defined the financial architecture of the group, with leverage at the top and cash flows at the bottom.

When the rearview mirror reflects the road ahead, not just the past

Over decades, Agarwal built Vedanta through acquisitions, with an intensity rarely seen in our markets. This began through the acquisition of Madras Aluminum Company Limited (MALCO) in the early 1990's, followed by Bharat Aluminium Company (BALCO) in 2001, Hindustan Zinc soon after, Sesa Goa (2007), certain assets from Asarco (2008), Zinc assets from Anglo American (2010), Cairn Energy India (2011), ESL Steel Limited (2018) and FACOR (2020). These are detailed in Annex A. These were scale acquisitions, financed through domestic borrowing, internal accruals, and critically capital raised at Vedanta Resources Limited (VRL), the holding company, listed in London in 2003 and Sterlite Industries Limited, in phases through depository receipts.

All through it also invested in power, debottlenecking, brownfield and greenfield expansions. A very rough estimate suggests that for every rupee raised as equity, the group has deployed over ₹6 across acquisitions, dividends, and capex. A playbook, developed by the US Private Equity industry has been used by Anil Agarwal to assemble a global natural resources group.

The group has also undergone multiple restructurings over time (shown in Annex 2a, 2b and 2c). While these exercises were presented as steps toward operational efficiency, tax optimization, and simplification, they also had the effect of facilitating capital movement within the group. Vedanta Limited emerged as the main operating cash engine, while Vedanta Resources Limited, the holding company, depended increasingly on dividend distributions and refinancing to meet its obligations. In that sense, the operating businesses often appeared to support the financing needs of the parent rather than retain all cash for internal growth.

Shareholders see dividends as a reward, promoters as a lifeline

Vedanta attempted to delist itself in 2020, and its failure is a pivotal moment in this narrative. Had it succeeded, VRL would have gained direct access to Vedanta's cash flow without the scrutiny of public markets. Its failure forced the group to rely more visibly on dividends and other mechanisms to move capital upstream. Since then, the pace and scale of payouts suggest a system under stress.

Since its failed delisting attempt in October 2020, Hindustan Zinc Limited (HZL), where Vedanta holds a 64.9% stake has paid cumulative dividends of ₹177.8 per share (of which ~ Rs 125.0 flowed to Vedanta). Vedanta, in turn, has paid cumulative

dividends of ₹263.0 per share (- Vedanta's dividend policy treats such inflows as pass-throughs, facilitating their movement to VRL).

The timing and structure of some of these payouts raises governance questions. In July 2023, HZL declared an interim dividend even before announcing its quarterly results - an unusual sequencing that suggests urgency in upstreaming cash. Vedanta followed with its own dividend shortly thereafter. While legally permissible, such actions blur the line between prudent capital allocation and financial engineering driven by holding company needs.

But these moves are better understood as part of a broader pattern rather than in isolation. The group has consistently relied on a mix of distributions, borrowings, and refinancing to manage obligations at the holding company level, Vedanta Resources Limited, which has been the key pressure point, with debt levels remaining elevated.

In recent years, VRL has repeatedly tapped debt markets, raising bonds and non-convertible debentures, it is to refinance existing liabilities rather than retire them.

This strategy has bought time and lowered interest costs. Further the standalone debt at VRL has come down, even as the consolidate debt remains broadly unchanged. The deleveraging at the holding company level has improved VRLs capital structure. At the same time, operating performance across some businesses has improved, helped by stronger commodity prices and better operating metrics in recent periods. This has supported leverage at the operating level. Nonetheless, the rating agencies have noted that the company remains dependent on dividends to service its debt, resulting in large, albeit reducing, minority leakages.

Vedanta's next phase

Against this backdrop, Vedanta has moved ahead with a major demerger plan. The scheme, which has received regulatory and shareholder approval, is expected to split the group into five independently listed entities spanning aluminium, oil and gas, power, steel, and base metals (as shown in Annex 3).

The stated purpose is value unlocking through separating the businesses so that each can be valued on its own merits and attract more focused capital. That argument has merit, especially in a conglomerate that has often traded at a discount to sum-of-the-parts value.

But a demerger is not the same thing as deleveraging. Vedanta can split assets but cannot repay liabilities and cannot by itself make the capital structure stronger. And

given the cyclical nature of the demerged businesses, the risk profile of the group too remains unchanged. Its challenge has been the burden of scale financed too aggressively, for too long. This remains. Consequently, the companies individually will still need to balance three competing priorities: servicing legacy debt, investing in capital-intensive businesses, and returning cash to shareholders.

But the demerger may still serve a more practical financial purpose. Separate listings could create greater flexibility for capital raising, asset-level financing, monetization or partnerships, and eventual deleveraging. Whether this ultimately reduces complexity or simply redistributes it, will depend on how the new entities are capitalised and how far the group can reduce its dependence on upstream cash flows.

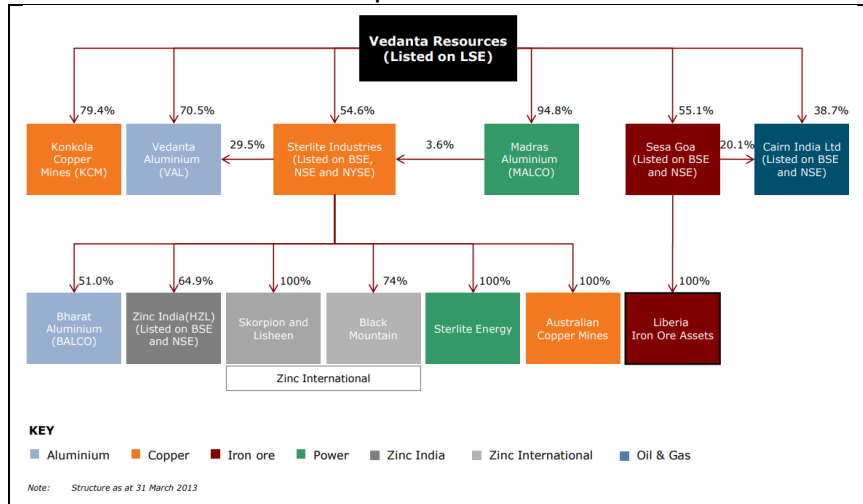
The question now is whether it can move towards a model that relies more on operational strength and less on financial engineering. If so, this will mark a shift from Vedanta's past - built on leverage, acquisitions, and internal cash extraction. And this will happen not because the next generation may prefer financial discipline, but when its founders' instincts soften.

Annex 1: Vedanta Group – Major Acquisitions (1990–2025)

Year	Asset / Company	Sector	Stake	Approx. Cost (US\$)	Notes
1993–94	Madras Aluminium (MALCO)	Aluminium	Control	~\$30–40 mn	Early entry into aluminium
2001	BALCO (Govt. of India)	Aluminium	51%	~\$120 mn	Landmark privatization
2002–03	Hindustan Zinc (HZL)	Zinc	64.9% (phased)	~\$350 mn	Acquired Zinc assets; built via multiple tranches
2007	Sesa Goa	Iron ore	Control	~\$1.5–2.0 bn	Entry into steel through iron ore
2008	Konkola Copper Mines	Copper	Majority	~\$298 mn	Zambia asset; includes creditor payments
2009	Anglo American Zinc (Lisheen)	Zinc	100%	~\$1.3 bn	International expansion
2010–11	Cairn India	Oil & Gas	58.5%	~\$8.7 bn	Entry into oil and gas
2018	ESL Steels Ltd	Steel	90%+	~\$800–850 mn	Integrating iron-ore with steel manufacturing
2020	FACOR	Ferro Alloys	100%	\$39 mn	Integration with steel

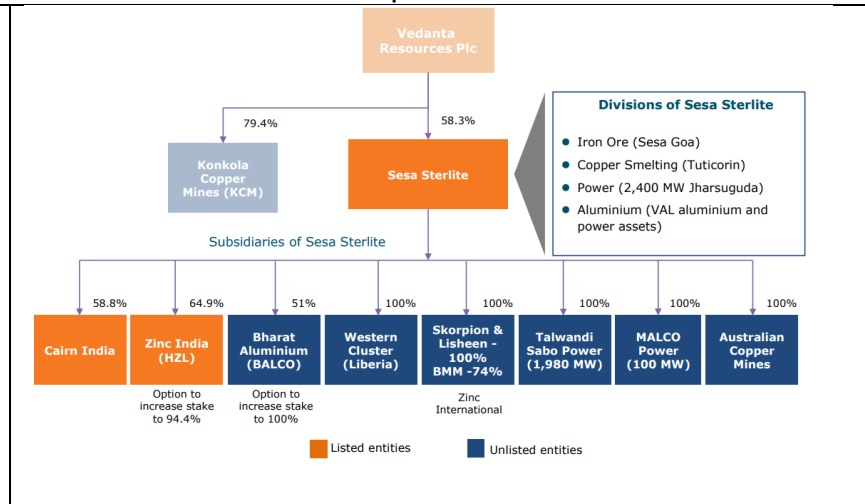
Source: IiAS, public data, annual reports

Annex 2a: Group structure in 2013



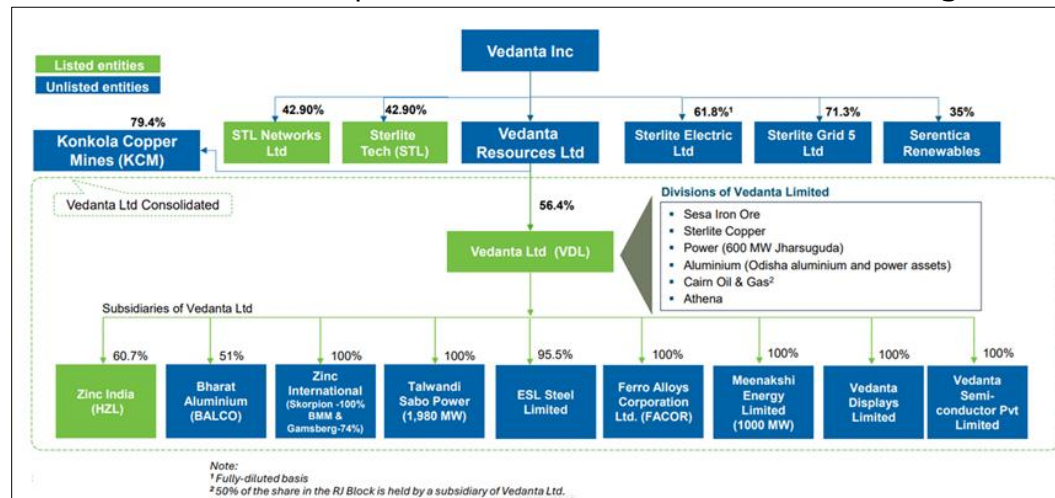
Source: Company website

Annex 2b: Group structure in 2016



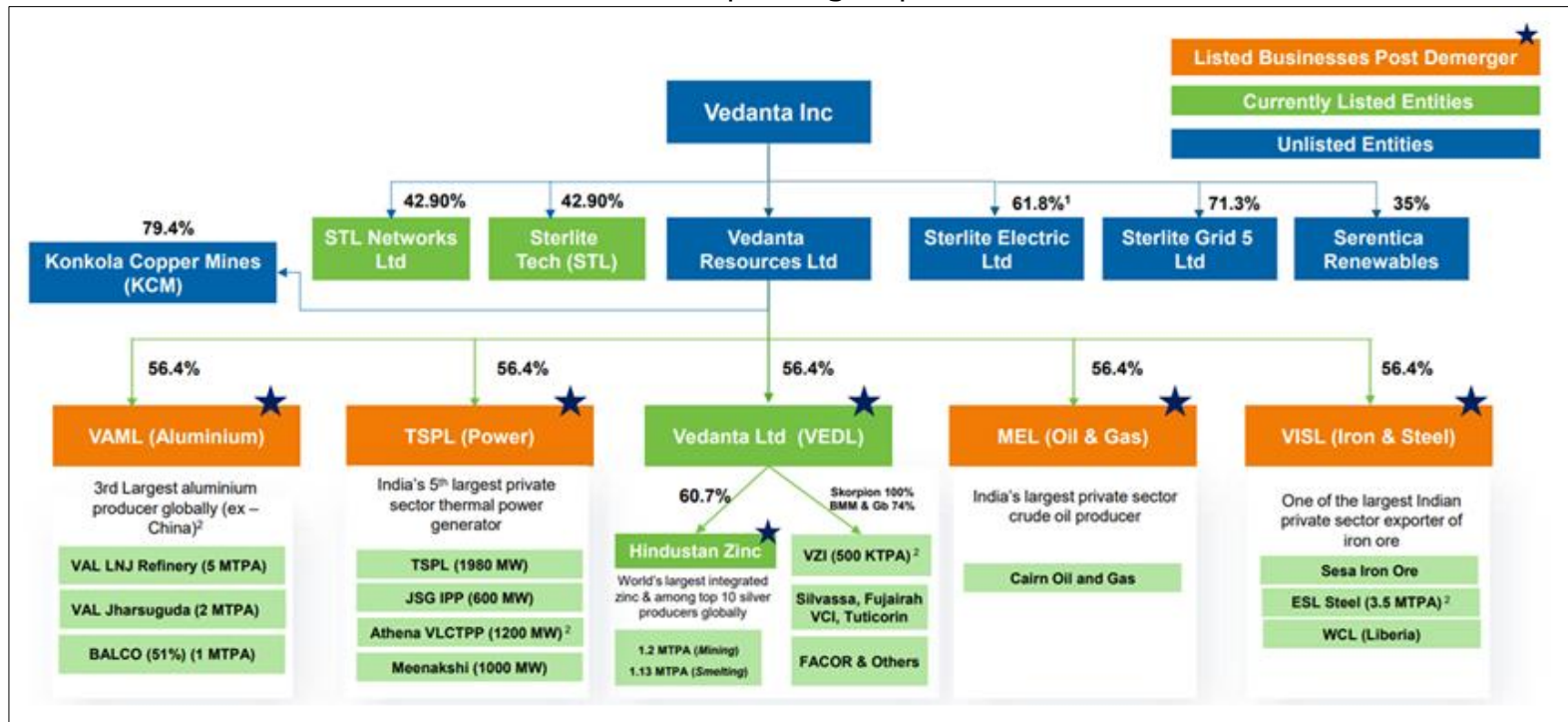
Source: Company website

Annex 2c: Group structure before 2025-26 restructuring



Source: Company website

Annex C: Proposed group structure



Source: Company website

Disclaimer

This document has been published by Institutional Investor Advisory Services India Limited (IiAS). The information contained herein is solely derived from publicly available data, but we do not represent that it is accurate or complete and it should not be relied on as such. IiAS shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not be taken as the basis for any voting or investment decision and/or construed as legal opinion/advice. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of information referred to in this document (including the merits and risks involved) and exercise due diligence while using this report. The discussions or views expressed may not be suitable for all investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. IiAS reserves the right to make modifications and alterations to this document as may be required from time to time; however, IiAS is under no obligation to update or keep the information current. Nevertheless, IiAS would be happy to provide any information in response to specific queries. No copyright infringement is intended in the preparation of this document. Neither IiAS nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of this information. This report may cover listed companies (the 'subject companies'); IiAS may hold a nominal number of shares in some of the subject companies to the extent disclosed on its website and/or these companies might have subscribed to IiAS' services or might be shareholders of IiAS. IiAS and its research analyst(s) do not have any financial interest in any of the subject companies except to the extent disclosed on its website.

Confidentiality

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose without the written permission of IiAS. 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 IiAS to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information provided in these reports remains, unless otherwise stated, the copyright of IiAS. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of IiAS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

Other Disclosures

IiAS is a SEBI registered entity (proxy advisor registration number: INH000000024) dedicated to providing participants in the Indian market with independent opinions, research and data on corporate governance issues as well as voting recommendations on shareholder resolutions of 1300+ listed Indian companies (<https://www.iiasadvisory.com/iias-coverage-list>). Our products and services include voting advisory reports, standardized services under the Indian Corporate Governance Scorecard, and databases (www.iiasadrian.com and www.iiascompayre.com). There are no significant or material orders passed against the company by any of the Regulators or Courts/Tribunals.

This article is a commentary on general trends and developments in the capital market.

About

Institutional Investor Advisory Services India Limited (IiAS) is an advisory firm that provides capital markets with independent opinions, data, and analysis on governance and ESG, including voting recommendations and ESG ratings in India, through its wholly owned subsidiary IiAS Sustain.

IiAS offers voting recommendations on shareholder resolutions for approximately 1,300 listed companies, covering over 96% of the country's market capitalization. The company operates two proprietary platforms: **SMART**, which enables tracking and reporting of stewardship activities, and **ADRIAN**, a comprehensive database of shareholder resolutions and institutional voting data.

IiAS has collaborated with the International Finance Corporation (IFC) and BSE Limited, with support from the Government of Japan, and developed the **India Corporate Governance Scorecard** - a benchmarking tool that offers granular governance scores and peer comparisons to help investors and companies evaluate governance practices.

IiAS has expanded in ESG offerings through its wholly owned subsidiary set up a dedicated subsidiary, **IiAS Sustainability Solutions Private Limited (IiAS Sustain)** to focus on ESG. IiAS Sustain has published ESG Ratings on over 500 companies, issued Second Party Opinions for green bond issuances, and works closely with hedge funds, alternative investment funds (AIFs), and private equity firms to support ESG integration. IiAS is a signatory to the United Nations Principles for Responsible Investment (UN PRI).

IiAS is backed by a strong shareholder base that includes Aditya Birla Sun Life AMC, Axis Bank, Fitch Group, HDFC Investments, ICICI Prudential Life Insurance, Kotak Mahindra Bank, RBL Bank, Tata Investment Corporation, UTI AMC, and Yes Bank.

IiAS is registered with SEBI as a Research Analyst (Proxy Advisory) (Registration No. INH000000024)

IiAS Sustain is registered with SEBI as a Category II ESG Ratings Provider (Registration Category-II/0006)