VEDANTA – Inexplicable departure from Dividend Policy

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BACKGROUND

Hindustan Zinc Limited ('HZL') declared close to ₹ 7,000 crores of dividend in May 2020. Vedanta Limited ('Vedanta') being a 64.92% shareholder in HZL, received bulk of the sum amounting to just above ₹ 4,500 crores. Dividend Distribution Policy ('DDP') of Vedanta envisages that dividend (other than special) received from HZL shall be passed on to Vedanta shareholders in entirety.

SES observed a departure by Vedanta in passing on the Dividend (other than special dividend and hereinafter referred as "**Normal Dividend**") received from HZL which is usually passed on to through Vedanta to its shareholders.

This non-payment of HZL dividend to Vedanta shareholders is probably the first instance after Vedanta DDP was formulated. Since, SES could not find any reason which forced Vedanta not to follow DDP, SES dug deeper into the reasons and could come to conclude that only difference from past could be pending delisting proposal. Whereas in past Vedanta Board acted on DDP based on assumption that the Company will continue as a public listed company, however, this assumption has got uprooted as a voluntary delisting has been initiated and, if successful, the company will become private. The question is, should the Board follow DDP based on what is present position or postpone decision based on some future event?

In this note, SES has analysed DDP of the Company and examined,

- Whether DDP is akin to a promise by the Company to shareholders? And whether law of promissory estoppel operate in case there is any breach?
- Whether DDP gives any discretion to the board to not pass dividend Vedanta receives from HZL?
- Are there any pressing circumstances which can overrule DDP?

EXECUTIVE SUMMARY

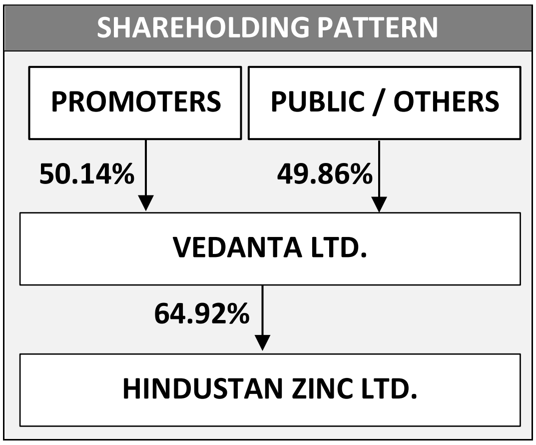
Some of the facts, findings along with questions that came across while researching for this Report are as below:

- Vedanta Ltd. for the first time, in at least five financial years, has not passed on the '**Normal**' dividend to its shareholders which it received from HZL.
- *What is extraordinary or special this year, which forced such a departure?*
- Vedanta has specifically not provided any justification as to why the 'Normal' dividend from HZL was not transferred to the shareholders of the Vedanta, although DDP explicitly provides for passing on the same to shareholders of Vedanta, unconditionally.
- Though, there are general circumstances wherein company may not pay dividend, however, in the opinion of SES, they are applicable to dividend other than "Normal" HZL dividend, as Vedanta itself has divided its dividend pay-out in three parts viz. in simple terms;
  - 'Normal Dividend from HZL'
  - 'Special Dividend from HZL' and
  - 'Dividend other than HZL'
- If Vedanta, had no intention to clearly act as pass through vehicle for normal dividend it receives from HZL, there was no need to frame such DDP and dividing distribution into three parts.
- SES is of the opinion that as far as 'Normal' dividend from HZL is concerned, its distribution to Vedanta shareholders is not discretionary.
- Vedanta has cited need for financial flexibility **'at the group'** in its justification for not paying dividend. However, Vedanta in its Annual Report for FY 2019-20 has painted exceptionally healthy picture of its financial strength. Even financial numbers for FY 2019-20, supports the Company's statement. Therefore, can one say that what Vedanta has portrayed in Annual Report is just a picture and not realty?

- Why has the Board of Vedanta denied dividend for financial flexibility **'across the group'** & how Vedanta shareholders are concerned. Can the Board decide dividend pay-out "across the group" when the financial position of the Companies shall differ? Also, the set of shareholders are different across group entities?
- Given that voluntary delisting is pending, is the Board helping the promoter to effectively reduce delisting price by the amount of 'Normal' HZL dividend not paid? Indirectly adding an additional ₹ 2,250 crores to Promoters kitty?
- In the absence of adequate justification, in the opinion of SES, Vedanta has deviated from its DDP. Shareholder's must seek clarity and also seek help from the Regulators SEBI and MCA in the matter.

SES is of the opinion that DDP amounts to a promise made to shareholders subject to certain conditions, and once the conditions are fulfilled, dividend must be paid. Law of promissory Estoppel will apply in case of breach.

INTRODUCTION



- Vedanta has paid interim dividend Rs 3.90 per equity share of approx. **Rs. 1,444 crores** (excluding tax) for FY 2019-20 (Date of Declaration: 27th February, 2020), which appears to be compliant with **para 1.2. of DDP** (Read More – Para 1.1 & 1.2.).
- HZL has paid interim dividend of Rs. 16.50 per share aggregating to Rs. 6,972 crores for FY 2019-20 (Date of Declaration: 12th May, 2020). **The dividend share of Vedanta as a shareholder of HZL amounts to Rs. 4,526 crores. Further, this amounts to Rs. 12.18/ share for each Vedanta shares.**
- However, making the inexplicable departure from past, the Company so far has **not distributed the same to shareholders of Vedanta for FY 2019-20, post receipt of interim dividend from HZL in accordance with DDP Para 1.1.**
- As per para 1.1 of DDP, Vedanta should have ideally declared dividend upon receipt of dividend from HZL (as it is a 'Normal Dividend', and not a 'Special Dividend').
- The question that arises is, **is this the first instance? or Vedanta in the past also had similar practice of not transferring dividend of HZL to shareholders of Vedanta? If not, has the Company complied with its Dividend Distribution Policy?**

LEGAL REQUIREMENT – DIVIDEND DISTRIBUTION POLICY ("DDP")

Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015:

43A *(1) The top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) shall* ***formulate a dividend distribution policy*** *which shall be disclosed in their annual reports and on their websites.*

(2) The dividend distribution policy shall ***include the following parameters****:*

(a) the ***circumstances*** *under which the shareholders of the listed entities* ***may or may not expect dividend****;*

(b) the ***financial parameters*** *that shall be considered while declaring dividend;*

(c) ***internal and external factors*** *that shall be considered for declaration of dividend;*

(d) policy as to how the ***retained earnings*** *shall be utilized; and*

(e) parameters that shall be adopted with regard to ***various classes of shares****:*

Provided that if the listed entity proposes to declare dividend on the basis of parameters in addition to clauses (a) to (e) or proposes to change such additional parameters or the dividend distribution policy contained in any of the parameters, ***it shall disclose such changes along with the rationale for the same in its annual report and on its website.***

(3) The listed entities other than top five hundred listed entities based on market capitalization may disclose their dividend distribution policies on a voluntary basis in their annual reports and on their websites.

ICSI – Guidance Note on Dividend (Weblink):

Dividend Policy

"While considering the financial statements for declaration of Dividend, the Board should take into account the Dividend Policy of the company, if any…."

Model Dividend Distribution Policy:

VI. Disclosure on deviation

"Declaration of Dividend on the basis of parameters other than those stated in this Policy or resulting in amendment of any element stated in this Policy will be regarded as deviation.

Any such deviation, when deemed to be necessary in the interest of the Company, in extraordinary circumstances, shall be disclosed in the Company's Board's Report along with the rationale thereof."

Vedanta in its Annual Report has provided following reason for not declaring final dividend for FY 2019-20 (i.e. post receipt of dividend from HZL for FY 2019-20):

> *"**Given the current market dislocation and uncertainties caused by the coronavirus pandemic, it is important to maximise financial flexibility across the group.** Your board will decide on the **size and timing of any future dividend** payments once there **is greater clarity on the outlook for the economy** and commodity markets. Your Company believe this is the correct decision for all the stakeholders as we navigate through an unprecedented period of volatility for the global economy and our business.*
>
> *The Directors do not recommend final dividend for the financial year ended March 31, 2020."*

DIVIDEND DISTRIBUTION HISTORY

Dividend distribution history of Vedanta Ltd and Hindustan Zinc Ltd:

DIVIDEND HISTORY									Days Gap~	Dividend: Vedanta/ HZL (B/A)
FY	HINDUSTAN ZINC LTD					VEDANTA LTD				
	Date*	Type	Dividend / Share	Total/ Share**	Adjusted HZL / Vedanta Share (A)^	Date	Dividend / Share (B)	Total/ Share**		
2019-20	12-05-2020	Normal	16.50	16.50	12.18	27-02-2020	3.90	3.90~~	-	0.32
2018-19	-	-	-	20.00	14.76	06-03-2019	1.85	18.85	-	1.28
2018-19	22-10-2018	Normal	20.00			31-10-2018	17.00		9	
2017-18	16-03-2018	Normal	6.00	8.00	5.90	13-03-2018	21.20	21.20	-3	3.59
2017-18	23-10-2017	Normal	2.00			-	-		-	
2016-17	**22-03-2017**	**Special**	**27.50**	**27.50**	**25.45**	**30-03-2017**	**17.70**	19.85	8	0.76
2016-17	28-10-2016	Normal	1.90	1.90	1.76	28-10-2016	1.75		0	11.06
2015-16	**30-03-2016**	**Special**	**24.00**	**25.90**	**23.96**	-	-	3.50	-	0.15
2015-16	**19-10-2015**	**Special**	**1.90**			**27-10-2015**	**3.50**		8	
2015-16	19-10-2015	Normal	1.90	1.90	1.76		-		-	1.99
2014-15	20-04-2015	Normal	2.50	4.40	4.07	29-04-2015	2.35	4.10	9	1.01
2014-15	17-09-2014	Normal	1.90			29-10-2014	1.75		42	

**Announcement Date – Declaration of dividend | ** Total Dividend per share during FY |^Calculated based on total dividend amount receivable from HZL / Total number of shares of Vedanta | ~Difference between HZL and Vedanta dividend declaration date | ~~ Vedanta dividend for FY 2019-20 was declared prior to HZL div, hence out of Vedanta performance.*

- It is observed that Vedanta has a settled practice of passing Normal dividend received from HZL almost immediately to its shareholders.

- From 2014-15 till 2019-20 HZL had given total Rs. 52.70 as Normal and Rs 53.40 as Special dividend per HZL share. Which amounts (receivable from HZL) to Rs. 40.43 & Rs 49.41 per Vedanta share, Normal & Special respectively. During the same period Vedanta has paid Rs 71 / share dividend-implying that entire 'Normal' HZL dividend has been paid in past.
- Therefore, not only it has religiously paid all the Normal dividend from HZL but part of special dividend as well.

Only in the current year, it has kept the entire HZL dividend to itself, why?

- That is, 'Nil' dividend is declared out of receipt of dividend from HZL for FY 2019-20.
- From the dividend distribution payments by Vedanta in past five financial years, it is evident that this is the **'First Instance'** when Vedanta has not transferred normal dividend received from HZL to its shareholders i.e. Vedanta's total dividend pay-out is less than total dividend received from HZL.
- The question that arises is, **is there any discretion to Board in cases of distribution of Normal dividend received from HZL?**

ANALYSIS OF VEDANTA's DIVIDEND DISTIBUTION POLICY

DDP OF VEDANTA

- Vedanta Ltd. has disclosed its Dividend Distribution Policy on its website as per Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

DDP PARA 1:

> ***1. Dividend Payout***
>
> *In every financial year, the Board **aims** to distribute to its equity shareholders:*
>
> ***1.1. The entire dividend income (net of taxes) it receives from its subsidiary, Hindustan Zinc Ltd.*** *(this does not apply to any one-time special dividends received from Hindustan Zinc Ltd. which will be at the **discretion of the Board**); and*
>
> ***1.2. Minimum 30% (including taxes, cess, and levies, if any relating to the dividend) of Attributable Profit after Tax (before exceptional items) of the Company excluding its share of profits in Hindustan Zinc Ltd for the year.*** *Such profits will be net of dividend payout to preference shareholders, if any.*

Does Vedanta Board have any discretion in not paying 'Normal' dividend it receives from HZL?

SES is of the view **absolutely not**; no discretion is available.

- Para 1, preamble to para 1.1 & 1.2 uses the phrase '*Board **aims** to distribute'*, and para 1.1 & 1.2 elaborates the same. While the word 'aim' gives some sort of leeway or discretion, but 1.1 fetters all the discretion by unequivocally stating ***'The entire dividend income (net of taxes) it receives from its subsidiary, Hindustan Zinc Ltd.'***
- Para 1.1 of DDP very clearly differentiates between 'Normal' and 'Special' dividend from HZL.
- It stipulates that 'Normal' dividend received from HZL net of taxes will be passed to the shareholder. It may be noted that there is no use of word discretion of the Board. It is only when it comes to any Special dividend received from HZL that DDP uses the words "*at the **discretion of the Board"***, which makes it amply clear that **for 'Normal' dividend the Board has no discretion**. Otherwise there was no need to have separate provisions for Normal & Special dividend.
- Para 1.2 of DDP talks about minimum 30% pay-out ratio. The para 1.2 of DDP is crystal clear that 30% minimum pay-out is excluding **any HZL dividend**.
- Therefore both 1.1 & 1.2 of DDP do not envisage any discretion to the Board for distribution of Normal Dividend received from HZL.
- The next question is, whether rest of policy provides any discretion? SES is of the view that para 2 & 3 of DDP are applicable only in case of discretionary dividend at para 1.2 and Special dividend from HZL.

- SES is of the view that even if provisions of para 2 & 3 are considered, still it doesn't give any discretion based on contents of para 2 & 3.

2. While considering a dividend, the following financial parameters, and internal and external factors shall also be evaluated by the Board:

a. Current financial year's profits and retained earnings

b. Availability of cash and liquid investments to pay dividend

c. Deleveraging plans of the Company

d. Capital expenditures and organic/ inorganic plans of the Company

e. Contingency plans

f. Company's future prospects including its continued ability to sustain its profits

g. External factors like uncertain or recessionary economic and business conditions, regulatory environment, prevailing & expected commodity prices in the market etc.

3. Circumstances under which the shareholders of the Company may or may not expect dividend:

Generally, it would be the Company's policy to pay dividend in the manner specified in 1 above. However, the Board may not approve a dividend in situations such as:

a. When the Company does not have any profits

b. When there are prolonged strikes or lockouts, natural calamities, regulatory actions, major accidents or other events significantly impacting production volumes

c. When prices of the company's products have fallen suddenly, impacting future profits in substantial manner

d. When Company's liquidity is jeopardized for any reason, impairing its ability to pay the dividend

SES is of the view that the financial parameters or circumstances at para 2 & 3 respectively, are not applicable in case of declaration of dividend, pursuant to receivable of dividend from HZL (for para 1.1.) due to following reasons:

- If the intent of para 2 & 3 was also to include para 1.1. (i.e. for dividend from HZL), then there was no need at first place for Vedanta to segregate Dividend pay-outs, in three parts viz. in simple terms, 'Normal Dividend from HZL', 'Special Dividend from HZL' and 'Dividend other than HZL'.
- Vedanta could have simply mentioned in its DDP that dividend pay-outs (citing %) shall be based on performance on consolidated basis (i.e. including HZL). If that was the case, one may have considered an argument that para 2 & 3 are applicable and therefore, the dividend was not declared from dividend receipt from HZL for FY 2019-20.
- However, since Vedanta itself, has segregated dividend pay-out in three parts, indirectly, the following inference can be made:

  'Normal Dividend from HZL' (1.1.): To be paid to Vedanta shareholders, Vedanta is just a pass through.

  'Special Dividend from HZL' (1.1.) & 'Dividend other than HZL' (1.2.): As per Dividend Distribution Policy of Vedanta Ltd, para 2 & 3
- For FY 2019-20, Vedanta has paid dividend as per para 1.2 as interim dividend was prior to declaration of 'Normal' dividend by HZL. It has however, failed to pay dividend out of 'Normal' dividend received from HZL in violation of para 1.1 of DDP and Vedanta has specifically not provided any justification.
- SES has analysed in detail para 2 & 3 of the DDP point by point with facts as given in Annual report 2019-20 and concluded that, although para 2& 3 are not applicable, even if one extends their applicability, it does not allow Vedanta Board not to distribute HZL 'Normal' dividend. (Read More)

Note: To keep the main Report short, detailed discussion on para 2 & 3 of DDP has been placed as Annexure (Refer Annexure).

HAS THE COMPANY COMPLIED WITH ITS DIVIDEND DISTRIBUTION POLICY?

The Company in the AR 2019-20, has stated that *"Your **Company is in compliance with the dividend distribution policy** as approved by the Board."*

While, in the opinion of the Company it may be compliant with the DDP, SES is of the opinion that it is not. As general circumstances wherein, company may not pay dividend, are applicable to dividend other than 'Normal' HZL dividend and even those circumstances are not applicable as the Company in its Annual Report has painted exceptionally healthy picture of its financial strength. Furthermore, even financial numbers for FY 2019-20, do not support any situation which is not conducive to dividend payment.

In the circumstances, **the Company has specifically not provided any justification as to why the dividend from HZL was not transferred to the shareholders of the Vedanta, as per DDP, for FY 2019-20**.

What is the reason that Vedanta has not passed HZL dividend to its shareholders? Is it because that post delisting they would not have to pass this dividend to shareholders?

Background:

Vedanta Resources Ltd ('VRL'), the Promoter of the Indian Listed Vedanta Ltd, had requested the Board of Vedanta Ltd to consider and approve the delisting proposal in accordance with the Delisting Regulations and to take necessary steps in this regard. *(Refer SES Research Report: **"Vedanta Delisting Offer – A Litmus Test for the Board of Vedanta Ltd."** - Weblink)*

The Board of directors of the Company in their meeting held on 18th May, 2020 have considered and granted their approval for the said 'Delisting Proposal'.

Consequently, the same was put up for shareholder's approval through Postal Ballot (Voting Deadline: 24th June, 2020), wherein the shareholders of the Company approved resolution with 93.34% majority votes. *(Refer **SES Proxy Advisory Report on the Postal Ballot – Resolution for Delisting Proposal** – Weblink)*

In view of the above analysis, SES is of the view that the Company should have provided specific reasons for not passing dividend received from HZL for FY 2019-20. **In the absence of any adequate justification, in the opinion of SES, the Company has deviated from its DDP.**

WAY AHEAD – LEGAL REQUIREMENT

As per SEBI Circular dated 22nd January, 2020 (Weblink):

The recognized stock exchanges shall take action for non-compliance with the provisions of the Listing Regulations & circulars/guidelines issued thereunder, by a listed entity as under:

- Regulation 43A: Non-disclosure of Dividend Distribution Policy in the Annual Report and on the websites of the entity.
- **Fine payable and/or other action to be taken for noncompliance in respect of listed entity: Rs. 25,000 per instance**

While the SEBI has specified penalties for non-disclosure of Dividend Distribution Policy, however, there is no such action specified in Regulation 43A or aforesaid Circular, in case where dividend declared / paid or not, is as per the disclosed DDP of a Company.

Is DDP a promise to shareholders? Can law of promissory estoppel be applied against the Company under DDP?

Corporate structure, with diversified ownership, does not create a one to one contract between shareholders and company. Yet management and operations and governance of all companies is based on various laws, which can be said to reflect some sort of deemed contract between shareholders and company. In opinion of SES, DDP constitutes or implies a promise to shareholders. The SEBI LODR uses the phrase "*the **circumstances** under which the shareholders of the listed entities **may or may not expect dividend***". Therefore, DDP creates an expectation and an indirect promise to pay to shareholders.

As a result, SES is of the view that if any Company does not abide by its DDP, it is in breach of a promise and the doctrine of promissory estoppel applies.

SEBI must consider of amending its laws relating to DDP to make DDP more objective. While, this is a long process to amend law, SES is of the opinion that action of the Company viz. Vedanta, is not in the interest of shareholders of Vedanta, SEBI can *suo motu* act in the larger interest of shareholders and ensure that shareholders are paid dividend of Rs 12.18/ share as soon as possible by Vedanta.

ANNEXURE: ANALYSIS OF DDP PARA-2 & 3

FINANCIAL POSITION:

Before analysing para 2 & 3, it is important to have look on financial position of the Company:

Particulars (Rs. crores)	STANDALONE				CONSOLIDATED			
	2017	2018	2019	2020	2017	2018	2019	2020
Net Worth	79,768	79,313	77,880	**69,895**	74,428	79,465	77,524	**71,747**
Total Debt	43,233	40,713	42,204	**38,937**	71,569	58,159	66,226	**59,187**
EBITDA	16,356	10,012	11,623	**8,697**	25,913	28,067	27,121	**23,197**
PAT	11,069	7,256	5,075	**5,836***	11,319	13,692	9,698	**12,643***
Debt Equity	0.54	0.51	0.54	**0.56**	0.96	0.73	0.85	**0.82**

Source: Company's Annual Reports

Note - PAT 2019-20:

Standalone basis: *Net loss for FY 2019-20 is Rs. 6,732 crores after exceptional items for FY 2019-20 at Rs. 12,568 crores. All these are non-cash adjustments hence should not impact calculation for dividend.*

Consolidated basis: *Net loss for FY 2019-20 on consolidated basis, is Rs. 4,743 on account of the exceptional items for FY 2019-20 at Rs. 17,386 crores, mainly on account of impairment charge of ₹ 17,636 crore relating to property, plant and equipment and exploration assets and claims & receivables.*

DDP PARA 2:

Para 2 states that, ***"while considering a dividend, the following financial parameters, and internal and external factors shall also be evaluated by the Board"***. Para 2 of DDP is analysed point by point:

SR.	Parameters	SES Observation/ View
a.	Current financial year's profits and retained earnings	**Not Applicable:** The Company has sufficient operational profits and retained earnings.
b.	Availability of cash and liquid investments to pay dividend	**Not Applicable:** The Company has mentioned in its AR that it has strong financial position with cash, liquid and structured investments. Its debt has reduced compared with previous FY.
c.	Deleveraging plans of the Company	**Not Applicable:** Total debt and short-term debt reduced on standalone and consolidated basis. No such plans were mentioned in justification for not declaring final dividend.
d.	Capital expenditures and organic/ inorganic plans of the Company	**Not Applicable:** No such plans were mentioned in justification for not declaring final dividend.
e.	Contingency plans	**Not Applicable/** Nothing explained
f.	Company's future prospects including its continued ability to sustain its profits	**Not Applicable:** The Company expects EBITDA of Rs. 4,000 to Rs. 4,200 crores, which is approx. 19-23% less compared to Q1 FY 2019-20.
g.	External factors like uncertain or recessionary economic and business conditions, regulatory environment, prevailing & expected commodity prices in the market etc.	**Not Applicable:** It is not the first time that Company is facing downturn in commodity market

a. Current financial year's profits and retained earnings

Factual Position: Vedanta on standalone basis has EBITDA of Rs. 8,697 crores and EBIT of Rs. 5,433 crores for FY 2019-20. Further, as at end of FY 2019-20, the Company on standalone basis, has 'Retained Earnings' amounting to Rs. 5,508 crores.

SES Comment: Vedanta share from HZL dividend amounts to Rs. 4,526 crores for FY 2019-20, which is less than the retained earnings of Vedanta on standalone basis at end of FY 2019-20. Further, the said retained earnings, is prior to receipt of dividend from HZL for FY 2019-20. Therefore, this parameter is **not applicable in the present case**.

b. Availability of cash and liquid investments to pay dividend

Factual Position: Vedanta in its Annual Report for FY 2019-20, has stated that *“**Strong financial position with cash, liquid and structured investments** of ₹ 37,914 crores”*

SES Comment: From the above-mentioned Company’s statement in Annual Report, it is clear there is no issue of availability of cash and liquid investments to pay dividend. Therefore, this parameter is **not applicable in the present case**.

c. Deleveraging plans of the Company

Factual Position: At the end of FY 2019-20, the Company’s overall debt decreased by 7.74% on standalone basis and 10.63% on consolidated basis, with significant reduction in short term borrowings by 37% and 43% respectively.

SES Comment: The Company has decreased its debts at end of FY 2019-20, compared to previous. Further, the Company in its justification for not declaring final dividend, has not cited any deleveraging plans. Therefore, this parameter is **not applicable in the present case**.

d. Capital expenditures and organic/ inorganic plans of the Company

SES Comment: The Company in its justification for not declaring final dividend, has mentioned about current market dislocation, uncertainties caused by the coronavirus pandemic, and to maximise financial flexibility across the group. There is no specific mention of having any plan of organic / inorganic growth of the Company. Therefore, this parameter is **not applicable in the present case**.

e. Contingency plans

SES Comment: The Company has not provided details for requirement of any contingency plan.

f. Company’s future prospects including its continued ability to sustain its profits

Factual Position: As per Production Release for Q1 FY 2020-21 (dated 5th August, 2020) (Weblink):

> *“Revenue during the quarter is expected to be in the range of INR 15,000 to 16,000 cr”*, which is approx. 20-25% less compared to Q1 FY 2019-20.
>
> *“**EBITDA during the quarter is likely to be in the range of INR 4,000 to 4,200 cr** (includes c. INR 350 cr. on account of noncash write back of renewable power obligation)”*, which is approx. 19-23% less compared to Q1 FY 2019-20.

SES Comment: As per Vedanta’s production release, Vedanta on consolidated basis, expects EBITDA range of Rs. 4,000 to Rs. 4,200 crores, which may not have material impact on the financials / EBITDA / Profitability for Q1 FY 2020-21 compared to Q1 FY 2019-20, therefore, this parameter is **not applicable in the present case**.

Further, to reflect true position, financials of Q1 FY 2020-21, would have cleared questions relating to actual performance and profitability of the Company during Covid-19 pandemic. However, **the Board meeting which was originally scheduled on 15th September, 2020 to declare Q1 FY 2020-21 results has been postponed** (Weblink). SES does not understand why the declaration of results has been postponed? When companies of similar size or even bigger ones having as diversified operation as this, have published financial results much before and why the Company comes to know just a day before the meeting that they would not be able to present results? SES cannot do any guesswork, it is the Board which knows the best.

g. External factors like uncertain or recessionary economic and business conditions, regulatory environment, prevailing & expected commodity prices in the market etc.

Factual Position:

- Mr. Anil Agarwal, Chairman statement in the Annual Report for FY 2019-20,

> *“**I sincerely believe that the post-COVID world will bring huge opportunities for India to secure a better place in the emerging global economic order.** I also believe the ultimate ‘Make in India’ moment for our country is soon to arrive. With ample natural, human and technological resources and strong reform-focused democratic governance, India holds out hope*

in the post-COVID era global businesses and investors look at reducing dependency on China. This will mean more jobs, more investments, rapid development and a great boost to our 'Make in India' initiative.

As I look back at Vedanta's journey so far, I can say with reasonable confidence that we have steadily grown and evolved to be an organisation creating disproportionate value for citizens of India. ***Even amidst a short-term environment of uncertainty,*** *I have well-founded belief in our fundamentals, our strategy and our people, which taken together, is a powerful force to reckon with.* ***My outlook remains positive for the country and for the Company and we are equipped to fulfil every commitment we have towards our stakeholders."***

- No mention of term 'Recession' in AR 2019-20.

SES Comment: The fact that promoters are sticking their neck out and want to own the Company 100% very clearly establishes that they expect positive performance in future.

DDP PARA 3:

Para 3 states that, ***"Circumstances under which the shareholders of the Company may or may not expect dividend"***

Para 3 of DDP is analysed point by point:

Generally, it would be the Company's policy to pay dividend in the manner specified in 1 above. However, the Board may not approve a dividend in situations such as:

SR.	Parameters	SES Observation/ View
a.	When the Company does not have any profits	**Not Applicable:** Vedanta has profits
b.	When there are prolonged strikes or lockouts, natural calamities, regulatory actions, major accidents or other events significantly impacting production volumes	**Not Applicable:** During 'Nationwide Lockdown', most of Vedanta's operations were under 'essential' or 'continuous' in nature category, therefore, Company's sites were functional.
c.	When prices of the company's products have fallen suddenly, impacting future profits in substantial manner	**Not Applicable:** Not first time that prices have fallen, even after price fall there is profit.
d.	When Company's liquidity is jeopardized for any reason, impairing its ability to pay the dividend	**Not Applicable:** In Annual Report for FY 2019-20, Vedanta has painted exceptional healthy picture of its financial strength. Furthermore, even financial numbers for FY 2019-20, supports the Company's statement.

a. When the Company does not have any profits

Factual Position: For FY 2019-20, Vedanta on consolidated basis has **EBITDA of Rs. 23,197 crores** and EBIT of Rs. 14,104 crores.

SES Comment: Since, the Company has operational profits, therefore, this circumstance is **not applicable in the present case**.

b. When there are prolonged strikes or lockouts, natural calamities, regulatory actions, major accidents or other events significantly impacting production volumes

Factual Position: The Company through corporate announcement dated 30th March, 2020 (Weblink), has stated that

"The Company and its subsidiaries have been taking various precautionary measures to ensure the safety and well-being of all our employees and stakeholders. ***While most of our operations are 'essential' or 'continuous' in nature we have had temporary disruptions largely driven by logistical bottlenecks.*** *We expect these issues to be resolved over the short term that will allow the Company to return to full capacity in coming weeks.*

Specifically, with reference to the circular issued by the Ministry of Mines No. CV-16/30/2020-M.VI dated 26.03.2020, it has been advised that ***the State Government should facilitate measures that would ensure continuity of operations of Steel, Aluminum, Copper, Cement and other such plants that require continuous process.*** *The related activities like supply/movement of raw materials, equipment etc. including imported ones through rail/air/ports can be similarly facilitated.*

under manufacturing of essential commodities, will be carried out during the lockdown period as per the order no 40-3/2020 DM1(A) dt 24.03.2020 and dt 25.03.2020 of Ministry of Home Affairs and the SOP's and advisories issued to the State Governments by the Ministry of Health and Family Welfare including ICMR, NDMA and other related agencies.

*Accordingly, **our sites will be operational in compliance with the referred order**."*

SES Comment: Since, the Vedanta's business operations were largely functional during the 'Nationwide Lockdown' to curb impact of Covid-19 pandemic, unlike other sectors / business wherein there was complete shutdown; and as the Vedanta's production release indicates that there may not be material impact on financials / EBITDA / Profitability for Q1 FY 2020-21 compared to Q1 FY 2019-20, therefore, this circumstance is **not applicable in the present case**.

c. When prices of the company's products have fallen suddenly, impacting future profits in substantial manner

Factual Position: SES has analysed all the Commodity prices that Vedanta deals in for last 5 years and finds that present prices are not the lowest as can be seen in Table below

DATE	ZINC	ALUMINIUM	COPPER	LEAD	SILVER	OIL
Price / Unit	Rs. / Ton	Rs. / Ton	Rs. / Ton	Rs. / Ton	Rs. / OZ	Rs. / BBL
01-04-2016 **(A)**	1,02,984	99,855	3,12,879	1,12,370	995	2,066
25-09-2020 **(B)**	1,74,348	1,28,863	4,82,350	2,10,544	1,713	3,081
Year 2016 (Highest)	1,59,276	1,17,798	4,34,225	1,23,173	915	3,982
Ratio **(B/A)**	1.70	1.29	1.55	1.88	1.72	1.50

01-04-2016: 1 USD = 66.36 **|** *25-09-2020: 1 USD = 73.72* **|** *Source: www.xrates.com; markets.businessinsider.com*

SES Comment: Except Oil prices of all commodities are higher as compared to 2016 level. While it is a fact that costs would have gone up due to inflation and raw material cost being linked to finished goods cost, yet the fact remains that commodity prices are always fluctuating with boom and bust scenario. The argument is that when in 2016 with all prices running low, still Vedanta paid dividend, there is no logic why it should not pass on HZL dividend to shareholders.

As regards to oil, Vedanta itself has stated that at USD 40/BBL, in oil business its IRR is 20%, therefore current price gives IRR >20%

Further, As discussed, under para 2 parameter (f), as per Vedanta's production release, Vedanta on consolidated basis, expects EBITDA range of Rs. 4,000 to Rs. 4,200 crores, which may not be material impact on financials / EBITDA / Profitability for Q1 FY 2020-21 compared to Q1 FY 2019-20.

In view of the above, this circumstance is **not applicable in the present case**.

d. When Company's liquidity is jeopardized for any reason, impairing its ability to pay the dividend

Factual Position: Annual Reports Statements:

Vedanta Ltd. in its AR 2019-20 has stated the following:

> *"**Strong financial position** with cash, liquid and structured investments of ₹ 37,914 crore"*
>
> *"**A strong balance sheet**, with respect to ND/EBITDA and gearing, compared to our global diversified peers"*

SES Comment: With respect to financial performance,

- Though, operational profitability of Vedanta decreased in FY 2019-20, it is not the first instance. Even in FY 2017-18, there was subdued performance of Vedanta, however, it had declared dividend more than the dividend received from HZL.
- Vedanta's current ratio on standalone has been in the range of 0.43 to 0.47 for last three financial years, and on consolidated basis has been in the range of 0.78 to 0.91 in last three financial years, with highest being as at end of FY 2019-20.
- Vedanta has cited need for financial flexibility at the group in its justification, however, based financials are contradicting. Short term debt and total debts reduced as at end of FY 2019-20, and current ratio increased by 16% compared to previous

year. Further, Vedanta in its Annual Report has disclosed strong cash, liquid and structured investment for FY 2019-20. SES is of the view that use of word such as ‘Strong’ generally reflects good financial position.

- Furthermore, while Vedanta has disclosed ‘Impact of Covid-19 pandemic’ through corporate announcement dated 6th June, 2020 (Weblink), it has disclosed generic information on impact on financials.

Therefore, in view of the above, SES is of the view that this circumstance is **not applicable in the present case**.

RESEARCH ANALYST: MUKESH SOLANKI | J N GUPTA

REPORT RELEASE DATE: 28TH SEPTEMBER, 2020

DISCLOSURE: Mr. J N Gupta along with his wife holds shares both in Vedanta Ltd and HZL

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