Vedanta Delisting Offer -
A Litmus test for Board of Vedanta Ltd
Vedanta Delisting Offer - A Litmus Test for Board of Vedanta Ltd.

While, the entire country was gearing up to eagerly listen to the Prime Minister’s address to the nation amid the COVID 19 pandemic, Vedanta resources announced its intention to Delist. The big news escaped the due attention.

Vedanta Resources Ltd (‘VRL’), the Promoter of the Indian Listed Vedanta Ltd, have requested the Board of Vedanta Ltd to consider and approve the delisting proposal as per the delisting Regulations and to take necessary steps in this regard.

The Promoters have stated that:

“after considering the prevailing market conditions and with a view to provide the Public Shareholders with a fair exit price, we hereby inform our willingness to accept Equity Shares tendered by the Public Shareholders in the Delisting Offer at a price of INR 87.5 (Indian Rupees Eighty Seven and Fifty Paise only) per Equity Share (‘Indicative Offer Price’) which represents a premium of 9.9% over the closing market price of INR 79.6 (Indian Rupees Seventy Nine and Sixty Paise only) as on May 11, 2020 on BSE Limited and National Stock Exchange of India Limited.”

The Promoters have as per language of their letter to Board shown generosity by implying that

• In the tough prevailing market conditions, they are willing to provide the Public Shareholders with a fair exit price, which as per their wisdom is a princely sum of ₹ 87.50 per share.

As per delisting regulations, the first hurdle that VRL has to cross is approval of its Board. What will the Board do? Will it act in a manner which it is expected of? Or like many other boards it will also toe the line of promoters?

SES has no doubt in its mind that the board, given its composition, having luminaries will evaluate the proposal with open mind.

However, SES keeping in view interest of shareholders has prepared this note which will serve as a checklist/guide to the Board members while debating the offer.

The Board needs to debate on following points:

1. Fairness of the price
2. What are the options

Fairness of the price

While as per delisting regulations, price will be discovered through book building method, therefore any price given by the acquirer/promoter is only indicative, therefore technically speaking price of ₹ 87.50/- does not mean much. Having said that, the price does reflect intent, seriousness and fairness. Especially because delisting regulations also provide the right to acquirer not to accept a discovered price. Therefore, examining the offer holistically, SES is of the view that it fails on all the three parameters.

For it is universally known and it is the opinion of all experts that these are uncertain times and present prices are not reflective of long-term value, therefore the intent appears to be that promoters want to take advantage of present market condition and acquire 100% of the company at current low prices. Nothing wrong with it, as investors will have final word. Similarly, it can be said that offer is not serious, as expecting that investors will lap up the offer at a price which is less than 50% of 52 weeks high, almost 45% of book value (31st March 2019), dividend
yield of 20%+ when interest rates are historic low with chance of revival, amounts to questioning the wisdom of investors. Finally, is the price fair? Unequivocal answer is not at all.

**FAIR VALUE OF VEDANTA LTD**

Valuation of the business may differ and depend on various circumstances. SES is not an expert in the computing valuation of business / Company, however, SES always analyses each proposal on its merit based on the facts and the information, before arriving to the conclusion. Having said that, to arrive at a fair price even in these uncertain times, there is no prerequisite that analyst must be a rocket scientist.

Vedanta has hosts of business and Hindustan Zinc Ltd (HZL) is a listed subsidiary, and value embedded in each share of Vedanta due to HZL itself is almost 150% of price offered.

<table>
<thead>
<tr>
<th>Particulars as on 12th May 2020</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap of Hindustan Zinc (HZL)</td>
<td>₹ 75,971 Cr</td>
</tr>
<tr>
<td>Stake of Vedanta in HZL</td>
<td>64.92%</td>
</tr>
<tr>
<td>Value of the 64.92% stake</td>
<td>₹ 49,320 Cr</td>
</tr>
<tr>
<td>Outstanding Equity shares of Vedanta Ltd</td>
<td>372 Cr</td>
</tr>
<tr>
<td>Per value of Equity</td>
<td>₹ 132.68</td>
</tr>
</tbody>
</table>

Further, HZL has declared a dividend of ₹ 16.50 per equity shares, given that dividend distribution policy of Vedanta, giving 100% of dividend of HZL to shareholders, this dividend itself translates to roughly 12 per share of Vedanta. And it is highly unlikely given delisting offer that any dividend will be distributed, the offer price is effectively reduced to Rs 75/- share.

Therefore, if one looks at just one business alone, it appears that Vedanta minus HZL is valued at -Rs 44/ share (without taking dividend in account). And one must remember as Vedanta price is down, so is HZL, therefore it is double whammy for shareholders. Another question that needs to be asked and answered is whether HZL prices is a fair price? Is there liquidity?

**LIQUIDITY AND PRICE DISCOVERY IN HZL**

The free float of HZL is about 5% as 64.92% of HZL is held by Vedanta, another 29.54% is held by the Govt. of India. And many investors being long term, leaving only 5-6% of shares for trading. Out of 422 crore outstanding shares, NSE volume on 12th May 2020 was a shade less than a million shares, just 0.02% of total shares.

One is not sure whether the HZL shares qualify to be frequently traded or not? As per SEBI definition 10% of all issued shares must be traded in 52 weeks in any exchange, assuming 250 trading days, at this volume HZL will not qualify to be called frequently traded. Thus, raising another question whether market price is a proper discovered price?

**SHOULD HZL BE DE-SUBSIDIARISED BEFORE DELISTING VEDANTA?**

While SES refrains from stepping into shoes of management, the Board and promoters and does not suggest or prompts any decision, however in this particular case, as the difference is so glaring and investors must be treated fairly and not short charged, fair thing would be to evaluate another alternative? De-subsidiarise HZL and then make delisting offer for Vedanta minus HZL or both.

If HZL is demerged and shares held by Vedanta are distributed, for every share of Vedanta held, a shareholder will get 0.74 shares of HZL, valued at Rs 132, while keeping its Vedanta shares intact.
It will have following benefits:

- Investors will have choice to choose to remain invested in one, both or none.
- For ₹ 90 that they have for Vedanta share today they will have 1 Vedanta share + 0.74 shares of HZL.
- HZL will have tremendous opportunity of price discovery as shareholding pattern of HZL would change drastically

<table>
<thead>
<tr>
<th>HZL Shareholding Category</th>
<th>Present</th>
<th>Post De-subsidiarisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>VRL/Vedanta (Promoter)</td>
<td>64.92%</td>
<td>32.55%</td>
</tr>
<tr>
<td>GOI</td>
<td>29.58%</td>
<td>29.58%</td>
</tr>
<tr>
<td>Insurance Cos</td>
<td>2.15%</td>
<td>6.79%</td>
</tr>
<tr>
<td>MFs</td>
<td>0.41%</td>
<td>7.49%</td>
</tr>
<tr>
<td>FII/FPI/QIB</td>
<td>1.13%</td>
<td>14.12%</td>
</tr>
<tr>
<td>DII/Banks</td>
<td>0.03%</td>
<td>0.19%</td>
</tr>
<tr>
<td>Retail &amp; Others</td>
<td>1.78%</td>
<td>9.27%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Public, other than GOI would hold 38% shares in place of 5% shares held now, improving liquidity.

However, that would not suit Vedanta, as it would lose control of HZL which would be de-subsidiarised. And Promoters would hold only 32.55% shares. HZL is a cash cow for Vedanta and healthy dividends flow to Vedanta every year from HZL. Therefore, it is implied that there is a control related issue, hence there must be a premium for the same.

**Conclusion:**

While there is nothing wrong legally with the offer as it complies with respective regulations, SES is of the view that promoters are trying to take advantage of the present crisis, depressed prices and testing wisdom of harried investor who is wounded badly and nursing his losses of all asset classes except gold. The Promoters are obviously putting their money because they believe in business and future prospects. It is a great opportunity and right occasion for the board to live up to its duty and act in the interest of investors.
RESEARCH ANALYST: Varun Krishnan | J. N. Gupta

REPORT RELEASE DATE: 13th May, 2020

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

DISCLAIMER

While SES has made every effort and has exercised due skill, care and diligence in compiling this report based on publicly available information, it neither guarantees its accuracy, completeness or usefulness, nor assumes any liability whatsoever for any consequence from its use. This report does not have any approval, express or implied, from any authority, nor is it required to have such approval. The users are strongly advised to exercise due diligence while using this report.

This report in no manner constitutes an offer, solicitation or advice to buy or sell securities, nor solicits votes or proxies on behalf of any party. SES, which is a not-for-profit initiative or its staff, has no financial interest in the companies covered in this report except what is disclosed on its website.

The report is released in India and SES has ensured that it is in accordance with Indian laws. Person resident outside India shall ensure that laws in their country are not violated while using this report; SES shall not be responsible for any such violation.

This report may not be reproduced in any manner without the written permission of Stakeholders Empowerment Services.

All disputes subject to jurisdiction of High Court of Bombay, Mumbai

All rights reserved.