May 16, 2024

Vedanta Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short -term – Unallocated limits	1,000.00	[ICRA]AA- Rating Watch with Developing Implications /[ICRA]A1+ Rating Watch with Developing Implications; assigned
Total	1,000.00	

Instrument details are provided in Annexure-I

Rationale

The assigned ratings factor in the strong business risk profile of Vedanta Limited (VDL), driven by its diversified product portfolio, its large scale of operations with a healthy market share in the domestic aluminium and zinc businesses and the cost-efficient operations in the domestic zinc and oil and gas segments. In the aluminium business, the entity is in the process of enhancing the capacity of its alumina refineries, which along with the expected commencement of the captive coal/bauxite blocks over the next 2-3 quarters would impart cost efficiency and is likely to partially hedge the profits against the volatility in raw material prices. Once operationalised, VDL would be better placed to withstand shocks during the cyclical downturns. The share of value-added products is also likely to increase, supporting the operating margin. The overall operating profitability (OPM) remained steady at ~24.5% in FY2024 (~23.9% in FY2023) on the back of the improved cost of production and range-bound metal price movements. In FY2025, the cost structure, especially in the aluminium business, is expected to improve, driven by the backward integration projects, and will support the overall operating profits. Metal prices had rallied in April 2024; unless negatively impacted by Chinese demand and other key consuming economies, the price rally would support the earnings in FY2025.

The assigned ratings also factor in VDL's calibrated approach towards capital deployment with expected capital expenditure plans of ~Rs. 15,000-20,000 crore per annum, primarily towards improving the cost structure and volume growth. However, ICRA notes that significant cash flow support would be required from VDL to meet the debt servicing requirement of holding company Vedanta Resources Limited (VRL), constraining VDL's free cash flows to an extent. Also, while the liquidity management (LM) exercise in January 2024 has eased VRL's repayment obligations for the next two fiscals, the repayment remains sizeable at $900-1100 million and the cash flow deficit post VDL's support would require refinancing, thus exposing VRL to refinancing risks. However, the Group has taken steps to deleverage VRL's debt to ~$6.0 billion in FY2024 from ~$9.1 billion in FY2022, which ICRA believes is expected to reduce further in the near to medium term.

The overall leverage ratio (total debt to operating profits), inclusive of VRL's debt, remained high at around 3.6 times as on March 31, 2024, resulting in modest credit metrics, with adjusted interest coverage of ~2.2 times in FY2024. However, the improvement in earnings is likely to improve the leverage ratio to ~2.5-3.0 times in FY2025 and ~2.4-2.8 times in FY2026. VDL is also looking to divest its stake in non-core assets, which if materialised, is likely to accelerate the deleveraging plans of the entity. Any large debt-funded group-level capex impacting the leverage ratio and credit metrics and any stress at VRL's level impacting the financial flexibility of VDL would remain a key monitorable.

The ratings are also placed on watch with developing implications owing to the ongoing demerger of Vedanta Limited's (VDL) aluminium, oil and gas, power, base metal (zinc international and copper business) and iron and steel businesses into separate standalone listed entities, which is expected to be concluded by December 2024. ICRA will continue to monitor the development of the demerger process and the timelines involved and will take appropriate action, as required.

Key rating drivers and their description

Credit strengths

Expected improvement in earnings in FY2025, driven by volume growth, cost efficiencies and firm metal prices – At a consolidated level, VDL reported an operating income of Rs. 1,43,727 crore and OPBDITA of Rs. 35,198 crore in FY2024. The overall operating profitability (OPM) remained steady at ~24.5% in FY2024 (~23.9% in FY2023) on the back of improved cost of production and range-bound metal price movements. In FY2025, the expected improvement in the cost structure, primarily in the aluminium business, driven by backward-integration projects is likely to further support the overall operating profits. Metal prices had rallied in April 2024; unless negatively impacted by Chinese demand and other key consuming economies, the price rally would support the earnings in FY2025. The sales volume is expected to improve in the aluminium, zinc international and iron ore segments.

Diversified product profile with leading market share in domestic aluminium and zinc businesses – VDL has a diversified metals portfolio spanning zinc, silver, lead, aluminium, copper and nickel. The company also has healthy presence in oil and gas, ferrous metals including iron ore, and power IPP projects. The large scale of operations with a healthy market share in the domestic aluminium and the zinc businesses and the cost-efficient operations in the domestic zinc and oil and gas segments strengthen VDL's operating profile. In the aluminium business, the entity is in the process of enhancing its alumina refinery capacities (partially already commissioned in March 2024), which along with the expected commencement of the captive coal/bauxite blocks over the next 2-3 quarters would impart cost efficiency and is likely to partially hedge the profits against the volatility in raw material prices. Once operationalised, VDL would be better placed to withstand shocks during cyclical downturns.

Focus on increasing share of value-added products in sales mix and higher backward integration to support margins in the aluminium business – VDL is increasing the share of valued-added capacities in the aluminium segment to 2.6 mtpa from 1.5 mtpa in the current fiscal, which is expected to increase the product premium over London Metal Exchange (LME) prices, going forward. Moreover, the ongoing vertical integration would result in lower cost of production in the medium term, generating better OPBITDA/tonne in the segment. The zinc business is also supported by the low cost of production emanating from large high-quality mining reserves.

Favourable domestic demand scenario to support volume growth – ICRA expects growth in demand for non-ferrous metals (viz. zinc, aluminium and copper) to remain healthy at ~10% in FY2025. While domestic demand may face some headwinds due to lower Government spending around the General Elections in Q1 FY2025, the overall demand is expected to pick up from Q2 FY2025. The healthy demand is likely to support volume growth.

Credit challenges

High leverage (incl VRL debt) adversely impacts the credit metrics; likely to improve in FY2025 – The Group's (VRL and VDL) overall debt stood at ~$16.4 billion, including short-term debt, as on March 31, 2024. The overall leverage ratio remained high at around 3.6 times as on March 31, 2024, resulting in modest credit metrics, with adjusted interest coverage at ~2.2 times in FY2024. However, the improvement in earnings is likely to improve the leverage ratio, which is expected to remain at ~2.5-3.0 times in FY2025. VDL is also looking to divest its stake in non-core assets, which if materialised, is likely to accelerate the deleveraging plans of the entity. Any large debt-funded group-level capex impacting the leverage ratio and credit metrics and any stress at VRL level impacting the financial flexibility of VDL would remain the key monitorables.

Sizeable repayment obligations at VRL; exposed to refinancing risks despite liquidity management (LM) exercise - VRL's income largely comprises dividends and brand fee from VDL, which are used for principal and interest servicing. The company's LM exercise concluded in January 2024, wherein the maturities for three bonds were postponed along with increase in coupon rate and payment of consent fees to the bondholders. However, VRL's repayments continue to be sizeable in the upcoming fiscals. It has an annual interest plus principal repayment obligation of ~$1.7-1.8 billion in FY2025 and the cash flow deficit post

VDL's support would require refinancing, thus exposing it to refinancing risks. However, the Group has taken steps to deleverage VRL's debt to ~$6.0 billion in FY2024 from ~$9.7 billion in FY2022, which is expected to reduce further in the near to medium term.

Exposure to regulatory risks and inherent cyclicality in the metal industry – While VDL has demonstrated track record of presence in the metal and mining business, the company remains exposed to the industry wide risks pertaining to Government policies on land acquisition, environmental and forest clearance, etc that may adversely impact the company's operations in case of any adverse rulings. In addition, the company's operation is exposed to the cyclical characteristics inherent in volatile metal prices, which causes swings in profitability and cash flows and increases the business risks. Nonetheless, VDL's competitive cost position in most businesses, especially zinc, mitigates the risk to some extent.

Environmental and Social Risks

Vedanta has a dominant position in the metals and mining sector and has diversified its business risk profile with presence across multiple commodities, such as zinc, aluminium, oil and gas, and iron ore. This exposes VDL to the risks of strict regulations or investments in alternative, environment-friendly mining and smelting technologies. The metals and mining sector has a significant impact on the environment owing to its high greenhouse gas (GHG) emissions, waste generation and water consumption. This is because of the energy-intensive manufacturing process and its high dependence on natural resources such as coal. Nonetheless, the company aims to reduce the carbon emission intensity by 25% by 2030. They key other initiatives to address the environmental concerns include switching to renewable energy sources for power from conventional thermal power, committing to accelerate the adoption of hydrogen as a fuel and seeking to diversify into H2 fuel or related businesses.

Social risks for entities in mining and metals arise from the health and safety concerns of employees involved in the mining and manufacturing activities. Casualties/accidents at the operating units due to gaps in safety practices could lead to production outages and invite penal action from the regulatory bodies. The sector is also exposed to labour-related risks and risks of protests/social issues with local communities, which might impact expansion/modernisation plans. Also, the adverse impact of environmental pollution in nearby localities could trigger local criticism. Nonetheless, one of the key initiatives taken by the management to address such issues include implementing a critical risk management framework at all locations to eliminate any fatality.

Liquidity position: Adequate

VDL's liquidity position is adequate, with free cash and liquid investments of more than ~Rs. 13,600 crore as on March 31, 2024, excluding the unutilised fund-based limits. ICRA expects VDL's consolidated cash flow from operations as well as accumulated liquid cash and bank balances and planned debt addition to remain adequate to meet the capex requirement of ~Rs. 20,000 crore, repayment obligations of ~Rs. ~18,500 crore as well as the expected dividends in the current fiscal. However, the liquidity at VRL remained stretched. It is significantly dependent on the cash flow support from VDL to meet its debt servicing requirement and would also require refinancing.

Rating sensitivities

Positive factors – ICRA could upgrade VDL's long-term rating in case of a significant improvement in its free cash flows or divestment/monetisation of any asset, which would deleverage its balance sheet and result in a sustained improvement in the consolidated total debt to OPBDITA ratio (inc VRL debt).

Negative factors – Pressure on VDL's ratings could arise in case of a lower-than-anticipated improvement in earnings, resulting in a deterioration of the consolidated credit metrics and liquidity profile. Also, any large debt-funded capex adversely impacting the leverage and any stress at VRL's level impacting the financial flexibility of VDL would be a credit negative. A specific trigger for downgrade will be total debt/OPBDITA of above 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Non-Ferrous Metals (Primary Producers)](#) [Oil Exploration & Production](#) [Power - Thermal](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VDL, including entities as mentioned in the Annexure II. ICRA has also considered the total debt and financial expenses of Vedanta Resources Limited (Parent) to calculate the adjusted leverage and coverage metrics of VDL. ICRA understands that the interest and principal servicing of VRL's debt remains highly dependent on VDL's cash flows. ICRA also understands that there is no legal recourse to VDL with respect to VRL's debt obligations.

About the company

Vedanta Limited, VDL, incorporated in June 1965 by Mr. Anil Agarwal, is a subsidiary of Vedanta Resources Limited. It is headquartered in Mumbai, India. Vedanta has a diverse portfolio of assets among Indian and global companies involved in metals and minerals such as zinc, silver, lead, aluminium, copper, nickel; oil and gas. There is a traditional ferrous vertical including iron ore and steel and a power vertical comprising coal and renewable energy. The company is now foraying into the manufacturing of semiconductors and display glass. The Group is among the largest producers in aluminium and zinc segments, commanding a strong market position in India.

Key financial indicators (audited)

VDL Consolidated	FY2022	FY2023	FY2024
Operating income	132,977	147,581	143,727
PAT	23,709	14,506	7,537
OPBDIT/OI	34.0%	23.9%	24.5%
PAT/OI	17.8%	9.8%	5.2%
Total outside liabilities/Tangible net worth (times)	1.3	2.8	3.5
Total debt/OPBDIT (times)	1.4	2.3	2.5
Adjusted Total debt/OPBDIT (times)	2.8	3.8	3.6
Interest coverage (times)	9.4	5.7	3.7
Adjusted Interest coverage (times)	4.5	2.9	2.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore ;PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Adjusted total debt includes VRL's debt and adjusted interest includes VRL's financial expenses

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of May 16, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 16, 2024	-	-	-
1	**Unallocated limits**	Long term and short term	1,000.00	--	**[ICRA]AA- Rating watch with developing implications /[ICRA]A1+ Rating watch with developing implications**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short -term – Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term – Unallocated limits	NA	NA	NA	1,000.00	[ICRA]AA- Rating Watch with Developing Implications /[ICRA]A1+ Rating Watch with Developing Implications

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Name	% of Shareholding	Consolidation Approach
Thalanga Copper Mines Pty Limited (TCM)	100.00%	Full Consolidation
Bharat Aluminium Company Limited (Balco)	51.00%	Full Consolidation
Desai Cement Company Private Limited	100.00%	Full Consolidation
ESL Steel Limited	95.49%	Full Consolidation
Ferro Alloy Corporation Limited (Facor)	99.99%	Full Consolidation
Hindustan Zinc Alloys Private Limited	64.92%*	Full Consolidation
Hindustan Zinc Fertilizers Private Limited	64.92%*	Full Consolidation
Hindustan Zinc Limited (Hzl)	64.92%	Full Consolidation
MALCO Energy Limited (Mel)	100.00%	Full Consolidation
Vedanta Zinc Football & Sports Foundation	64.92%*	Full Consolidation
Hindmetal Exploration Services Private Limited	64.92%*	Full Consolidation
Sesa Mining Corporation Limited	100.00%	Full Consolidation
Sesa Resources Limited (SRL)	100.00%	Full Consolidation
Talwandi Sabo Power Limited (TSPL)	100.00%	Full Consolidation
Vizag General Cargo Berth Private Limited	100.00%	Full Consolidation
Zinc India Foundation	64.92%*	Full Consolidation
AvanStrate Inc (ASI)	51.63%	Full Consolidation
Cairn India Holdings Limited	100.00%	Full Consolidation
AvanStrate Taiwan Inc.	100.00%	Full Consolidation
Western Cluster Limited	100.00%	Full Consolidation
Bloom Fountain Limited	100.00%	Full Consolidation
Amica Guesthouse (Proprietary) Limited	100.00%	Full Consolidation
Namzinc (Proprietary) Limited	100.00%	Full Consolidation
Skorpion Mining Company Proprietary Limited (Nz)	100.00%	Full Consolidation
Skorpion Zinc Proprietary Limited (Szpl)	100.00%	Full Consolidation
THL Zinc Namibia Holdings (Proprietary) Limited (VNHL)	100.00%	Full Consolidation
Killoran Lisheen Mining Limited	100.00%	Full Consolidation
Lisheen Milling Limited	100.00%	Full Consolidation
Lisheen Mine Partnership	100.00%	Full Consolidation
Vedanta Lisheen Mining Limited	100.00%	Full Consolidation
Cairn Energy Hydrocarbons Limited	100.00%	Full Consolidation
Black Mountain Mining (Proprietary) Limited	74.00%	Full Consolidation
AvanStrate Korea Inc	100.00%	Full Consolidation
Monte Cello BV (MCBV)	100.00%	Full Consolidation
THL Zinc Holding BV	100.00%	Full Consolidation
Vedanta Lisheen Holdings Limited	100.00%	Full Consolidation
Fujairah Gold FZC	100.00%	Full Consolidation
Gaurav Overseas Private Limited	50.00%	Equity Method
Madanpur South Coal Company Limited	17.60%	Equity Method

Name	% of Shareholding	Consolidation Approach
Goa Maritime Private Limited	50.00%	Equity Method
Rosh Pinah Health Care (Proprietary) Limited	69.00%	Full Consolidation
Gergarub Exploration And Mining (Pty) Limited	51.00%	Full Consolidation
Roshskor Township (Pty) Limited	50.00%	Equity Method
THL Zinc Ventures Limited	100.00%	Full Consolidation
THL Zinc Limited	100.00%	Full Consolidation
Sesa Iron & Steel Limited	100.00%	Full Consolidation
Vedanta Displays Limited	100.00%	Full Consolidation
Vedanta Aluminium Metal Limited	100.00%	Full Consolidation
Vedanta Base Metals Limited	100.00%	Full Consolidation
Vedanta Iron and Steel Limited	100.00%	Full Consolidation
Vedanta Semiconductors Private Limited	100.00%	Full Consolidation
Vedanta Copper International VCI Company Limited	100.00%	Full Consolidation
Meenakshi Energy Limited	100.00%	Full Consolidation

**Wholly owned subsidiary of Hindustan Zinc Limited*

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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