September 04, 2024

Vedanta Limited: Long-term rating upgraded; ratings continues on Rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Unallocated limits	1,847.00	1,847.00	[ICRA]AA rating watch with developing implications; upgraded from [ICRA]AA-/ [ICRA]A1+ rating watch with developing implications; continue on rating watch with developing implications
Long term – Fund based – Term loan	1,653.00	1,653.00	[ICRA]AA rating watch with developing implications; upgraded from [ICRA]AA- and continues on rating watch with developing implications
Commercial paper	2,500.00	2,500.00	[ICRA]A1+ rating watch with developing implications; continues on rating watch with developing implications
Total	**6,000.00**	**6,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating upgrade considers an expected improvement in Vedanta Limited's (VDL) credit metrics, following the successful fund-raising worth ~$1 billion by the company via a qualified institutional placement (QIP) in July 2024 and an additional ~$400 million generated from the offer for sale (OFS) of Hindustan Zinc Limited (HZL) in August 2024. These funds are expected to be primarily allocated towards deleveraging, which will also lower the overall interest expenses for the entity. Further, the $500 million raised by Vedanta Resources Limited (VRL) through a stake sale in VDL in July 2024 will help reduce the Group's overall debt burden. Consequently, the overall group leverage (total debt/OPBDITA) is anticipated to decline to ~2.3-2.5 times in FY2025 and FY2026, from 3.6 times reported in FY2024, substantially strengthening the entity's credit profile. The interest coverage is also expected to improve to ~3.5-4.0 times in FY2025 and FY2026 from 2.2 times in FY2024. Additionally, VRL is looking to refinance a substantial portion of its outstanding bonds to lower the consolidated entity's interest costs further. All the deleveraging efforts are expected to improve the overall financial flexibility of the Group.

The rating action also factors in the better-than-expected performance in Q1 FY2025 on the back of better realisation and low cost of operations in its key businesses, aluminium and zinc, which together contributed over 80% to the consolidated OPBITDA in FY2024 and Q1 FY2025. In Q1 FY2025, the company reported a healthy OPBITDA of ~Rs. 10,275 crore vis-à-vis ~Rs. 6.975 crore in Q1 FY2024. The entity is expected to report an OPBITDA of ~Rs. 48,000-49,000 crore (including brand fees) in FY2025 on expectation of healthy realisation in the near term and VDL's sustained cost reduction initiatives across segments. Further, the full ramp-up of the enhanced alumina refineries capacities and the expected commencement of the captive coal/bauxite blocks in the near term would impart cost efficiency and is likely to partially hedge the profits in the medium term against the volatility in commodity prices. Once operationalised, VDL would be better placed to withstand the shocks during the cyclical downturns. The share of value-added products is also likely to increase, supporting the operating margins.

The ratings continue to reflect the strong business risk profile of Vedanta, 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. The assigned ratings also factor in VDL's calibrated approach towards capital deployment with expected capital expenditure plans of ~Rs. 15,000-16,000 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 VRL, thus constraining VDL's free cash flows to an extent.

While in the current year, the repayment obligations have been addressed through the fund raised from the stake sale in VDL and likely higher dividend outflow by the latter, the repayment remains sizeable at ~800 million in FY2026 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 long-term debt, expected at ~$4.6 billion in FY2025 from ~$9.1 billion in FY2022, which ICRA believes is expected to reduce further in the medium term. Further, the recent efforts to refinance the high-cost bonds would mitigate the refinancing risk to an extent. Nonetheless, any stress at VRL's level impacting the financial flexibility of VDL would remain a key monitorable. The ratings are also constrained by the susceptibility to volatility in commodity prices and regulatory risk.

The ratings continue to remain 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.

ICRA also notes the recent ruling, wherein the Supreme Court of India upheld the state governments' power to tax mineral rights and mineral-bearing lands under Entries 49 and 50 of List II in the Constitution's Seventh Schedul and gave states the discretion to decide on the retrospective application of the tax. However, any tax demand will not impact transactions conducted before April 1, 2005. In case of retrospective tax demand, the payments will be spread over 12 years, starting from April 1, 2026. While the impact on Vedanta Limited would be limited as the entity does not have major mining operation in VDL, the Hindustan Zinc business might feel the heat due to its mining operation in Rajasthan. This will continue to be a key monitoring event for the entity.

Key rating drivers and their description

Credit strengths

Significant improvement in credit metrics post deleveraging expected in FY2025; credit profile to improve further in FY2026 - On the back of the recent developments, including the successful fund-raising worth ~$ 1 billion by the company via a QIP in July 2024 and an additional ~$400 million generated from Hindustan Zinc Limited's OFS in August 2024, the overall group leverage and coverage metrics is expected to improve in FY2025 and beyond. ICRA anticipates the Group's leverage (total debt/OPBDITA) to decline to ~2.3-2.5 times in FY2025 and FY2026, from 3.6 times reported in FY2024, substantially strengthening the entity's credit profile. The interest coverage is also expected to improve to ~3.5-4.0 times in FY2025 and FY2026 from 2.2 times in FY2024. Additionally, VRL is actively pursuing to refinance a substantial portion of its outstanding bonds, aiming to lower the consolidated entity's interest costs further. All the deleveraging efforts are also expected to improve the overall financial flexibility of the Group.

Expected improvement in earnings in FY2025 driven by volume growth and cost efficiencies along with higher 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. The entity is expected to report an OPBITDA of ~Rs. 48,000-49,000 crore (including brand fees) in FY2025 on expectation of healthy realisation in the near term at least and VDL's sustained cost reduction initiatives across segments. Further, a full ramp-up of the enhanced alumina refineries capacities and the expected commencement of the captive coal/bauxite blocks in the the near term would impart cost efficiency and is likely to partially hedge the profits in the medium term against the volatility in commodity prices.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 business - 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 enhancing its alumina refinery and has taken other cost reduction initiatives through captive coal/bauxite blocks, which would further strengthen its operational profile. Once operationalised, VDL would be better placed to withstand the 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 a 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 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. The healthy demand is likely to support volume growth.

Credit challenges

Exposure to price risks and inherent cyclicality in metal industry - While VDL has a demonstrated track record in the metal and mining business, 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.

Exposure to regulatory risks – With its 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 its operations in case of any adverse rulings. Nonetheless, a demonstrated track record of presence in the metal and mining business over the last few decades mitigates the risk to some extent.

Sizeable repayment obligations in the medium term expose VRL to refinancing risks - 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 the increase in coupon rate and payment of consent fees to the bondholders. However, VRL's repayments continue to be sizeable in the upcoming fiscals. While, the current year repayment obligations have been addressed through the fund raised from the stake sale in VDL and the likely higher dividend outflow by VDL, the repayment remains sizeable at ~800 million in FY2026 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 long-term debt, expected at ~$4.6 billion in FY2025 from ~$9.1 billion in FY2022, which ICRA believes is expected to reduce further in the medium term. Further, the recent efforts to refinance the high-cost bonds would mitigate the refinancing risk to an 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 and necessitates investments in alternative, environment-friendly mining, smelting technologies. The metals and mining sector has a significant impact on the environment owing to 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.

Social risks for entities in mining and metals manifest from the health and safety aspects of employees involved in mining and manufacturing activities. Casualties/accidents at operating units due to gaps in safety practices could lead to production outages and invite penal action from regulatory bodies. The sector is exposed to labour-related risks and the 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.

Liquidity position: Adequate

VDL's liquidity position is expected to remain adequate, with free cash and liquid investments of ~Rs. 24,900 crore as on July 31, 2024, excluding the unutilised fund-based limits. ICRA expects VDL's consolidated cash flow from operations, accumulated liquid cash and bank balances and additional liquidity from the recent developments to remain adequate to meet the capex requirement of ~Rs. 15,0000-20,000 crore and the company's planned prepayments/repayment obligations. Further, while the expected dividend inflows at VRL and the additional liquidity from VDL's stake sale will remain adequate to meet the debt servicing obligations in the current fiscal, the liquidity at VRL remains stretched in the medium term, given the sizeable repayments in FY2026 and FY2027. It will continue to depend on the cash flow support from VDL to meet its debt servicing requirement and may also require refinancing in the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade VDL's long-term rating if the company is able to achieve a significant growth in earnings and cash flows, which leads to further deleveraging of the balance sheet and result in a sustained improvement in the consolidated total debt/OPBDITA (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 credit negatives. A specific trigger for downgrade would be total debt/OPBDITA (inc. VRL debt) of above 3.0 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 the entities 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 comprising 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	FY2023	FY2024	Q1 FY2025*
Operating income	147,581	143,727	35,764
PAT	14,506	7,537	5,095
OPBDIT/OI	23.9%	24.5%	27.8%
PAT/OI	9.8%	5.2%	14.3%
Total outside liabilities/Tangible net worth (times)	2.8	3.5	--
Total debt/OPBDIT (times)	2.3	2.5	--
Interest coverage (times)	5.7	3.7	4.5

*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 *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	Sep 04, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Unallocated limits	Long term/Short term	1,847.00	[ICRA]AA rating watch with developing implications/ [ICRA]A1+ rating watch with developing implications	Aug 26, 2024	[ICRA]AA- rating watch with developing implications/ [ICRA]A1+ rating watch with developing implications	-	-	-	-	-	-
				May 30, 2024	[ICRA]AA- rating watch with developing implications/ [ICRA]A1+ rating watch with developing implications	-	-	-	-	-	-
				May 16, 2024	[ICRA]AA- rating watch with developing implications/ [ICRA]A1+ rating watch with developing implications	-	-	-	-	-	-
Term loan	Long term	1,653.00	[ICRA]AA rating watch with developing implications	Aug 26, 2024	[ICRA]AA- rating watch with developing implications	-	-	-	-	-	-

				May 30, 2024	[ICRA]AA- rating watch with developing implications	-	-	-	-	-	-
Commercial paper	Short term	2,500.00	[ICRA]A1+ rating watch with developing implications	Aug 26, 2024	[ICRA]A1+ rating watch with developing implications	-	-	-	-	-	-
				May 30, 2024	[ICRA]A1+ rating watch with developing implications	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Unallocated limits	Not Applicable
Long term – Fund-based – Term loan	Simple
Commercial paper	Very Simple

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	FY2024	1,847.00	[ICRA]AA Rating Watch with Developing Implications/ [ICRA]A1+ Rating Watch with Developing Implications
NA	Long term – Fund-based – Term loan	NA	NA	Up to FY2032	1,653.00	[ICRA]AA Rating Watch with Developing Implications
Yet to be placed	Commercial paper	NA	NA	FY2026	2,500.00	[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

Name	% of Shareholding	Consolidation Approach
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
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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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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