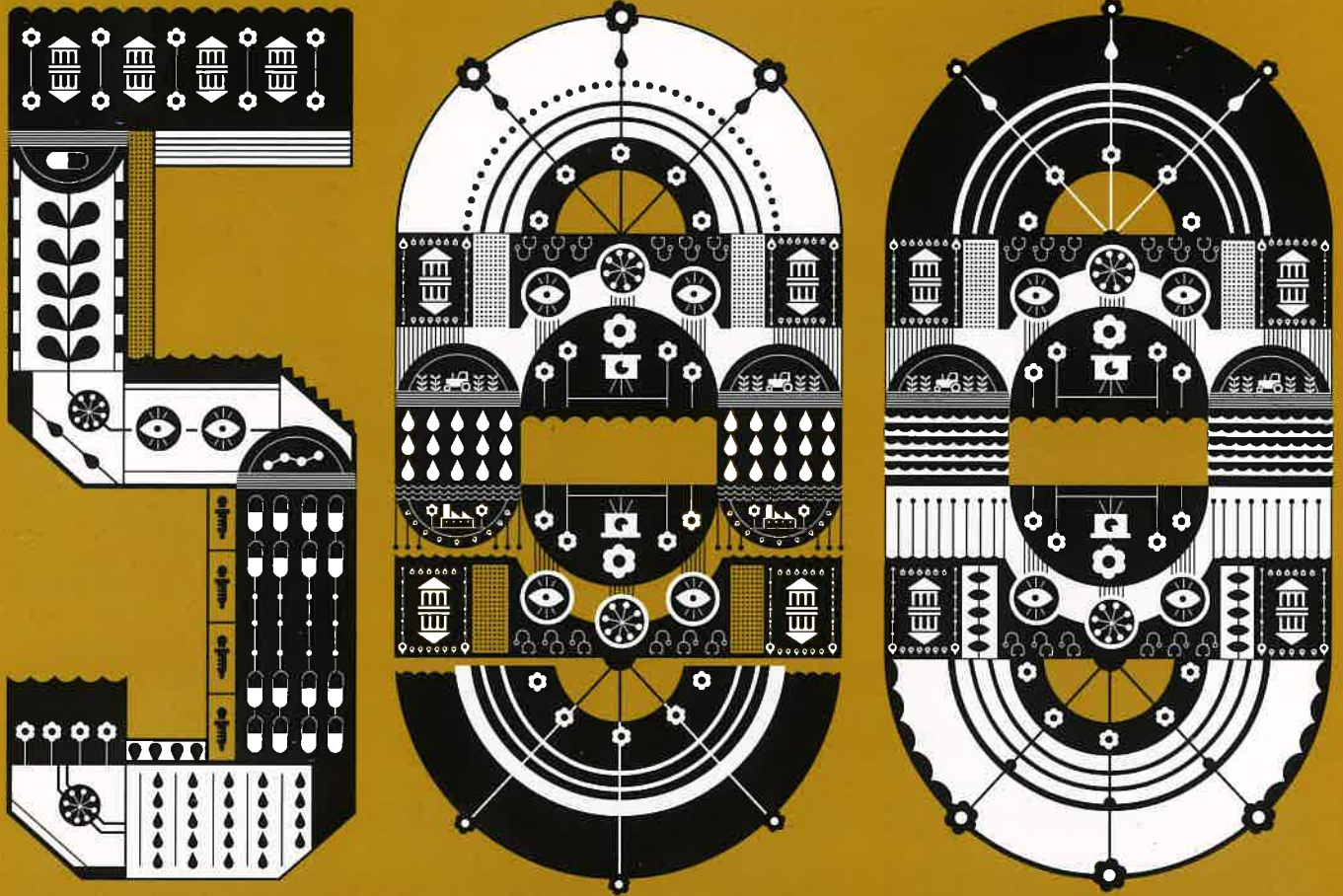


SPECIAL QUARTERLY ISSUE

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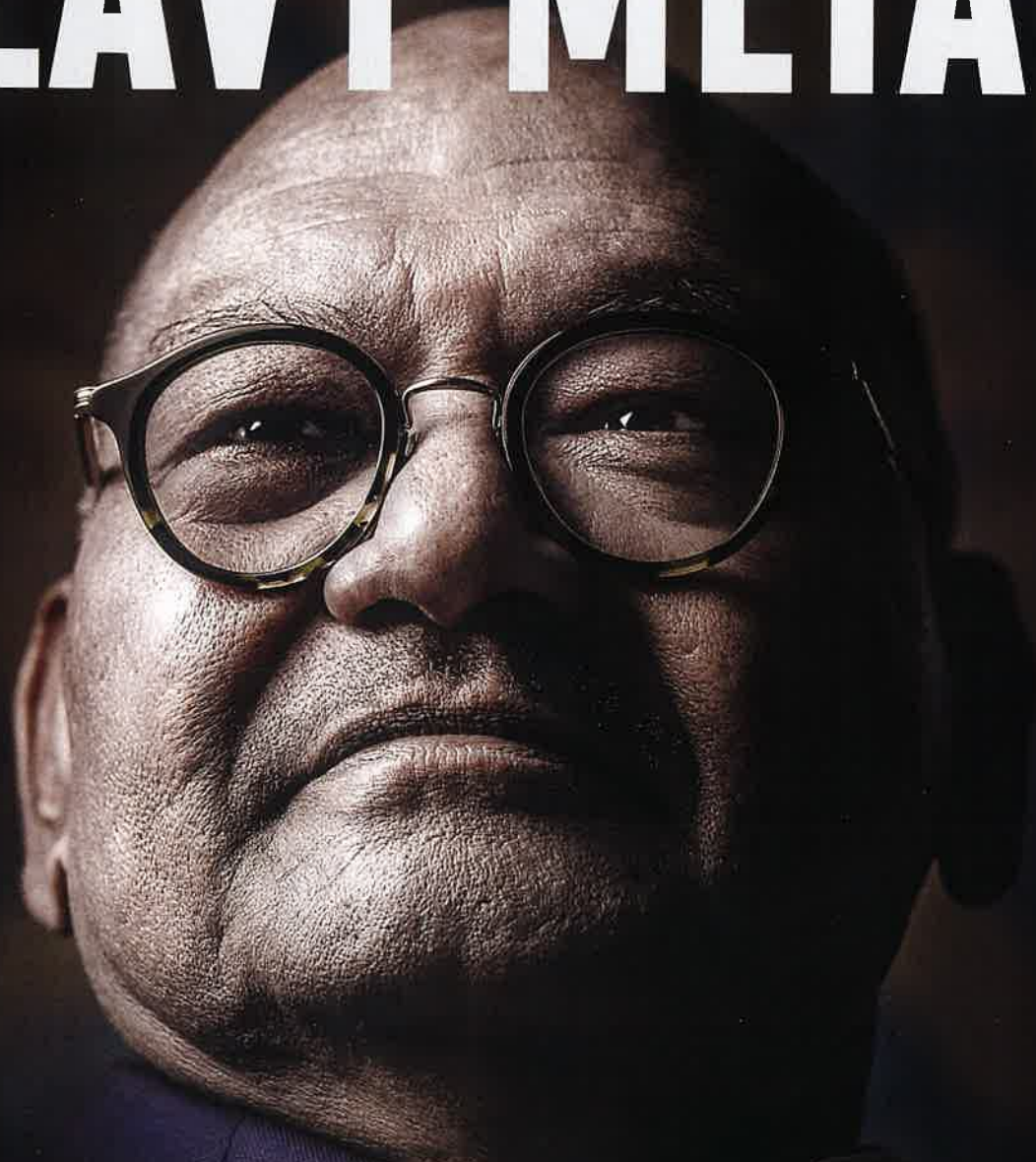
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# HEAVY METAL



**WHY VEDANTA'S ANIL AGARWAL IS  
A TURNAROUND ARTIST**

P.60





# IF THE CAPE FITS

Vedanta Resources chairman Anil Agarwal's superpower is resuscitation. He has 10 examples to prove it.

BY ASHISH GUPTA  
PHOTOGRAPHS BY NARENDRA BISHT

RANK  
**18**  
[15] ▼

2019 COMPANY  
PROFILE  
**VEDANTA**

REVENUE  
₹96,314  
CRORE

PROFIT  
₹7,065  
CRORE

NET WORTH  
₹62,297  
CRORE

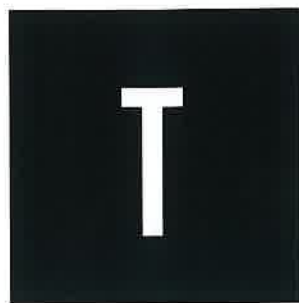
EMPLOYEE COST  
₹3,023  
CRORE

KEY  
★ NEW  
● NO CHANGE  
▲ MOVED UP  
▼ MOVED DOWN

THE NUMBER IN  
BRACKETS DENOTES  
LAST YEAR'S RANK

Deep inside Vedanta's mine at Sindesar Khurd in Rajasthan.





**THE 130 KM-LONG TUNNEL**, around 1.5 km below the earth's surface, does not make for an easy ride. (Tolkein fans, picture the Mines of Moria. That gloomy.) Think dark, bumpy, and damp; also narrow—5.5 metres wide and 5 metres high—with sharp inclines and turns. The road is lit with small low-powered bulbs, and sprinkled with 140 kilolitres of water daily to keep the swirling dust down. A sense of claustrophobia is inevitable.

But the pots of zinc at journey's end make the schlep to the Sindesar Khurd (SK) mine in Rajpura Dariba, a two-hour drive from Udaipur in Rajasthan, a business necessity. Among India's most modern and richest zinc-, lead-, and silver mines, SK is part of Hindustan Zinc Ltd (HZL), a Vedanta group company since 2002 after it bought 65% of the then public sector entity.

A constant flow of 50-, 63-, and 65-tonne trucks plies the tunnel, taking the ore to the mill for cleaning and then to the smelter to separate metal from impurities: Each tonne contains 2.3% lead, 3.99% zinc and 170 parts per million of silver. Vedanta, which restarted the mine in 2007 after a two-year hiatus, was extracting 4.5 million tonnes of ore as of FY19, with a target of 8 million tonnes by 2021. "The earlier management [the government], which was extracting one million tonnes a year, mostly through open-cast or surface mines, had actually closed the mine saying extraction had become unviable," recalls Sunil Duggal, CEO, HZL, and also the vice president of the International Zinc Association.

But the deeper they dig, says Duggal, an electrical engineer from the Thapar Institute of Engineering and Technology, Punjab, the better quality they find—essentially, ore with a higher concentration of silver. "Perhaps God wanted us to dig

deeper. That's the only explanation that I can offer," he says.

The SK mine turnaround is on-brand for the Vedanta group, which has a track record of resurrecting, or at least stabilising, loss-making companies—both in the public and private sectors. "The 10 companies that I have acquired in the past 13 years are all doing relatively well," says Anil Agarwal, the 65-year-old founder and chairman of Vedanta Resources. "And we did it by trusting the existing management and only appointing one or two persons to the board. That gamble has paid off."

Agarwal's been wearing his rescue cape since 1994, with the takeover of Madras Aluminium Company (Malco). The state-owned aluminium producer had been closed for four years—and was under the Board for Industrial and Financial Reconstruction (BIFR)—when his Sterlite Industries stepped in. "The then chief minister of Tamil Nadu, the late J. Jayalalithaa, asked me to take over, since she was facing a lot of pressure to restart the company," remembers Agarwal. It was converted into a copper smelter, making it the first private player to produce copper in India. (Public sector Hindustan Copper was the only other copper producer at the time.)

A few years later, the announcement of the disinvestment process by then Prime Minister Atal Bihari Vajpayee's National Democratic Alliance threw open more opportunities for Agarwal, including his acquisition of 51% in Bharat Aluminium Company (Balco) in 2001; next year, he bought his stake in HZL. Both companies were considered to be inefficient in the mining space. As was Sesa Goa Ltd, India's largest producer-exporter of iron ore, in which Vedanta Resources acquired a controlling stake in 2007.

Vedanta Resources, in fact, incorporated with a listing on the London Stock Exchange in 2003 (but delisted in 2018), is considered a game-changer by Agarwal. He believes that his investments in India would not have been possible without the low-cost funds it raised from the international markets. The group's flagship in India is Vedanta Ltd, which is No. 18 on the *Fortune India* 500 list this year. Vedanta Ltd is the result of a merger between Sterlite Industries and Sesa Goa; it holds controlling stakes in the group's other listed and unlisted entities in India. Today, Agarwal is battle-ready with a war chest of ₹60,000 crore for investment over the next two years. "Of this, ₹25,000 crore will be invested in oil and gas, ₹15,000 crore in aluminium, around ₹10,000 crore in zinc, and ₹2,000 crore in steel." He also plans to put ₹3,000 crore-₹4,000 crore into the beleaguered copper smelter plant of



Sterlite Copper (a Vedanta subsidiary) in Tamil Nadu, which has been closed since May 2018 after 13 residents of the Thoothukudi district were killed during a police shooting incident; they had been protesting against the air and water pollution caused by the plant.

This event, which Agarwal calls "very unfortunate", struck a discordant note in his attempts to build a credible, eco-friendly legacy after a string of controversies in the past. Back in 2013, Vedanta was mired in a conflict over its plan to mine bauxite in the Niyamgiri hills in Odisha; it lost the battle after protests from the Dongria Kondh tribe, which considers the hill sacred. Again, when Vedanta Resources listed in London in 2003, an environmental group called Foil Vedanta held demonstrations outside its annual meetings in the British capital.

The group, says Ajay Kapur, CEO of Vedan-

**Vedanta Resources founder Anil Agarwal is focussed on consolidation. While there are no deals brewing, he has an eye open for new opportunities.**

ta's aluminium and power business, has learnt from its tumultuous past and is more sensitive to the needs and feelings of locals. In 2019, a group-level team was further strengthened to oversee issues of corporate social responsibility, sustainability, and governance. "We have set up a committee to resolve issues on-site. We are also actively working on issues of gender diversity and [aiming to] provide indirect employment to nearly a million," says Kapur. This shift in thinking also explains Agarwal's emphasis on the environment. "Whatever we do, whatever we produce, we must reduce our carbon footprint. We must also remove the age-old tag attached to the metal and mining companies as being the biggest polluters of the environment," says Agarwal. That will entail reducing greenhouse emissions, conserving the use of water and chemicals, and improving water recycling from the current 40% to 90%.



HZL wants to become the biggest underground natural resources player in India but by building a sustainable business model. This will entail increasing the mine's life from the current seven to 25 years, while extracting more from it. By 2024, it aims to up zinc production from the current one million to 1.5 million tonnes, silver from 680 tonnes to 1,500 tonnes, while bringing down the overall cost by 10% to 15%, thereby ensuring greater profitability. "We also want to raise the current ore-to-metal ratio from 75% to 90% through improvements in the value chain, as well as extract every ounce of every metal, like cadmium, manganese, gold, and mercury, present in the ore so that nothing is wasted," says Duggal.

A new approach, better technology, streamlined work culture, and the employment of more experts from mining-rich countries like Australia, Canada, and South Africa have contributed to the SK turnaround. Challenges persist, however, in getting a skilled workforce to operate the high-tech machinery at the mine. The syllabi of even a top college like the Indian School of Mines, Dhanbad, is sadly out of sync with ground requirements, rues Duggal. "There is a lack of experiential learning that is so important in the tech-driven mining of today," he says.

The wins, regardless, have kept coming for Vedanta.

**A** RECENT ADDITION to the group's turnaround credentials is the revival of a steel firm languishing in the National Company Law Tribunal (NCLT) after being declared bankrupt. Vedanta bought Electrosteel Steels in June 2018 (for ₹5,320 crore—₹3,400 crore in debt and ₹1,900 crore in equity); its revival, a mere one year later, is a remarkable feat for any company, more so for one that has never been in the manufacturing space.

The 1.5 million-tonne Bokaro-based steel player had been available to Vedanta at a low price because banks and financial institutions had agreed to a 65% haircut on their loans. "We acquired the company because it was one of the first steel companies to be put on the block and was into long products, which are used in construction and infrastructure projects," says Pan-kaj Malhan, who joined Electrosteel Steels two months after the takeover and was recently elevated as CEO. Long products include reinforce-

ment bars and ductile iron spun pipes, used in the construction and the water and sewage industries. "These... the country will need for a long time," says Malhan.

Agarwal's decision to take on the distressed asset was strategic on another front too. Jharkhand, where both its iron ore facility and Electrosteel Steels are based, would grant Vedanta permits to up its iron ore production on the condition that it adds value to the ore for use within the state, rather than merely exporting it to other regions. "Electrosteel Steels was a great opportunity in terms of value addition and we grabbed it with both hands," says Agarwal.

Moreover, there is also a clear need to bridge the 160-million-tonne gap in steel by 2030 to meet the government's 300-million-tonne target. The company wants to double capacity to three million tonnes by investing ₹4,000 crore-₹5,000 crore over the next couple of years, with a medium-term goal of 10 million tonnes. "We want to be among the top three-five steel players in the country by expanding the existing Bokaro capacity to six million tonnes per annum and adding another four million tonnes from either greenfield projects or acquisitions," adds Malhan.

To that end, "sweating the assets"—or getting the most out of existing ones while reducing costs—has become the mantra within the company. "By blending different varieties of iron ore and coking coal—the two major raw materials for steel—and introducing the right processes, we were able to bring down the cost structure from \$511 per tonne in the first quarter of FY19 to \$420 per tonne in the fourth," says Jalaj Kumar Malpani, chief financial officer, Electrosteel Steels. (In keeping with Agarwal's approach, after the takeover,

#### BUY. FIX. REPEAT

Some of Vedanta's successful buys

	At the time of acquisition (₹ cr)	FY19 (₹ cr)	% increase
<b>BALCO (2001)</b>			
Ebitda	166	1,227	639%
Revenue	979	10,112	937%
<b>HZL (2003)</b>			
Ebitda	306	10,746	3,364%
Revenue	1,649	20,834	1153%
<b>CAIRN (2011)</b>			
Ebitda	3,505	7,650	118.4%
Revenue	8,625	13,223	53.3%
<b>ELECTROSTEEL STEELS (2018)</b>			
Ebitda	353	970	174.8%
Revenue	3,594	4,909	36.6%

SOURCE: VEDANTA

only five new people, like the CEO and CFO, were brought in; apart from a few who decided to quit, the rest 7,000 or so have stayed on.)

Improved efficiency across the entire value chain is producing the desired results. For instance, the steel melting shop, which converts hot metals into liquid steel, saw its production go up from 78 kilo-tonnes to 100 kilo-tonnes under the new management. "Even half a percentage increase in yield," says Malhan, "adds ₹2.5 crore to the bottom line of the company." Similarly, the plant load factor (PLF) of the factory went up from 84.5% to 88.33% and that of the rolling mill from 94.5% to 97.23%.

Logistics have been relooked at too. Realising that transporting raw materials and finished goods through railway networks was becoming a challenge, "for the first time in the history of the company, goods were transported in trucks", says Malhan. Another innovation was to use waste scrap from the mill to fire the melting plant, which brought costs down by 3%-4%.

In order to boost the morale of existing workers, not only were salaries paid on time—a novel experience for many—a variable pay component was also announced. Communication lines were opened between workers and management to discuss productivity as well as health and safety issues of workers. Top management decisions were shared on chat groups, creating greater transparency.

The proof of change is in the numbers: Ebitda per tonne is up to \$130-\$140 (FY19) as against \$65 at the time of acquisition.

Pumping oxygen into metal is one thing. Appreciating its relevance in the larger context is another. Agarwal can do both. He was early to see the value in aluminium, "the metal of the future", used in a range of ubiquitous products such as railway wagons, lift doors, windows, electric cars, wheel alloys, aircraft, and satellites. "It can change the world and we in India are fortunate to have some of the biggest bauxite mines in the world," says Agarwal.

This confidence was underlined by Sterlite Industries' 2001 acquisition of Balco, after which the plant's capacity has increased five-fold from 100,000 tonnes to 575,000 tonnes per annum; its power plant capacity is up 20 times from 27 MW to 2,010 MW; and its valuation has risen to nearly ₹10,000 crore from ₹1,000 crore. Today, Vedanta produces 2.3 mil-



**AJAY KUMAR DIXIT**  
CHIEF EXECUTIVE OFFICER, OIL AND GAS BUSINESS

**We are already the second-largest producer of crude in the country and perhaps very soon we will be the second largest producer of gas too.**



**AJAY KAPUR**  
CHIEF EXECUTIVE OFFICER, ALUMINIUM & POWER BUSINESS

**We have set up a committee to resolve issues on-site. We are also actively working on issues of gender diversity and [aiming to] provide indirect employment to nearly a million.**

lion tonnes of aluminium—0.57 million tonnes from Balco and 1.75 million tonnes from its greenfield Jharsuguda project in Odisha. The Balco plant is running at full capacity powered by its own captive bauxite mines in Odisha and aided by the introduction of the latest technologies in boilers and turbines, among others.

Putting his money where his vision is, Agarwal plans to invest up to ₹15,000 crore in the aluminium business over the next three years. "This money will be used to expand Balco's capacity to two million tonnes and that of the Lanjigarh refinery in Odisha to four million tonnes from its current two million tonnes," says Kapur, who was earlier the CEO and MD of Ambuja Cement.

Producing aluminium, unlike many other materials, is power intensive and expensive: One tonne requires 14,000 units of power, compared to just 70 to 80 units for one tonne of cement. (Recently, the company acquired the Chotia coal mine in Chhattisgarh for its power plant.) All told, it costs \$5 billion, or ₹35,000 crore, to manufacture a million tonnes of aluminium, says Kapur. Not surprisingly, there are only three players in the country today: Public sector National Aluminium Company, Aditya Birla Group's Hindalco, and Vedanta. The latter, in fact, accounts for more than half of India's total aluminium capacity of 4 million tonnes. That number for China is 35 million tonnes, commensurate with its over 10,000 kg per capita consumption compared to India's 2,000 kg. Hit by the general economic slowdown, in the second quarter of FY20, Vedanta posted an Ebitda of ₹4,420 crore, down 15% year-on-year. The fall in operational profit was on account of an Ebitda loss in the aluminium division and a plunge in the performance in the steel division.

Yet Kapur remains optimistic about the metal's future: Aluminium consumption will rise at a sedate 7% to 8% in the next seven to eight years, he says, but once India's per capita income touches \$10,000, he expects a 15% growth.

**H** IS COLLEAGUE AND THE CEO of Vedanta's oil and gas business, however, is hard-pressed to show similar positivity. For Ajay Kumar Dixit, fulfilling his boss's mandate is proving to be an increasingly arduous task. After his takeover of



58.5% of Cairn India in December 2011 for \$8.67 billion, Agarwal had stated his company's goal of producing 50% of India's domestic crude consumption. (India's total crude production in FY19 was 34.2 million tonnes; one-fourth of it came from Cairn India.)

But Dixit faces complicated obstacles. The ageing and declining oilfields of Mangala, Bhagyam, and Aishwariya in Rajasthan, for instance, have an annual 15% dip in output while new sources are rare discoveries. "We have to keep producing more and more oil and gas just to maintain the existing levels because of continuous depletion of these fields," says Dixit, "since the essence of greater oil production is speed, technology, and safety."

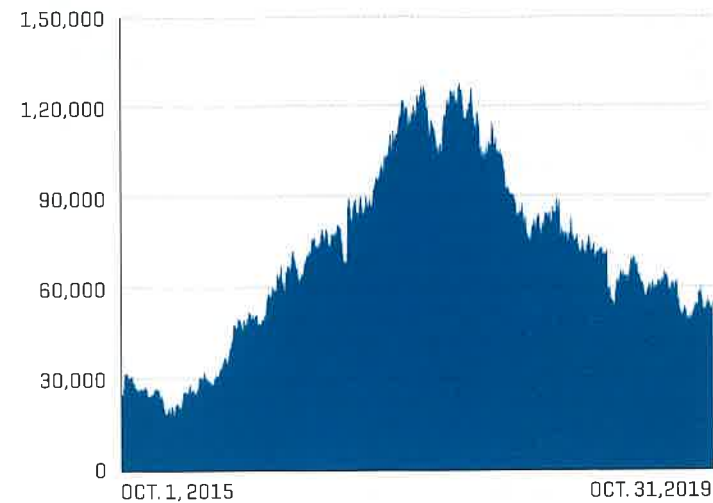
The 50% production mark is possible if the company is allowed "self-certification" in terms of investments in exploration and production, he says, rather than long waits for appraisal and regulatory clearance. Any loss of time is detrimental in the oil and gas business because of the continuous depletion of the fields. "Since we have 70% share of the Rajasthan fields—the rest is with the public sector Oil and Natural Gas Corporation—the government should trust us with our investment numbers," Dixit says. His other plea to the government is a tweak to the production sharing contract (PSC)—where the company bears all exploration risks, production and development costs but has to give away nearly 75% of their profits in taxes, cess and profit petroleum. "How can we make further investments if we are not left with any investible surplus?" he points out.

The company has been able to raise production—from 125,000 barrels of oil a day in 2011 to 185,000 in 2019—due to its expertise in enhanced oil recovery (EOR) technology. The process entails flooding the field with chemicals to extract maximum juice from the existing fields. Water is injected into the well to push out the oil, after which they add polymers, including advanced versions like alkaline-surfactant-polymer (ASP). "Rajasthan fields have become the largest fields for polymer injection, which has resulted in a 35% recovery factor from the oil-in-place," says Dixit.

This recovery isn't straightforward. Not only does the chemical injection add to production costs, the processing terminal that refines the crude also needs to be recalibrated: The water and chemicals need to re-enter the system, while the oil is directed to the pipelines. The company's peeve is that despite producing best-quality crude,

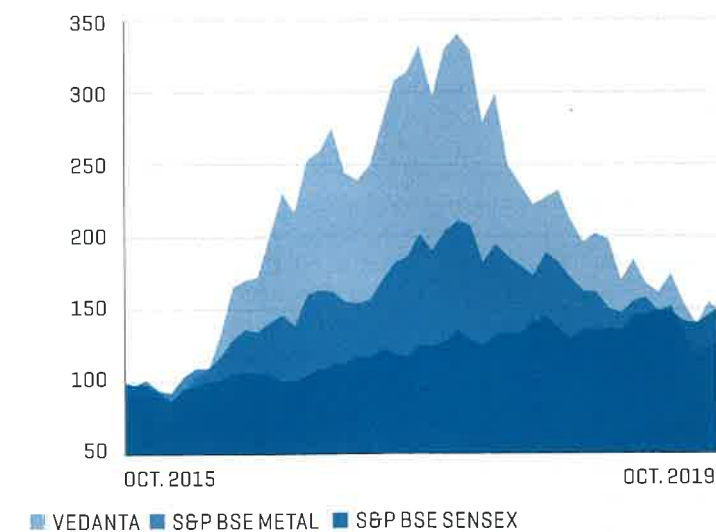
## METAL AT THE MARKETS

Market capitalisation of Vedanta in ₹ crore.



## SHINING BRIGHT

Vedanta has outperformed the BSE Metal index in the past four years.



NOTE: ADJUSTED CLOSING PRICES, AND CLOSING VALUES OF INDICES ARE MONTHLY AVERAGES, AND ARE REBASED TO 100. SOURCE: PROWESS, FORTUNE INDIA RESEARCH

known as "sweet crude" or "Brent crude" because of the absence of sulphur, the government pays it nearly 7%-8% less than it does for imported crude. Vedanta needs to keep producing oil at \$8 a barrel to make profits, but the pressure of taxes and higher exploration costs could make the operation unviable. The company has already

invested between \$6 billion and \$6.5 billion in this venture. "We should be able to go to 50,000 barrels of oil and oil equivalent from 25,000 now by the end of this fiscal year. We are already the second largest producer of crude in the country and perhaps very soon we will be the second largest producer of gas too," says Dixit.

**A** GARWAL IS FOCUSED ON consolidation at this point—there are no deals brewing—but he has an eye open for new opportunities, either through the Insolvency and Bankruptcy Code or from disinvestment in public sector units. His two-year ambition is to increase revenues to \$30 billion (from \$20 billion currently) and profits to \$10 billion (from \$6.5 billion). "I am comfortable with the \$30-billion number but if there is a chance for more acquisitions, that number can even go higher," says Agarwal.

However, he does have a slowing economy to contend with. Amit A. Dixit, senior vice president, Edelweiss Securities, says that earnings are going to stay subdued owing to lower production guidance for key segments like zinc (domestic and international), and oil and gas. "All in all we are cutting Ebitda by 20% for FY20 and FY21 each, and putting a target price of ₹150 from ₹175 earlier," he says. Similarly, credit rating agency CRISIL has revised its outlook on the non-convertible debentures and long-term bank facilities of Vedanta Ltd from "positive" to "stable" because of the combined impact of slower improvement in aluminium profitability, shutdown of the Tuticorin smelter and slower volume ramp-up in zinc.

But Mahaveer Jain, analyst at India Ratings, believes that Vedanta Ltd is likely to see a rise in profitability in FY20. "Ebitda should grow from \$4.1 billion to \$4.2 billion," he says, "driven by volume growth in oil, aluminium, zinc (international) and zinc (India) and cost savings in the aluminium division." The rating agency also expects the aluminium division's cost of production to ease in FY20. The aluminium volume growth will be supported by the newly commissioned pots at Jharsuguda, while zinc will benefit from the ramp-up of the Gamsberg operation in South Africa, it says.

India Ratings is also concerned that softening commodity prices and the addition of



SUNIL DUGGAL  
CHIEF EXECUTIVE  
OFFICER,  
HINDUSTAN ZINC LTD

We want to raise the current ore-to-metal ratio from 75% to 90% through improvements in the value chain, as well as extract every ounce of every metal present in the ore so that nothing is wasted.



PANKAJ MALHAN  
CEO,  
ELECTROSTEEL  
STEELS

We want to be among the top three-five steel players in the country by expanding the existing Bokaro capacity to six million tonnes per annum and adding another four million tonnes per annum from either green-field projects or acquisitions.

Electrosteel Steels' acquisition debt will delay the company's deleveraging plans. Jain concurs: "The company's net leverage is exceeding 3x so the debt is high. Moreover, the agency has not built any material cash outlay on inorganic acquisitions," he says. Even so, Vedanta, say other experts *Fortune India* spoke to, has a comparatively deleveraged balance sheet in the metals space with net debt/Ebitda at 1.1x, enabling it to pursue value-accretive growth opportunities such as Electrosteel Steels.

Not a bad place to be for someone who started his career as a scrap dealer and had to close down nine businesses between 1976 and 1986. For years, he would come home tired and disillusioned, and his wife, Kiran, would comfort him by saying that the next day would be better.

He is seeing better days, indeed. And wants to pay it forward.

In 2014, Agarwal pledged 75% of his personal wealth—a net worth of around \$3.3 billion—to charity. This money will be handled by the Anil Agarwal Foundation, and includes plans for a liberal arts-focussed university. Meanwhile, there is the Vedanta Foundation, started by his father Dwarka Prasad Agarwal in 1992, with a focus on vocational training, skill development, rural uplifting, and prison training.

Philanthropy, evidently, is an active participant in the Vedanta story, as is Agarwal's clarity on his family's role in the business. He has maintained that his firms would be run by leading professional managers only—not by family members who are involved in various capacities. His son Agnivesh is chairman of Talwandi Sabo Power Limited, a 1,980 MW thermal power plant in Talwandi, Punjab. His daughter Priya is additional and non-executive director on the board of Vedanta Ltd and his wife, Kiran, is additional director and chairman of Hindustan Zinc. His brother Navin is Vedanta Ltd chairman.

But none of them are in top executive roles. "I do not want my family member to be the chief executive of the company," he says. His logic: Turbulent times call for disruptive leaders who aren't wedded to existing ways of doing business, which can be the case with family. "So I tell all my managers that they need to hire people who are better than them and only then will the business flourish." And in this case, the very many businesses. ■