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Bulletin:

Vedanta Resources' Near-Term Liquidity Risk Is Easing

July 14, 2022

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This report does not constitute a rating action.

SINGAPORE (S&P Global Ratings) July 14, 2022--Liquidity stress has decreased for Vedanta Resources Ltd. The India-based company has addressed a large part of its debt maturities for fiscal 2023 (year ending March 2023).

While Vedanta Resources (B-/Stable/--) still has some funds to raise, we believe it has adequate cash held at subsidiary Vedanta Ltd. and will benefit from established banking relationships. That said, Vedanta Resources' weakened access to capital markets and persistent refinancing needs constrain the rating.

From needing to refinance about US$3 billion at the start of the fiscal year, Vedanta Resources' debt maturities for the rest of the fiscal year are now about US$1.3 billion. We assume the company will meet about half of the remaining amount due in fiscal 2023 further dividends from Vedanta Ltd., and the rest will be refinanced.

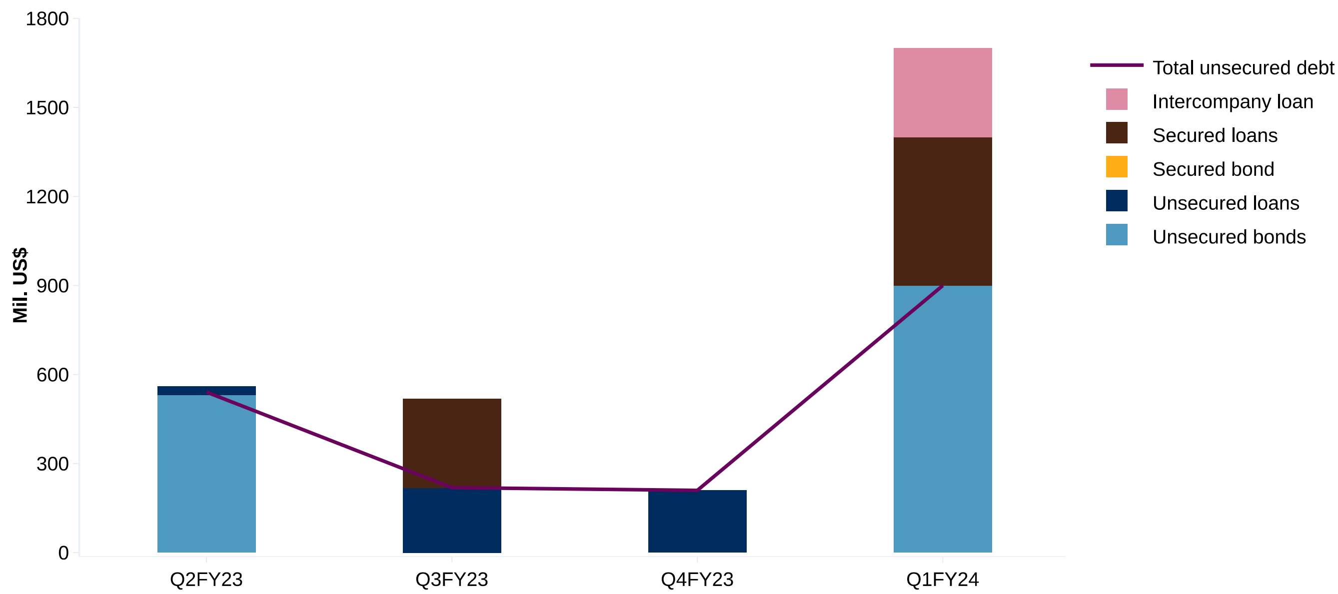
We understand Vedanta Resources is looking at raising additional funding from Indian banks, similar to the US$700 million it raised in May and June this year from State Bank of India and Canara Bank. Further, US$300 million of debt due in December is at intermediate subsidiary Twin Star Holdings Ltd. Refinancing this debt should be relatively easier than the debt at the Vedanta Resources level, as evidenced by recent refinancing initiatives. We also note that the Twin Star debt is from the company's key relationship banks.

Beyond this fiscal year, the next key debt maturity for Vedanta Resources will be the US$900 million of bonds due in April and May 2023. The company is likely to look at refinancing options later this year.

Even if Vedanta Resources is unable to raise funding for the 2023 bonds, it should be still able to meet the bond repayments through dividends from Vedanta Ltd. We estimate Vedanta Ltd will have consolidated cash of slightly more than US$3 billion as of March 2023, of which 80% will lie at its subsidiary Hindustan Zinc Ltd. Following the bond redemption, Vedanta Resources has no material debt maturity until January 2024.

Our assessment of Vedanta Resources' liquidity takes into account the impact on the company's earnings from a fall in commodity prices in recent months and the Indian government's imposition of a windfall tax on oil. We estimate Vedanta Ltd.'s EBITDA will be about US$5.5 billion in fiscal 2023 following these developments. We see the most downside in the aluminum business due to the sharp decline in prices in June, as well as higher input costs. However, lower alumina prices and normalization in energy prices should offer some respite. We forecast the oil segment's EBITDA will be broadly similar to the US$800 million reported in fiscal 2022. We expect the tax and profit-sharing components of the cost structure to offset the impact of the windfall tax to some extent. We estimate the net impact on EBITDA will therefore be well below the US$40/barrel of windfall tax.

Vedanta Resources Has Manageable Debt Maturities Until January 2024



FY--Fiscal year ending March 31; Unsecured debt = Debt at Vedanta Resources level (excluding intermediate holding companies)
Source: S&P Global Ratings.

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