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Vedanta Ltd – Delisting almost a success to failure !

vedanta
transforming elements

The failure of India's largest ever delisting exercise has put both promoters and the stakeholders in a difficult spot. The shareholders of Vedanta Ltd will now have to bear the burnt of cash flow leakages at the cost of their returns and dividends, while the promoter's cashflow to support the group debt has been curtailed. The promoters will not acquire any shares tendered by the public shareholders in the delisting offer and all the shares tendered will be returned to the respective shareholders. Balancesheet stress is at forefront & now Vedanta's focus is likely to rework on dividends, capital allocation and addressing corporate governance concerns after the failure of its delisting.

Delisting fiasco!

Since it did not get bids for a 90% sufficient number of shares. A total of 125.47 Cr shares were tendered by shareholders, against 169.73 Cr shares sought by promoters. Bids for close to 12.32 Cr shares were categorized as 'unconfirmed bids'. Since these remained unconfirmed until the closure of the bidding period, the 90% threshold was not met. The 12.32 Cr shares that are being shown as unconfirmed bids are likely error entries. Depositories did not give their confirmation for these shares as they could not find a proper owner of these shares in their demat database.

What next?

According to delisting regulations, there is a waiting period of at least six months before a company can make another attempt to delist. We expect the stock to react in subdued range in the near term, moving forward it will hinge on how management looks to reward investors or rework on business strategies.

Msearch View: If we look at the historic delisting fiasco, Vedanta is the third company to make unsuccessful delisting efforts in the last two years after INEOS Styrolution and Linde India process failed after investors demanded a premium of 145% & 517% over offered price respectively. Once the delisting fails the counters have underperformed for a long time which says it can repeat in Vedanta case as well. For long-term investors in Vedanta those who wish to hold the market have clearly given its verdict that it can't be done at such cheap offers and if at all, a second open offer happens, there is a good chance of the stock appreciation if investors can take a longer perspective on Vedanta business. We believe that it is difficult to gauge what will happen in the short term period. We have assumed a reasonable expectation on dividend definitely is on cards as the company has cash on books. If they cannot reward shareholders with the buyback or better delisting at a better price, dividends certainly would give an opportunity. For trading investors in Vedanta who have bought in anticipation of a quick gain because they assumed that the delisting or the exit price will be much higher, will probably not get that price simply because the offer may fail. There is no point holding the stock furthermore or for a longer duration because there are other better stocks available even within the same space. Below is comparison with the peers:

Sr No	Company	MCap (Cr)	FV	CMP	PE	P/Bv	ROCE %	ROE %	Div Yield %
1	Tata Steel Ltd	44,982	10	393	7.41	0.62	5.49	8.33	2.54
2	Hindalco Ltd	40,097	1	179	72.42	0.89	8.67	6.65	0.56
3	Vedanta Ltd	35,146	1	95	2.98	0.51	11.6	15.2	4.11
4	SAIL	14,228	10	34	20.55	0.35	8.43	6.43	-