

Vedanta Demerger can Create Value in the Long Term

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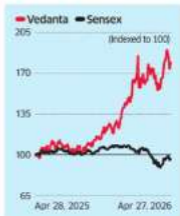
ETIntelligence Group: Shares of Vedanta have fallen over 4% since April 20 when the company announced May 1 as the record date for demerger. The proposed split into five listed entities is expected to reduce the conglomerate discount by enabling each business to be valued independently and benchmarked against sector peers. The stock may remain volatile around the record date and the listing of new entities.

Analysts believe investors would benefit from staying invested over the long term, as clear business structures, improved transparency on debt allocation, and better price discovery could enhance overall shareholder value. The last date to buy the stock to avail the demerger benefits is April 29.

The demerger will result in the separation of Vedanta into five listed entities—Vedanta Aluminium, Vedanta Power, Vedanta Oil & Gas, Vedanta Iron & Steel, and a residual Vedanta, which will retain zinc, copper and other base-metal businesses. Under the scheme, shareholders will receive one share each in the four newly-listed companies for every one Vedanta share held, while the residual Vedanta entity will continue to remain listed.

The demerger is expected to unlock meaningful valuation upside for Vedanta shareholders. Before the demerger, after applying holding-company discounts and adjusting for consolidated debt, Axis Securities values Vedanta as a whole at about ₹572 per share. Post-demergence, the combined valuation is expected to rise by 14% to ₹650 per share.

The value goes up after demerger because businesses like aluminium, and oil & gas will be listed separately, making it easier for investors to judge their true



worth and compare them with similar companies. At the same time, the remaining Vedanta company will still have steady income and regular dividend potential from its stake in Hindustan Zinc, which helps support its valuation.

ICICI Direct expects the demerger to be a value unlocking event for the company with its high growth aluminium & power businesses expected to fetch better valuations compared with the current structure of being part of a listed conglomerate entity.

On April 30, Vedanta's stock price is expected to adjust for the demerger and trade in the range of around ₹300-325 per share. The remaining demerged entities are likely to be listed within 1-2 months following the record date.

One of the key points of the demerger is the sharp reduction in debt for Vedanta since it will be distributed across the demerged entities. After the demerger, Axis Securities estimates Vedanta to have net debt of ₹13,892 crore, 24% of total net debt. The aluminium business is expected to carry the largest portion of net debt of around ₹29,246 crore, accounting for more than 50% ₹57,358 crore of group net debt as of December 2024. Vedanta Power will carry 12% of net debt, Vedanta Iron & Steel 7% and Vedanta Oil & Gas 6%.