Investment Stewardship

Vote Bulletin: Vedanta Limited

Company	**Vedanta Limited (India/Bombay Stock Exchange, NYSE: VEDL)**
Market and Sector	Materials, India
Meeting Date	10 August 2021
Key Resolutions[1]	**Item 4:** To re-appoint the Chairman of the Board, as a Director, as he retires by rotation, is eligible, and offers himself for re-appointment **Item 8:** To consider and approve the re-appointment of the Non-Executive Independent Director for the second and final term of three (3) years effective from August 11, 2021 to August 10, 2024
Key Topics	Related party transaction; minority shareholder rights; board quality and effectiveness
Board Recommendation	The board recommended voting FOR items 4 and 8
BlackRock Vote	BlackRock voted AGAINST items 4 and 8

Overview

Vedanta Limited (Vedanta) is India's largest natural resources company, employing more than 70,000 people directly and indirectly, with its major products being zinc-lead-silver, iron ore, steel, copper, aluminium, power, oil, and gas.[2,3,4] The company, listed in India and New York, is a 65%-owned subsidiary of Vedanta Resources Limited (VRL), which de-listed from the London Stock Exchange in 2018.[5] 100% of VRL's share capital and voting rights are held by Volcan Investments Limited (Volcan) and a Volcan wholly-owned subsidiary.[6] Volcan is beneficially owned and controlled by the Anil Agarwal Discretionary Trust, associated with the Chairman of Vedanta.[7]

BlackRock Investment Stewardship (BIS) has regularly engaged with the company to discuss corporate governance issues that we believe drive long-term shareholder value, including the company's long-term strategy, board independence, and oversight, as well as its executive compensation program. We have also discussed the potential environmental and social impacts of Vedanta's mining operations. Over the course of our engagements, the company has made progress on its sustainability commitments and related disclosures.

[1] Vedanta Limited. "Notice of the 56th Annual General Meeting." 30 June 2021.
[2] Vedanta Limited. "About Vedanta Limited." U.S. SEC Form 6-K. Pages 5, 11.
[3] Vedanta Limited. "What we do."
[4] Vedanta Limited. "Vedanta at a glance." FY21 Annual report. Page 6.
[5] See footnote #2 at page 294 and footnote #4 at page 6.
[6] See footnote #2 at page 378.
[7] See footnote #2 at page 68 and 378.

For example, in 2020 Vedanta released its first report aligned to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).[8] However, BIS remains concerned about governance issues, in particular, related party transactions enabled by the company's ownership structure that, in our view, do not serve minority shareholders' best long-term economic interests.

Rationale for BlackRock's Vote

Item 4: To re-appoint the Chairman of the Board as a Director; as he retires by rotation, is eligible, and offers himself for re-appointment

Item 8: To consider and approve the re-appointment of the Non-Executive Independent Director for the second and final term of three (3) years effective from August 11, 2021 to August 10, 2024

BIS voted AGAINST both re-appointments given the Directors' ultimate accountability regarding our governance concerns relating to board oversight. In particular, BIS is concerned about a loan of approximately U.S. $1 billion from Vedanta's fully owned subsidiary to the unlisted holding company, VRL. BIS is also concerned about a series of related party transactions enabled by the company's controlling ownership structure, that in our view, are not aligned with minority shareholders' long-term economic interests.

As described in the BIS Global Principles, BlackRock believes that shareholders have a right to material and timely information on the financial performance and viability of the companies in which they invest. Companies should also publish information on the governance structures in place and the rights of shareholders to influence these structures. The reporting and disclosure provided by companies help shareholders assess whether their economic interests have been protected and the quality of the board's oversight of management.

In our view, Vedanta did not disclose sufficient and timely information in relation to the inter-group loan from Vedanta's subsidiary to its private holding and unlisted company, VRL, that grew from U.S. $61 million – invested in bonds of VRL as reported in the FY2019-20 annual report[9] - to a U.S. $966 million loan to VRL as stated in the FY2020-21 annual report.[10] Per local regulation, related party transactions need to be approved by independent shareholders only if made by the listed company itself; shareholder approval is not required when it relates to a subsidiary even if fully-owned by the listed company.

While this inter-group loan is compliant with Indian regulations, the outstanding value disclosed at year-end was over 10% of the average market capitalization of Vedanta for the recent FY21 financial year. In our view, that the Board did not require, or appear to have suggested, a vote by independent shareholders to approve a loan of this size (made to the controlling shareholders) is a breach of the Board's fiduciary duty to act in the best economic interests of the company and all shareholders. We note that this loan went through at least two rounds of re-pricing that raise concerns about the accuracy of the loan being described as simply part of cash management activities, with interest rates for a period at 14%-17.5% indicative of a distressed borrower.[11]

Furthermore, BIS is concerned about a series of related party transactions that may not be in the best economic interest of minority shareholders. One example in the past year was the group amending the terms by which Vedanta and its subsidiaries pay a royalty fee for branding rights to the Vedanta name, paid to VRL. Previously, this royalty resulted in 0.75% to 1.5% of revenue; this was raised to 2% in FY21. The outcome was that the royalty fee paid to VRL tripled from INR 3.13 billion (equivalent to U.S. $42 million) in FY20 to INR 9.39 billion (U.S. $126 million) in FY21.[12] This amounts to 5% of pre-tax profit in the recent financial year, an expense by Vedanta and subsidiaries, paid out to the privately owned company of the controlling shareholders for branding rights on largely commoditised mining output. While the company states that the increase in royalty fee is for

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[8] Vedanta Limited. "TCFD 2020."
[9] Invested in two tranches of U.S. $30.5 million each. "FY20 Annual report." Footnote 38J. Page 488.
[10] Outstanding amount as of March 2021. "FY21 Annual report." Footnote 40I. Pages 483 and 484.
[11] At an early stage the interest rate was raised from 3%-6% to 14%-17.5%, before being reduced to 9.6% for this U.S. $ denominated debt. See Vedanta Limited. "FY21 Annual report." Footnote 40I. Pages 483 and 484.
[12] Vedanta Limited. "FY21 Annual report." Footnote 40I, page 484. Note, one crore is equal to 10 million.

certain additional services to be provided by VRL, it remains unclear what the additional services in question are. To note, as agreed by the Vedanta board, the royalty fee is paid in advance at the start of the year on the estimated annual turnover, ahead of the company and its subsidiaries receiving the revenue on which the fee is based.

In addition, we note that VRL receives guarantee fees from Vedanta and its subsidiaries. As discussed above, VRL is a debtor to a subsidiary of Vedanta; however, the corporate structure of the group allows VRL to act as a guarantor for the obligations of Vedanta units under an oil and gas Revenue Sharing Contract with the government of India. As a result, Vedanta in FY21 recorded commission expenses totalling INR 2.94 billion (equivalent to U.S. $40 million), including outstanding pre-payment, all of which are due to VRL.[13] Separately, in January 2021, Vedanta recorded that it had an expense of GBP 10 million favouring Volcan, a private company owned by the controlling shareholders, for a structured investment into equity shares of Anglo American Plc, which was closed out in July 2019. Vedanta states that it had "realised" GBP 519 million from the disposal of the underlying securities; however, the amount realised appears inadvertently not to have included the GBP 10 million that 18 months later was charged to the Vedanta subsidiary, which agreed to absorb this delayed transaction fee.[14]

The loan to the controlling shareholders, as well as the pattern of related party transactions, suggest Vedanta's minority shareholders may not have been given due consideration, nor protected by management or the board. After a careful assessment of the issues, and discussions with management intended to clarify the decision-making around these issues, we consider it appropriate to vote against the re-appointment of both the current Chairman of the Board and the longest-serving Non-Executive Independent Director to signal our concerns about accountability of the board to all shareholders and its oversight of management.

[13] Vedanta Limited. "FY21 Annual report." Footnote 40H. Page 483.
[14] Vedanta Limited. "FY21 Annual report." Footnote 40M. Page 484.

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in BlackRock's fiduciary approach. As an essential component of our responsibility to our clients, BIS engages with companies to advocate for the sound corporate governance and business models that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business operations, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.