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ET Q&A

ANIL AGARWAL
CHAIRMAN, VEDANTA GROUP

This is the Last Leg of Simplification of Vedanta's Structure

Vedanta Resources on Tuesday announced a proposal to delist its Indian subsidiary Vedanta Ltd from the Indian stock exchanges, making an offer to buy out 48.9% shares at ₹87.5 apiece. Vedanta Group chairman **Anil Agarwal**, in an interview with **Satish John** said the $2.5-billion buyout is the last leg in what is a complex exercise to restructure the group. Edited excerpts.

How does taking the company private help when it requires huge investment as it is going through an expansion phase?
We were for the last 8-10 years planning to simplify the structure. So we merged Cairn, we merged Sesa Goa and this is the last leg whereby (holding companies) Vedanta Resources and Vedanta Ltd are sitting upstairs and the (operational companies) are downstairs. We find that minority shareholders want to come out of the shareholdings of oil and gas, and in metals, too, we find that shareholders do not have an interest.

So, we and JP Morgan have been working together. We find companies going to the market to raise money (through the debt route) or through rights issues. Nobody is putting cash on the table. So, we feel we can put cash on the table. Take the average of the 60-days' price and put a 25% premium, people will have interest.

What exactly is the rationale behind this delisting process?
We never thought we would buy out the shares, especially at this point of time, but what happens here is a win-win situation. Slightly more than 50% goes to the shareholder, and there is going to be a 100% dividend. Even if the market goes bad, we will have enough insurance. The company is going to run the way it has been running. They have their own earnings, they have their own plants, and the dividend what comes out will be able to service the debt more securely. This is a very simple deal, and I'm sure shareholders will be very happy to do it, but of course, they have to decide whether this is a good deal for them.

Do you think the shareholders will accept this offer, as the share price on Tuesday went up 12% when the index was flat?
Yeah, the prices will go up, as we calculated the average price of 60 days. As per Sebi (the Securities and Exchange Board of India) rules, we have taken the price from yesterday (Monday), and calculated 60 days' average.

Will you be bettering the offer, if share prices go up in the future?
As per Sebi, we need to undergo a very open process of bidding. So, I have a strong feeling that this will happen. But, of course, it is in the hands of the shareholders. Putting the plan on the table, we thought is a win-win for everyone. As I said earlier, nobody is putting money on the table, but here with this move, I'm putting money on the table.

Several companies are talking about deleveraging while you say you are putting money on the table... How will you address the debt burden in the future?
We have enough funds, and we will take a bridge loan from the bank, for which JP Morgan has come forward. They will provide funding for 49.5% of the public shareholding, and with the companies merged, we will have enough money to pay off. With today's move the debt (in the books of Vedanta Resources) will increase by around $2.5 billion (₹19,000 crore), but we will have sufficient dividend (income) to service that. At the same time, deleveraging will also happen for about a $1 billion.

Are you also looking at enlisting some strategic investors going forward?
No, not at all. We are very comfortable at this point of time. We have Hindustan Zinc where we already have a strategic investor or government partner with 26% holding, also in Balco, the government holds around 49% ownership. In Cairn, they have 30% holding through ONGC, which will continue. But the government will eventually sell out some shares as they are running short of money. As and when they are ready, we will be ready to buy out those shares as well.

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'Doubts Rising Over Aramco-RIL Deal'

Mumbai: HSBC said there is rising scepticism on whether Saudi Aramco's proposed investment for a 20% stake in Reliance Industries for $15 billion will materialise because of recent capital raising decisions and weak oil prices.

The brokerage, while retaining its buy rating and target price of ₹1,590 on the stock, said the Aramco deal could provide significant financial muscle to Reliance Industries. Shares of Reliance Industries ended up 2% at ₹1,496.40 on Wednesday.

Besides creating a benchmark valuation for RIL's OTC business of $75 billion, the deal would provide $15 billion in additional cash flow, shifting Reliance Industries into a strong net cash position from net debt, said HSBC. Once money from the rest of its announced transactions flows into RIL; that combined with its treasury shares, RIL will have $34 billion in assets that should allow it to expand in the competitive omni-channel retail space, said HSBC. — **Our Bureau**

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The Economic Times

Oil Rally Gains Steam After US Lowers Production Forecast

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FUTURES IN NEW YORK GAIN 8.7% ON TUESDAY

Oil Rally Gains Steam After US Lowers Production Forecast

Bloomberg

New York: Oil extended its rally after the US government lowered its output forecast for the year.

Futures in New York gained as much as 8.7% on Tuesday and are set to close at a five-week high. The Energy Information Administration revised down its 2020 and 2021 crude output forecasts in its monthly Short-Term Energy Outlook. Pockets of demand are starting to emerge in India and China and, while a huge glut remains, the increase in global stockpiles is slowing. Saudi Arabia plans to cut production by an additional 1 million barrels a day, easing concerns over storage capacity hitting limits worldwide.

"Production is indeed dropping and it might stay down for longer than people thought," Bart Melek, head of commodity strategy at Toronto Dominion Bank said.

Saudi Arabia's move to reduce output by more than required under the OPEC+ deal was followed by pledges from the United Arab Emirates and Kuwait. The decision prompted US President Donald Trump to tweet that the production cuts are raising oil prices and that "Our great Energy Companies, with millions of JOBS, are starting to look very good again."

Still, oil is down almost 60% this year with little clarity about when, and if, global consumption will fully return. Consultancy IHS Markit doesn't see oil recovering to pre-virus levels until the second half of 2021. The US also lowered its global petroleum demand forecast to 92.6 million barrels a day from 95.5 million a month ago. That compares with a supply outlook of over 95 million barrels a day.

"The road to an oil price recovery will likely be choppy and plagued with stop-and-go rallies and selling cycles until some level of price certainty is restored," said Roger Diwan, vice-president of financial services at IHS Markit.

Saudi Arabia aims to pump just under 7.5 million barrels a day in June, compared with an official target of about 8.5 million a day. Kuwait and the U.A.E. also plan additional daily curbs of 80,000 barrels and 100,000, respectively.

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Political & Business Daily
Oil falls as fears of second coronavirus wave take hold
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Oil falls as fears of second coronavirus wave take hold

LONDON, MAY 13

OIL prices fell on Wednesday as potential OPEC+ plans to deepen supply cuts were overshadowed by demand concerns exacerbated by a possible second wave of coronavirus infections as countries ease lockdowns.

Brent crude LCOc1 dropped 56 cents, or 1.9%, to $29.42 a barrel by 0855 GMT, having risen 1.2% on Tuesday.

West Texas Intermediate crude futures fell 23 cents, or 0.9%, to $25.55 after gaining 6.8% in the previous session.

"Fears are running rife that easing lockdown measures will trigger a second wave of coronavirus infections," said Stephen Brennoc at oil brokerage PVM.

U.S. infectious disease expert Anthony Fauci on Tuesday told Congress that easing coronavirus lockdowns could set off new outbreaks of the COVID-19 disease that has killed 80,000 Americans and badly damaged the world's biggest economy and oil consumer.

New outbreaks have been reported in South Korea and China, where the health crisis started before spreading across the globe, prompting governments to lock down billions of people, devastating economies and demand for oil.

The U.S. Energy Information Administration (EIA) now expects world oil demand to fall by 8.1 million barrels per day (bpd) this year to 92.6 million bpd, compared with a previous forecast for a drop of 5.2 million bpd.

The agency also expects U.S. output to fall by 540,000 bpd, against a previous forecast of 470,000 bpd. It expects global output of 11.7 million bpd this year and 10.9 million bpd in 2021.

On the supply side, OPEC+ is looking to maintain existing cuts beyond June, when it meets next in Vienna, sources told Reuters.

The Organization of the Petroleum Exporting Countries (OPEC) and other producers including Russia - a group known as OPEC+ - agreed to cut output by 9.7 million bpd in May and June and to scale back cuts to 7.7 million bpd for the rest of the year.

Saudi Arabia's cabinet has urged OPEC+ countries to reduce output further to restore balance in global crude markets, the country's state news agency reported early on Wednesday.

Riyadh said it would add to planned cuts by reducing production by a further 1 million bpd next month, bringing output down to 7.5 million bpd..

"Suffice to say, the tug-of-war between OPEC-led cuts and virus anxieties will limit upside price potential," PVM's Brennoc said.

In the United States, crude oil inventories rose by 7.6 million barrels last week to 526.2 million barrels, against analyst expectations for an increase of 4.1 million barrels, the American Petroleum Institute (API) said on Tuesday.

Still, stocks of crude at the Cushing delivery hub in Oklahoma fell by 2.3 million barrels, API said. If confirmed by official data, that would be the first drawdown since February, ING Economics said.

"Concerns over hitting storage capacity have eased, as we see demand gradually recovering, along with supply cuts hitting the market," ING said in a note, pointing to the decline in Cushing stocks. **—Agencies**

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Political & Business Daily

Petrol, diesel prices may rise again after daily price revision restarts

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Petrol, diesel prices may rise again after daily price revision restarts

SUBHASH NARAYAN

AMID COVID-19 disruption fuel consumers could further face the heat from rising fuel prices with public sector oil marketing companies (OMCs) bracing up to restart daily price revision of the retail price of petrol and diesel later this month.

Sources in OMCs said the daily price revision of auto fuels may start again once the lockdown is lifted or more relaxations are announced by the government later in the month. However, no decision has been taken on it now.

If this happens, petrol and diesel prices can start rising again every day as global oil market has also studied gaining more than 50 per cent over last month's prices to around $ 30 a barrel now.

"Petrol and diesel prices have not been revised since March 16 (it went up in Delhi on May 5 only after state government raised VAT) and that gave cushion to the government to steeply raise excise duty on

Raising retail prices has also become important for OMCs now as the recent steel excise duty hike without resultant increase in petrol and fiscal prices, has substantially brought down its marketing margins from record high level of Rs 12-18 per litre. If it is unable to raise prices when global market is rising, it would start incurring losses that will get steeper as product demand has also fallen by over 50 per cent last month amid nationwide lockdown.

the two products without impacting their retail prices. But that cushion is no longer there now and once daily price revision plan starts, auto fuel could see steep rise over the course of few days," said an official of a public sector OMC asking not to be named.

However, government sources indicated that the retail price of petrol and diesel may not be allowed to increase beyond a point even if the daily price revision restarts. This would mean that the petroleum products could increase marginally every day by 30-50 paisa or even lower till the oil companies are able to eliminate the gap between cost and sales.

The increase in retail price under daily price revision would depend on prevailing oil prices and global oil market at the time determine the retail price. Going by the current trend, crude prices are up over 50 per cent to last month's prices when even benchmark Brent crude had slipped below $ 20 a barrel. It is at $30 a barrel now. But lockdown has also curbed demand for auto fuel. This could maintain some check on prices.

Petrol is retailing at Rs 71.26 a litre while diesel at Rs 69.39 a litre in Delhi. Before this the two maintained a price of Rs 69.59 and 62.28 between March 16 and May 4. The price rise to the current level in Delhi from May 5 as state government raised VAT on the products to raise revenue to meet rising expenditure needs to check Covid-19 spread.

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