



Vedanta – Q1 FY26 Analysis

Beneath the Record Profits: Eroding Margins, Negative Free Cash Flow, and an Unsustainable Capital Structure

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August 5, 2028 – Vedanta Ltd (VEDL) reported a record Q1 adjusted EBITDA of ₹10,746 crore (\$1.3b) on revenues of ₹37,434 crore (\$4.4b). This headline performance belies the company's deep structural weaknesses. Beneath the veneer of profitability lies a balance sheet under stress, with unsustainable dividend payouts, rising leverage, and margin siphoning through opaque promoter-controlled entities. VEDL is being systematically drained by its largest shareholder, Vedanta Resources Limited (VRL) and the Agarwal family.

Our previous reports about Vedanta Resources are available at:

<https://viceroypresearch.org/vedanta-resources-research/>

VEDL's reported success is built on financial engineering, not operational resilience.

Headline financials vs economic reality

Despite a YoY improvement in revenue and EBITDA, QoQ revenue declined 6%, primarily due to pricing pressure and volume drops in core verticals. Free cash flow remained insufficient to cover routine obligations, including dividends and capex.

Vedanta Limited Q1 FY26 Segment Revenue				
	Quarter ended		Year	
	FY26 Q1	FY25 Q4	FY25 Q1	FY25
Zinc, Lead and Silver				
Zinc & Lead - India	6,116	7,117	6,421	26,774
Silver - India	1,426	1,688	1,427	6,129
Total	7,542	8,805	7,848	32,903
Zinc - International	1,150	1,108	753	3,918
Oil & Gas	2,303	2,658	2,925	11,044
Aluminium	14,556	15,967	13,515	58,522
Copper	6,374	6,138	4,734	23,051
Iron Ore	1,334	1,527	1,320	6,086
Power	2,073	1,424	1,689	6,159
Others	2,264	2,657	2,574	1,080
Total	37,596	40,284	35,358	142,763
Inter segment revenue	162	495	119	1,038
Revenue	37,434	39,789	35,239	141,725
Other operating income	390	666	525	2,243
Total revenue from operations	37,824	40,455	35,764	143,968

Figure 1 – Vedanta Q1 FY26 Segment Revenue

Vedanta Limited Q1 FY26 Δ EBIT Margin		
	QoQ	YoY
Zinc, Lead and Silver	-5%	-1%
Zinc international	0%	13%
Oil & Gas	10%	13%
Aluminium	1%	-2%
Copper	0%	1%
Iron Ore	-6%	0%
Power	16%	7%
Others	-1%	-4%
Total	0%	0%

Figure 2 – Vedanta Q1 FY26 Δ EBIT Margin



Segment breakdown

- **Aluminium:** While Vedanta boasted record alumina production of 587 kt, this masks persistent structural inefficiencies. A significant portion of bauxite remains imported at premium prices due to supply disruptions, including the EGA-Guinea conflict. EBIT margins fell 2% YoY due to structural inefficiencies and underinvestment.
- **Zinc India:** Claimed mined metal output of 265 kt is an all-time Q1 high, but refined metal production declined. Silver output fell sharply. Despite lower cost per ton (\$1,010/t), margins are once again diluted via unjustified brand fees and supplier transactions involving promoter-aligned entities like the Runaya entities.

Both segments are increasingly hollowed out by deals with Serentica Renewables and Runaya entities, both owned by the Agarwal family. These arrangements effectively transfer value out of Vedanta and into related-party pockets.

- **Zinc International:** Gamsberg posted a 74% YoY increase in production, but the segment's EBITDA contribution remains minimal. This is a classic case of production scale increasing without margin scale. Incremental output is merely offsetting fixed costs.
- **Oil & Gas and Others:** MBA field decline continues to weigh down performance, and the so-called "ramp-ups" in ABH and satellite wells have not materially improved segment economics. High capex plans in this vertical are fundamentally misaligned with the cash flow it generates.
- **Power:** Vedanta's power segment continues to underperform, raising fundamental questions about its strategic relevance and financial viability. Talwandi Sabo Power Ltd (TSPL), made a post-tax loss of ₹21 crore (\$2.4m), reflecting chronic inefficiencies and legacy contractual disputes. Meanwhile, the recently commissioned Meenakshi and Athena power plants lack long-term power purchase agreements (PPAs). Critically, Meenakshi's cost of production exceeds merchant rates, rendering it economically unviable without short-term contracts.

Liquidity analysis

As we warned, Vedanta's narrative of deleveraging was a façade. Net debt increased ₹4,969 crore (\$581m) as operating cash flows completely failed to meet liquidity pressures. Gross debt decreases matter significantly less when deleveraging was achieved through asset sales and working capital management.

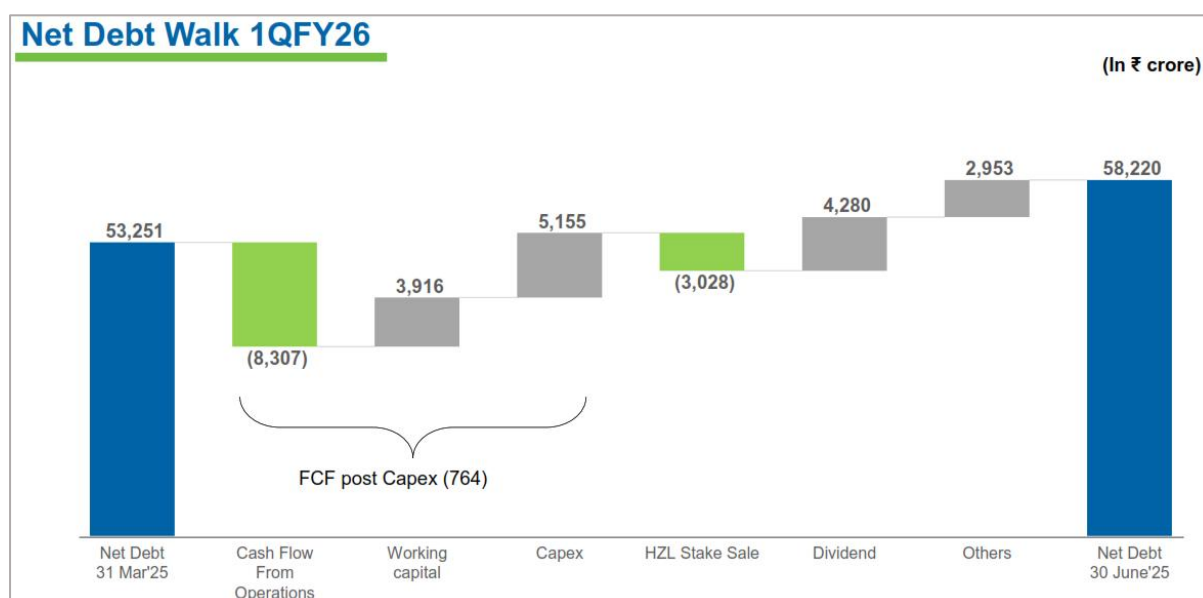


Figure 3 – Vedanta Limited Q1 FY26 Net Debt Walk

Free cash flows were insufficient to fund either the ₹4,280 crore (\$855m) dividend or ₹5,155 crore (\$603m) in capital expenditure. The Company also attributed the ₹2,953 crore "other" debt increase to bank guarantees relating to the SEPCO dispute and Oil & Gas block bids.



To bridge this funding gap, the Company resorted to monetizing a 1.6% stake in Hindustan Zinc, an action that raises serious questions about strategic capital management. Specifically, using a long-term equity asset to cover short-term liquidity needs, particularly bank-guaranteed deposits related to SEPCO and mineral blocks, reflects poor financial discipline.

The Company asserts that these “other” items in the debt waterfall are refundable, but given its past legal setbacks in the SEPCO matter, such optimism appears to be a case of cookie jar accounting.

We have calculated that VEDL’s net debt increase is equivalent to ₹6,225 crore (\$722m) gross debt, based on limited information contained in the quarterly report. We note that VEDL’s reported “net debt” does **not** include WC financing, which is interest bearing.

Debt/equity analysis	Q1 2026	Q4 2025
Debt/equity Actual (Estimate on Q1 2026)	1.72	1.68
Debt/equity Reported	1.41	1.37
Long Term Debt	80,108	73,853
Growth	6,255	

Figure 4 – Viceroy analysis

Brand fee drain

Management confirmed that Vedanta had paid \$380m (₹3,247 crore) in brand fees this year and signaled the possibility of sending another \$20m (₹171 crore) throughout the rest of the year.

also repayment. If you look at VRL has two sources of cash. One is the brand fee. So 380 million has been paid in the first year as has been the practice in the past.

Secondly, in the current fiscal, our dividend payout is about 1.5% yield. Even if we assume a routine dividend of 5% to 6% which has been par for the course in the Indian context, it means 850 million will be dividend. 380 or 400 will be the brand fee 1.25. So mostly through internal

Figure 5 – Vedanta Q1 FY26 Earnings Call Transcript

These fees are neither commensurate with services provided nor subject to proper board oversight. Refunds of earlier remittances (under ED pressure) confirm their arbitrary and circular nature. Effectively, Vedanta’s cash is being siphoned to plug liquidity holes of its largest shareholder.

VEDL’s management also clarified that it would prioritize returning capital to VRL over minority shareholders. CFO Ajay Goel stated that if VRL’s liquidity needs improved, **VEDL would reduce its dividend while keeping the brand fee intact, unfairly discriminating between shareholders when returning capital.**

Interest 750 total 2.7 billion. This is the last year with Anthra resources where the need for cash is about 1.4 billion. Starting next year it's about 1.1 billion. In FY28 it is sub 1 billion. So going forward as we have earlier communicated to a contractual brand fee 440 million and even a lower dividend of almost 4% yield, we are willing managed. So both brand fee equal to interest cost and hence operating PNL account will be self funded and by paying 4% dividend the entire refinancing will be done. So dividend of 4% equals deleveraging. So in summary about 1.1 billion requirements next year and less than 1 billion the year next.

Figure 6 – Vedanta Q1 FY26 Earnings Call Transcript



Investors should also query where “brand fees” sit on Vedanta’s debt walk. We note that a bank-envelope calculation shows:

- Cash flow from operations, measured against P&L, does not appear to house upfront brand fee payments.
- We have calculated significant cash “outflow” adjustments associated with Inventory and Receivables of ~₹1,800 crore, working back from limited financial disclosures. We don’t believe “Working Capital” can host brand fees in this respect, unless VEDL has fallen delinquent on supplier payments and blown out its payables.
 - We further note that we cannot identify any prior period where brand fees have been recorded as a WC item.
- We believe Brand Fees substantially make up “Others”, if it is included in this calculation at all.

VEDL makes enormous advances to the PropCo in order for promoters to satisfy obligations to their creditors at interest-free rates. In doing so, VEDL incurs expensive debt on a bad credit rating.

Working Capital

Q1 FY26 saw a reversal in working capital trends with a net outflow of ₹3,916 crore (\$458m), compared with a ₹1,827 crore (\$214m) outflow in Q1 FY25. Movements were positive in every other quarter, confirming concerns that past FCF strength relied heavily on WC compression. This structural crutch is no longer available.

Capex Commitments vs Reality

With internal accruals insufficient and cash being funneled to VRL via dividends and brand fees, VEDL will inevitably need to fund its expansions through debt. Given the rising interest burden and already high net debt, this is fiscally reckless.

Many of these projects are effectively stalled such as:

- \$2b investment at Ras Al-Khair, Saudi Arabia
- The Company’s expansion into nuclear power
- \$7b semiconductor expansion
- \$10b in glass manufacturing

VEDL’s ambition into offshore oil is likely a mirage. Offshore oil development is one of the most capital-intensive and high-risk investments in energy. Given VEDL’s strained balance sheet and liquidity pressures, we do not believe that VEDL could meaningfully pursue this expansion without massive dilution.

Similarly, VEDL’s push into critical minerals is more performative than productive. While the blocks acquired span strategic minerals like nickel, cobalt, and REEs, India lacks the infrastructure to commercially extract or refine most of them. Without downstream capability or clear timelines, this expansion appears more like headline-driven positioning than a credible earnings driver.



Demerger update

VEDL's demerger was conspicuously absent from the company's Q1 FY26 financials, earnings presentation, and conference call. While Anil Agarwal previously claimed the demerger would be completed by September 2025 at VEDL's AGM, the current situation casts significant doubt on that timeline.

Key developments include:

- The NCLT hearing for VEDL's demerger is scheduled for August 20, 2025.
- The next NCLT hearing on the TSPL demerger is set for August 4, 2025.
- India's Ministry of Petroleum and Natural Gas (MPNG) formally objected to the demerger over disputed dues payable by Cairn.
- Since its announcement in September 2023, the demerger has faced multiple delays and no meaningful progress outside the formation of shell companies.

Notably, even VRL CEO Deshnee Naidoo has pushed back the target to September/October 2025, contradicting Anil Agarwal's "by September 2025" guidance. The earnings presentation made no mention of a timeline. Even analysts at Nuvama, typically cheerleaders for the Agarwal family, now project the demerger will close no earlier than Q4 FY26, well beyond management's stated expectation.

The MPNG's formal objection undermines management's narrative that legacy liabilities are irrelevant. Instead, they have become a material regulatory obstacle. This objection, from a central government ministry, raises the risk that additional legal or regulatory scrutiny may follow.

We maintain that the demerger will only worsen VEDL's operational, financial, structural and governance problems. Management's habitual overpromising and underdelivering on timelines, capital deployment, and restructuring further demonstrates that this is not a restructuring in progress, but a disintegration in slow motion.

Governance and Regulatory Risk

The brand fee controversy has attracted ED and FEMA scrutiny. An earlier \$123m (₹1,051 crore) rebate in FY24 under regulatory pressure exposes the sham nature of these transfers. At HZL, brand fees were imposed without formal approval from GoI-nominated directors.

At a recent speech, SEBI Chairman Tuhin Kanta Pandey called out the same practices VEDL has used to enrich its parent including¹:

- Brand fees or name-lending
- Circular lending or transactions
- Borrowing against listed company assets to repay promoter debt
- Diverting company funds through complex multi-layered structure

Pandey skewered management teams, directors and auditors who engage in a "tick box" approach to compliance. We encourage readers to read Pandey's comments as he appears to be calling out VEDL and VRL in all but name.

Multiple VEDL RPTs also flout arm's-length norms, notably Serentica Renewables and the Runaya Group. These entities function as margin thieves, using questionable non-arms length transactions in the middle of VEDL's supply chain to siphon millions each year. The overwhelming evidence points to an orchestrated campaign by the promoter group to use VEDL as a liquidity conduit to enrich themselves and de-lever VRL.

¹ https://www.business-standard.com/markets/news/sebi-chief-commits-combat-financial-fraud-auditors-directors-125080101216_1.html



Conclusion

VEDL is not operating in the interests of its minority shareholders. Despite top-line growth and record EBITDA, the Company is bleeding value through promoter-controlled drainpipes. Dividends are being financed through debt. Cash is extracted via brand fees under dubious contracts. Capital, instead of being productively invested, is being used to bail out the Company's largest shareholder, the Agarwal family, to the exclusion of all others.

The longer this structure persists, the more certain it becomes that regulators will be forced to act.



Attention: Whistleblowers

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We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

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