



Vedanta – Our Letter to the Reserve Bank of India

Exposing cross-border value extraction, regulatory arbitrage, and FX risk at the heart of India's capital markets

PLEASE READ IMPORTANT DISCLAIMER – PAGE 6

August 6, 2025 – On July 15, 2025, Viceroy Research submitted a formal letter to the Reserve Bank of India (RBI). This letter highlights findings from our reports with a focus on unauthorized foreign exchange remittances, regulatory evasion, and systemic threats to India's financial stability.

Given the lack of any public statements from the RBI, **we are publishing the letter in the interest of transparency and public accountability.**

SEBI Chairman Tuhin Kanta Pandey recently reiterated the regulator's crackdown on financial fraud, directly referencing structures that resemble VRL's extraction from VEDL. He also acknowledged Viceroy's reports, signaling a willingness to receive information from all corners of the market.

The offshore siphoning of funds from Indian entities through complex, opaque structures is precisely the kind of capital flight the RBI is mandated to confront.

Our ongoing investigation revealed:

- **Over ₹ 12,820 crore (\$1.5b) in offshore brand fees** remitted from VEDL's operations VRL since FY22, with no commercial justification or proper benchmarking.
- **Dividend payouts exceeding ₹68,372 crore (\$8b)** in 3 years, funded not by profits but by debt and asset sales, solely to service VRL's offshore debt, placing Indian entities under strain.
- **Deliberate misuse of intra-period loans and round-tripping** to launder funds across opaque subsidiaries, including a \$956m (₹8,171 crore) loan where \$417m (₹3,564 crore) remains outstanding with questionable recovery prospects.
- **Cross-border financial engineering designed to bypass FEMA, 1999**, with offshore remittances disguised as intercompany loans, draining India's FX reserves and eroding its tax base.
- **Use of brand fee receivables as collateral** for high-interest foreign debt, subordinating Indian operations to VRL's offshore lenders.
- **Indian banks exposed to Agarwal-affiliated shells** (Serentica, Runaya Group) with negligible standalone revenues, functioning as margin-draining pass-throughs from VEDL, HZL, and BALCO.
- **Backdoor covenants binding VEDL to VRL's foreign loans, giving offshore lenders control over dividend declarations, borrowings, and asset sales without formal consent from Indian entities.**
- **Persistent governance and disclosure failures**, with value extracted via related-party arrangements lacking transparency, and Indian stakeholders carrying the long-term risk.

As promised in the letter below, Viceroy did make a comprehensive formal submission to the RBI. To allow RBI time to properly consider and investigate its contents, it is not our intention to publish this submission immediately.

What truly threatens India's financial sovereignty is the silent, sustained siphoning of its capital to offshore creditors. We continue to stand ready to assist regulators in their mission to protect the interests of Indian markets, institutions, and retail investors.



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July 15, 2025

Smt. N Sara Rajendra Kumar
Chief General Manager & Chief Vigilance Officer

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By email: cvo@rbi.org.in

Dear Ms Kumar,

Vedanta Resources Limited

We write to formally bring to your attention a series of findings arising from our ongoing investigation into Vedanta Resources Group, whose subsidiaries include Vedanta Limited (**VEDL**), Hindustan Zinc Limited (**HZL**), Bharat Aluminium Company (**BALCO**) and various unlisted affiliates and shareholding vehicles.

This structure is being deliberately misused to channel Indian corporate funds to the foreign parent entity through brand fees, intercompany loans, upstream dividends, and financial guarantees. These practices collectively amount to unauthorized foreign exchange remittances, regulatory evasion, and potential endangerment of India's foreign exchange reserves.

These mechanisms are devoid of commercial justification, lack transparency, and appear structured to avoid taxes, bypass FEMA compliance, and secure offshore debt at the cost of Indian public interest. As such, this scheme raises serious regulatory red flags under FEMA, 1999, and the RBI's oversight framework.

As an investigative research group based in the USA, Viceroy Research conducts independent financial analysis on entities that span the globe. Our current research concerns the debt and control structure of Vedanta Resources Limited (**VRL**), a UK entity whose solvency appears increasingly dependent on extractive financial practices at its Indian subsidiaries.

We hold a short position in US denominated VRL debt instruments.

We respectfully submit this letter as a call to regulatory action. The cross-border transactions executed within the Vedanta Group not only undermine India's capital controls but actively erode the nation's tax base. These remittances, often funded by VEDL's domestic borrowing, represent a credit stability risks to VEDL's Indian lenders.

Please note that our analysis is conducted entirely from publicly available information and without any access to non-public or privileged data.

Our full report is available at: <https://viceroyresearch.org/2025/07/09/vedanta-limited-resources/>



1. FEMA & GAAR Exposure – Brand Fees Functioning as Prepaid Loans

VEDL and its subsidiaries have paid over \$1.1b in “brand and strategic services” fees to VRL since FY22. Nominally based on turnover forecasts, their size is heavily influenced by VRL’s borrowing costs.

- VRL extracts hundreds of millions of dollars annually from VEDL and its subsidiaries through “brand fees” that lack any commercial justification. In FY25 alone, these fees amounted to \$361.3m (₹3,088 crore). We were informed that the company has advanced another ~\$400m in FY26, bringing the total to ~\$1.5b since FY22.
- These payments are securitized as security for VRL’s debt, locking VEDL into a destructive loop that erodes shareholder value.
- Brand fee-related services are not provided by VRL in London, but largely by VEDL employees in India. This assertion is backed by VRL’s office being available for lease and former employee statements.
- Brand fees have been pledged as security against VRL’s 18% \$1.25b offshore credit facility, meaning they are unlikely to ever fall below the facility’s service costs.
- There is no evidence of benchmarking or arm’s-length comparability, and the terms are wildly unfavorable to VEDL. For comparison, Tata Steel’s brand fees are 0.25% of turnover, capped at ₹200 crore (\$24.01m).

2. Debt-Fueled Dividends – Systemic Capital Misallocation & FX Drain

VEDL has paid out over \$8.0b in dividends over the past three years, exceeding free cash flow by \$5.6b. These dividends are not funded by earnings but by aggressive new borrowing, asset liquidations, and depletion of working capital buffers.

- VEDL has paid ~\$8b in dividends in the last 3 years, exceeding free cash flow by \$5.6b. This is a structurally unsustainable arrangement that appears driven by VRL’s offshore debt servicing needs rather than VEDL’s business needs.
- This upstreaming has created a terminal feedback loop: VEDL must borrow or sell productive assets to maintain dividends, placing strain on operations and weakening its own financial position.
- From FY22 to FY25, VEDL’s net debt increased by \$6.7b, while cash and short-term investments declined by over \$2.1b.
- This dividend policy is artificial, unsustainable, and exposes Indian lenders, bondholders, and FX reserves to indirect risk.

The circular financing model borrowing domestically to upstream dollars offshore places a persistent drain on India’s capital account and subverts the RBI’s monetary and financial stability objectives.

3. Off-Balance Sheet Liabilities and Misleading Disclosures

- Both VEDL and VRL are likely using intra-period loans and hidden interest costs to mask their deteriorating cash flow, increasing leverage and in VEDL’s case, increasingly unsustainable dividend policy.
- There is a demonstrated use of intercompany funding structures that bear similarities to historical schemes (e.g. the 2020 \$956m loan, the TSM–Bloom Fountain Operation), designed to both extract and launder funds through multiple layers of opaque entities.
- There appears to be a deliberate policy of hiding overseas remittances as loans from Indian profit generators to overseas operating subsidiaries, only for those same subsidiaries to remit those funds to VRL entities.
- Material liabilities and impairments are obfuscated through deliberately incomplete disclosures across jurisdictions, a consistent theme in Viceroy’s analysis.



4. Round-Tripping and Recharacterization – The \$956M VRL Loan & CIH Buyback

A June 2020 \$956m loan from VEDL to various VRL subsidiaries supported VRL's subsequent accumulation of VEDL shares and led to a doubling of VEDL's share price.

- The loan was issued with no security, despite VEDL acting as both lender and effective guarantor. \$122m of the loan was impaired within four months, with no recovery action disclosed.
- The facility was restructured multiple times and partially "repaid" via offshore subsidiaries, using opaque intercompany flows.
- A \$330m buyback at Cairn India Holdings (CIH) followed shortly after, used to return capital to VEDL, which was then passed up to VRL.
- The loan term was extended from December 2023 to May 2026, despite the borrower's worsening financial health.
- \$417m remains outstanding. We have serious doubts over its recoverability due to VRL's liquidity position.
- This structure results in disguised repatriation of funds under the pretense of capital restructuring, with clear GAAR and FEMA exposure.

5. Improper Cross-Binding of Domestic Entity to Offshore Debt

VEDL has disclosed that it is *not a party* to VRL's offshore borrowings yet is *bound* by restrictive covenants therein¹. These include:

- Lenders have the right to approve or block mergers, asset sales, and borrowings by VEDL.
- Dividend declarations and intercompany lending by VEDL are restricted under terms it did not agree to.

6. Lending to Agarwal-Affiliated Entities – Indirect Exposure to VEDL via Related-Party Shells

Indian lenders have extended significant credit facilities to Agarwal-owned entities such as Serentica Renewables, Runaya Greentech, Runaya Refining, and Minova Runaya.

- These entities are entirely dependent on VEDL and its subsidiaries for operating cash flows. They have negligible independent revenues.
- Their business models rely on long-term, captive contracts with VEDL, HZL, and BALCO to create the illusion of financial viability.
- They have used these related-party agreements to raise hundreds of millions of dollars in external debt.
- Their profits are guaranteed through cost-plus, risk-free structures that function as margin theft from VEDL entities to Agarwal-owned entities.
- While nominally distinct from the Vedanta Group, these borrowers are effectively secured by the cash flows of Vedanta Group companies. Indian lender exposure is effectively tied to VEDL's balance sheet, a systemic risk.
- These entities are owned by offshore Agarwal holding vehicles in another way the structure designed to move value out of India.

We respectfully submit that the risks outlined above merit regulatory attention, particularly as VEDL and HZL continue to borrow from Indian lenders to fund its overseas parent's debt obligations.

We appreciate your understanding as we continue to investigate what are, by design, highly complex and layered structures. Given the scope of these findings, we intend to provide a more comprehensive submission within the week.

¹ SEBI Regulation 30A filing dated June 26, 2025



Viceroy Research has a consistent track record of uncovering accounting and governance irregularities at public issuers, including companies later subject to regulatory action, criminal enforcement, or restructuring. Our research is based entirely on public records and official filings, and we welcome the opportunity to provide clarifications or source references should your office require them.

Where our research can support Indian regulators, investors, and the public interest, we stand ready to help.

Yours faithfully,

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Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Vedanta Resources, its affiliates, or any other entity to file a report with the appropriate regulatory body.

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.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

About Viceroy

Viceroy Research are an investigative financial research group. As global markets become increasingly opaque and complex – and traditional gatekeepers and safeguards often compromised – investors and shareholders are at greater risk than ever of being misled or uninformed by public companies and their promoters and sponsors. Our mission is to sift fact from fiction and encourage greater management accountability through transparency in reporting and disclosure by public companies and overall improve the quality of global capital markets.

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