



Vedanta - MoPNG Objection Analysis

Vedanta's demerger hides material misstatements and significant hidden liabilities in a unviable demerged company.

PLEASE READ IMPORTANT DISCLAIMER – PAGE 5

October 15, 2025 – Viceroy have obtained the Ministry of Petroleum and Natural Gas' objection to Vedanta Limited's demerger application. The objection, a copy of which will be published alongside this report, cites material misstatements by Vedanta Group, "material breaches" of Production Sharing Contracts (PSCs), regulatory violations, and financial engineering to offload liabilities.

The objection also includes the letter explaining the GoI's unprecedented step to decline renewing VEDL's lease on the Cambay block.

This is a red alert for bondholders and creditors of VRL. Regardless of whether the NCLT approves the demerger, the underlying regulatory breaches, hidden liabilities and financial risks represent a serious credit risk.

Key Findings from the GoI's Objection Filing

1. Illegal Encumbrance of Government Assets

Vedanta has used the RJ-ON-90/1, Ravva and Cambay blocks as collateral for External Commercial Borrowings (ECBs), Non-Convertible Debentures (NCDs) and Term Loans, despite PSC clauses prohibiting encumbrances without approval from the Management Committee. Vedanta did not obtain such approval and the GoI classifies this as a material breach.

OBJECTIONS OF GOI THROUGH MoPNG

RE: UNLAWFUL CREATION OF ENCUMBRANCES ON GOI'S ASSETS

8. VEDL's audited financial statements reveal that it has secured External Commercial Borrowings (ECBs), Non-Convertible Debentures (NCDs), and Term Loans by creating charges over assets of its Oil & Gas division, including blocks under the PSC regime (e.g., RJ-ON-90/1, Ravva, Cambay)³.
9. This action is a direct and material breach of the PSCs/RSCs/underlying agreement that *inter alia* mandate seeking approval/permissions/review from Management Committees (MC) established under those agreements for any proposed mortgage, charge or encumbrance on Petroleum assets. VEDL has acknowledged the creation of these encumbrances by offering an undertaking by way of a Board Resolution suggesting a future action of releasing these charges created on the oil and gas assets, prior to implementation of the Scheme. At the outset, the creation of charge of petroleum assets in a breach in terms of the underlying PSC/RSC/Contractual agreement and secondly, a post-facto assurance (rather acknowledgement) cannot retrospectively cure the violation.

Vedanta pledged, as collateral, assets it did not own, and could not legally liquidate in any event.

The GoI dismissed both Vedanta's offer to release the charges and any undertaking by MEL, the demerged entity that would hold VEDL's O&G assets. Instead, it pointed out that post-facto action cannot cure a breach, and that charges should be released before the Scheme is approved by the NCLT.

This presents a significant problem for VEDL, whose leverage has only increased in recent periods as it relies on debt to maintain unsustainable dividends to its promoter VRL.

2. Misleading Disclosures on Asset Ownership

The GoI states that Vedanta's claim that its asset base of "62 blocks in India" in investor presentations is "**fundamentally misleading and legally untenable**". According to the submission, "most" of these blocks have been de-allocated or are in the process of being taken back.

This was not disclosed by VEDL or VRL and directly contradicts their public statements, including those regarding its bond issuances in January and September 2025.



19. Despite this clear legal position, VEDL has made incorrect and misleading disclosures in the Scheme documents, stating that its "oil and gas business segment has a diversified asset base with 62 blocks in India". This representation is fundamentally misleading and legally untenable, as VEDL has not disclosed the present status of these blocks, most of which have either been de-allocated and are in the process of being taken back by the GoI, thus suppressing the true and correct picture qua their asset base.
20. At this stage, it is pertinent to bring to this Ld. Tribunal's attention a material development concerning the Cambay Basin Offshore Block (CB/OS-2) [PSC expired on 30.06.2023], which constitutes a major share of VEDL's asset base in respect of Oil & Gas Undertaking, has been decommissioned by GoI [(19th) September 2025]. It is submitted that the said fact (yet to be disclosed to the shareholders and creditors) is anticipated to have adverse financial implications for both the Demerged Company and Resulting Company No. 3. Full and transparent disclosure of this development is, therefore, imperative to ensure the shareholders and creditors are fully apprised of all material matters prior to considering the proposed Scheme of Arrangement. It is further submitted that GoI issued show cause notice dated 4.8.2025 to Vedanta for creating encumbrance over the PSC assets and in reply dated 13.08.2025 Vedanta admitted to the same. Copies of Notice dated 04.08.2025 and Vedanta's replies dated 13.08.2025 are attached herewith.

The implication is serious: if the demerger proceeds the demerged O&G entity may face the imminent loss of a significant portion of its asset base. Given Malco Energy Limited's chronic losses and negative net worth, the resultant Company would effectively be headed straight into bankruptcy.

Further, Cambay continued to be listed as an operational asset in FY25 despite:

- The expiry of the PSC on June 28, 2023;
- The expiry of the interim authorization on September 29, 2024; and
- Orders from the GoI to stop all drilling on December 14 & 27, 2024.

Government. In fact, the Contractor, after expiry of the contract, even attempted to carry out fresh drilling campaign. The Government vide email dated 14.12.2024 explicitly directed the Contractor to halt all drilling activities as there was no valid PSC or lease. Thereafter, the Government vide email dated 27.1.2.2024 again informed the Contractor that the petroleum operations have become illegal as there was no a PSC, lease or interim permission allowing such the petroleum operations. Despite repeated directions from the Government to halt operations, the Contractor continued to carry out illegal petroleum operations and unlawfully produced mineral oils without any lease, contract or interim permission, disregarding the express direction issued by the Government to the contrary. Such actions of the Contractor are in blatant violation of the provisions of Section 4A of the Oilfields (Regulation and Development) Act, 1948 and Rule 4 of the Petroleum and Natural Gas Rules, 1959.

This is a textbook material misstatement: claiming ownership of an asset it does not own.

3. Selective Disclosure and Revenue Overstatement

Vedanta recognized \$578m in revenue in FY24 from an arbitration award while failing to disclose a \$222m - \$1,162m counterclaim by the GoI in the same matter. This represents 27% of the Company's O&G revenue for the period.

17. Despite the above, VEDL has unilaterally recognized revenue of USD 578 million (INR 4761 crore) in FY 23-24 based on its interpretation of the FPA, while failing to disclose the GoI's counterclaims and the portions of the award in GoI's favour on the basis of their internal accounting policy, thereby exposing their shareholders to unaccounted risks. Even if the GoI's challenge to the FPA under Section 34 of the Arbitration Act fails, although we are confident of success, it would still be entitled to recover a minimum of USD 222 million, if not 1162 million. The said fact is completely omitted from the Scheme¹⁰.



This pattern of selective recognition has recurred across our analysis of the Vedanta Group. The Company's reserve and production disclosures are already misleading by bundling 2C and 2P reserves. This lack of disclosure misleads investors as to cash flows and segment profitability.

4. Declining Profitability and Output from Core Blocks

In their rejection of VEDL's Cambay block lease extension, the Gol cites the decline in output from the RJ-ON-90/1, Ravva and Cambay blocks over the preceding 6 years. Revenues have remained volatile, a failure the Gol blames on Vedanta's complacency resulting in rising unit costs and declining yields.

and 2021-22, representing a 49.3% reduction from 6.53 MMBOE to 3.31 MMBOE. It is also seen that the efforts to increase production brought only temporary recovery and the average annual production over the six-year period remained around 4.39 MMBOE, significantly below the initial baseline. While production has declined, the production costs have increased dramatically from USD 25.96 million in 2018-19 to USD 78.19 Million in 2023-24. As a result, revenues from the block have remained volatile and the production of every unit of petroleum has become significantly more costly due to failure of the Contractor to arrest the increasing production costs and decreasing production volumes. These high costs arising from operational inefficiencies are being recovered from the Government under the PSC and are impacting the revenues flowing to the Government.

This corroborates our findings that Vedanta's core productive O&G assets are in terminal decline, while the Company is underinvesting in exploration. As a significant stakeholder in these same assets, the Gol cites its declining revenues as a reason to decline the lease extension.

5. Financial Shell Game: Liability Dumping into MEL

The O&G business is being demerged into Malco Energy Limited (MEL), a loss-making company with negative net worth, chronic cash losses, and a massive working capital deficit. The Company's financials indicate management do not believe it will ever be profitable, and it relies on perpetual support from VEDL.

The Gol further notes that much of MEL's asset base is comprised of cost-recovered assets that are unrecoverable in a liquidation scenario.

11. Pre-demerger, VEDL's total assets of **INR 205,175 Crore as on 30.09.2024** provide a security cover of **12.30 times** the Gol's total demand (approx. INR 16,700 Crore). However, post-demerger, the resulting entity MEL will have assets of only **INR 29,154 Crore**, reducing the asset cover to a mere **1.75 times**. This drastically diminishes the security available to the Gol. **Crucially, a major portion of MEL's assets are cost-recovered assets under PSCs, which are not freely transferable and have minimal realizable value in a liquidation scenario.**
12. Moreover, the financial statements of MEL reveal a company in deep financial distress, making it an unsuitable entity to house the significant liabilities of the Oil And Gas Undertaking. Admittedly, MEL has **a negative net worth of INR 172 Crore** [as of 30th September 2024] which was a negative net worth of INR 94.01 Crore [as of 31st March 2024] [Refer to Statement of Net Worth as of 30th September 2024⁴. Further, MEL has suffered continuous cash losses, amounting to **INR 85.64 Crore in FY 23-24 and INR 244.06 Crore in FY 22-23**. It has a significant working capital deficit, with current liabilities (INR 892.82 Crore) far exceeding current assets (INR 412.49 Crore)⁵.
13. **The non-recognition of Deferred Tax Assets on carried forward losses (INR 335.38 Crore) and unabsorbed depreciation (INR 1,744.59 Crore) indicates that both the management and auditors believe future profitability is not probable.** This raises serious concerns about MEL's ability to operate as a going concern without perpetual support from VEDL, and its capacity to satisfy Gol's substantial claims⁶.

The Gol's key concern is that MEL is being used as a financial dumping ground for O&G-related liabilities VEDL has neither the intention nor capacity of servicing. This supports statements made by VRL and VEDL that signal that demerged entities will be left to fend for themselves financially.



6. Continued Illegal Operations After PSC Expiry

Vedanta continued production and exploration in the Cambay Block after the expiry of its PSC in June 2023 and interim authorization in September 2024. VEDL continued to carry out fresh drilling campaigns despite multiple GoI orders explicitly directing them to cease all drilling activities.

This represents outright illegal extraction of national resources. Revenues generated from Cambay post-expiry is potentially subject to clawbacks or penalties. None of this was disclosed by the Company to the market representing a significant credit risk to both VEDL and VRL.

b. Continuation of Petroleum Operations without PSC, lease or interim permission: The PSC of the block expired on 28.06.2023 whereafter Contractor was granted interim permission to continue petroleum operations in public interest till 29.09.2024. The lease granted to the Contractor had also expired. However, the Contractor continued to carry out petroleum operations in the area and did not deliver up the leased area and the assets to the Government. In fact, the Contractor, after expiry of the contract, even attempted to carry out fresh drilling campaign. The Government vide email dated 14.12.2024 explicitly directed the Contractor to halt all drilling activities as there was no valid PSC or lease. Thereafter, the Government vide email dated 27.1.2.2024 again informed the Contractor that the petroleum operations have become illegal as there was no a PSC, lease or interim permission allowing such the petroleum operations. Despite repeated directions from the Government to halt operations, the Contractor continued to carry out illegal petroleum operations and unlawfully produced mineral oils without any lease, contract or interim permission, disregarding the express direction issued by the Government to the contrary. Such actions of the Contractor are in blatant violation of the provisions of Section 4A of the Oilfields (Regulation and Development) Act, 1948 and Rule 4 of the Petroleum and Natural Gas Rules, 1959.

VEDL only informed the market that the GoI refused to extend the Cambay lease on September 23, 2025, after the Economic Times' reporting on the issue prompted the NSE to contact the Company for further information¹.

7. Violation of PSC Extension Guidelines

Vedanta's Cambay lease extension application was made without meeting basic eligibility requirements including unpaid royalties, Site Restoration Fund shortfalls, SAED obligations and unsettled audit exceptions. These shortfalls have only been partly remedied after "inordinate" delays.

This represents an aggressively optimistic bet on regulatory forbearance by VEDL, as well as a general lack of diligence in operations. The sums involved are relatively minor and would have been a small price to pay to retain the lease over the Cambay block.

Conclusion

The O&G vertical inherits contested contracts, regulatory breaches and material government claims. The reason the GoI is contesting the demerger today, is because it will not be able to recover its dues tomorrow. The demerger will not reduce group-level risk, it will concentrate and exacerbate it.

For creditors and investors, the key concern is that the Vedanta Group has sold them on a demerger while hiding significant liabilities and losing institutional support. Taken together with VRL's backtracking on its debt load and repayment status of its Private Credit Facility, it is not unreasonable to state that the Vedanta Group's financials cannot be relied upon.

¹ <https://www.bseindia.com/xml-data/corpfiling/AttachLive/0753031b-6a9a-4515-b9af-7ba7746dc2a5.pdf>



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.

Important Disclaimer – Please read before continuing

This report has been prepared for educational purposes only and expresses our opinions. This report and any statements made in connection with it are the authors' opinions, which have been based upon publicly available facts, field research, information, and analysis through our due diligence process, and are not statements of fact. All expressions of opinion are subject to change without notice, and we do not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them. We believe that the publication of our opinions about public companies that we research is in the public interest. We are entitled to our opinions and to the right to express such opinions in a public forum. You can access any information or evidence cited in this report or that we relied on to write this report from information in the public domain.

To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. We have a good-faith belief in everything we write; however, all such information is presented "as is," without warranty of any kind – whether express or implied.

In no event will we be liable for any direct or indirect trading losses caused by any information available on this report. Think critically about our opinions and do your own research and analysis before making any investment decisions. We are not registered as an investment advisor in any jurisdiction. By downloading, reading or otherwise using this report, you agree to do your own research and due diligence before making any investment decision with respect to securities discussed herein, and by doing so, you represent to us that you have sufficient investment sophistication to critically assess the information, analysis and opinions in this report. You should seek the advice of a security professional regarding your stock transactions.

This document or any information herein should not be interpreted as an offer, a solicitation of an offer, invitation, marketing of services or products, advertisement, inducement, or representation of any kind, nor as investment advice or a recommendation to buy or sell any investment products or to make any type of investment, or as an opinion on the merits or otherwise of any particular investment or investment strategy.

Any examples or interpretations of investments and investment strategies or trade ideas are intended for illustrative and educational purposes only and are not indicative of the historical or future performance or the chances of success of any particular investment and/or strategy. As of the publication date of this report, you should assume that the authors have a direct or indirect interest/position in all stocks (and/or options, swaps, and other derivative securities related to the stock) and bonds covered herein, and therefore stand to realize monetary gains in the event that the price of either declines.

The authors may continue transacting directly and/or indirectly in the securities of issuers covered on this report for an indefinite period and may be long, short, or neutral at any time hereafter regardless of their initial recommendation.