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Alternate and Quantitative Research

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Vedanta Open Offer

Minimum Acceptance: 49% | Final Acceptance Potential: 64%

Vedanta Open Offer: Details and Minimum Acceptance Ratio

- Vedanta Resources Ltd has raised the open offer price for buying **17.5%** of Vedanta Ltd outstanding shares to **Rs235 per share**. The offer price is at a 5.1% premium to the CMP Rs223.6. In Jan'21, Vedanta had offered to buy up to 10% of its outstanding shares at Rs160 per share. The open offer starts on **March 23** and will close on **April 7**. The last date for rejection/acceptance of shares is April 26. **The offer is not subject to any minimum level of acceptance.**
- Currently the promoter entities cumulatively hold 55.11% of the outstanding shares.
- Among other major shareholders, **LIC** holds **5.6%**. LIC had offered its shares at Rs320 per share in Oct'20 when Vedanta Resources Ltd made an open offer to delist Vedanta Ltd shares. We believe that LIC is unlikely to participate in the open offer at the current price of Rs235 per share.
- Additionally, Vanguard, Blackrock and Charles Schwab cumulatively hold 3.35%. We do not expect these entities to participate in the open offer as these shares are held as part of passive tracking funds.
- Excluding the above entities, the participating stake in the open offer stands at 36%. Based on these numbers, the minimum acceptance ratio stands at 49%.

Promoter Stake		55.11%
Unlikely to participate in the Open Offer	LIC	5.58%
	Vanguard	1.58%
	Blackrock	1.45%
	Charles Schwab	0.32%
Remaining Stake		35.96%
Stake Offered		17.51%
Acceptance Ratio		49%

Vedanta Open Offer: Potential Acceptance Ratio

- We analyze a scenario where other entities might not participate, leading to a higher final acceptance ratio.
- As per the offer document, **holders of ADRs will not be entitled to participate in the open offer unless they convert their ADRs into equity shares and then tender such equity shares in the open offer.** Given the process, regulations, fees, taxes and time involved in the conversion, it is likely that ADRs will not participate in the open offer.
- Our current target price of Rs217 includes a 30% holdco discount on the attributable share of Hindustan Zinc which if were to be removed will increase the intrinsic value of Vedanta up to Rs280. Given this is significantly higher than the offer price, we expect that major domestic institutions with a cumulative stake of ~4.4% may not participate in the offer.
- Based on the above assumptions, the participating stake further falls to 27%, hence the final acceptance ratio could climb to 64%.

Promoter Stake		55.11%
Unlikely to participate in the Open Offer	LIC	5.58%
	Vanguard ETF	1.58%
	Blackrock	1.45%
	Charles Schwabb	0.32%
Remaining Stake		35.96%
Other stakeholders that might not participate	ADR	4.22%
	Major DIIs	4.4%
Remaining Stake		27.34%
Stake Offered		17.51%
Acceptance Ratio		64%

Vedanta Open Offer: Scenario analysis for Open Offer Arbitrage

- Below is a scenario analysis matrix of open offer arbitrage returns for different acceptance ratios and post-offer prices, based on CMP Rs223.6.
- Returns are based on the assumption that unaccepted shares are immediately sold at the market price.
- Assuming a final acceptance ratio of 65% and post-offer price of Rs220, the expected open offer arbitrage return is **+2.75%**.

Post Offer price / Acceptance	Acceptance ratio								
	50%	55%	60%	65%	70%	75%	80%	85%	90%
180	-7.20%	-5.97%	-4.74%	-3.51%	-2.28%	-1.05%	0.18%	1.41%	2.64%
185	-6.08%	-4.96%	-3.85%	-2.73%	-1.61%	-0.49%	0.63%	1.74%	2.86%
190	-4.96%	-3.96%	-2.95%	-1.95%	-0.94%	0.07%	1.07%	2.08%	3.09%
195	-3.85%	-2.95%	-2.06%	-1.16%	-0.27%	0.63%	1.52%	2.42%	3.31%
200	-2.73%	-1.95%	-1.16%	-0.38%	0.40%	1.19%	1.97%	2.75%	3.53%
205	-1.61%	-0.94%	-0.27%	0.40%	1.07%	1.74%	2.42%	3.09%	3.76%
210	-0.49%	0.07%	0.63%	1.19%	1.74%	2.30%	2.86%	3.42%	3.98%
215	0.63%	1.07%	1.52%	1.97%	2.42%	2.86%	3.31%	3.76%	4.20%
220	1.74%	2.08%	2.42%	2.75%	3.09%	3.42%	3.76%	4.09%	4.43%
225	2.86%	3.09%	3.31%	3.53%	3.76%	3.98%	4.20%	4.43%	4.65%
230	3.98%	4.09%	4.20%	4.32%	4.43%	4.54%	4.65%	4.76%	4.87%
235	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%
240	6.22%	6.10%	5.99%	5.88%	5.77%	5.66%	5.55%	5.43%	5.32%
245	7.33%	7.11%	6.89%	6.66%	6.44%	6.22%	5.99%	5.77%	5.55%
250	8.45%	8.12%	7.78%	7.45%	7.11%	6.78%	6.44%	6.10%	5.77%

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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