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Vedanta's voyage of recovery

Head of IR Ashwin Bajaj relates Indian mining giant's path to market redemption

Research Report: Top roadshow destinations and brokers revealed

Annual meetings
What's on the table for the 2018 proxy season?

Perception studies
DIY tech options vs traditional investor surveys

Engagement
The Investor Forum on talking down short-termism

Listings
China's Hong Kong Stock Connects are picking up steam

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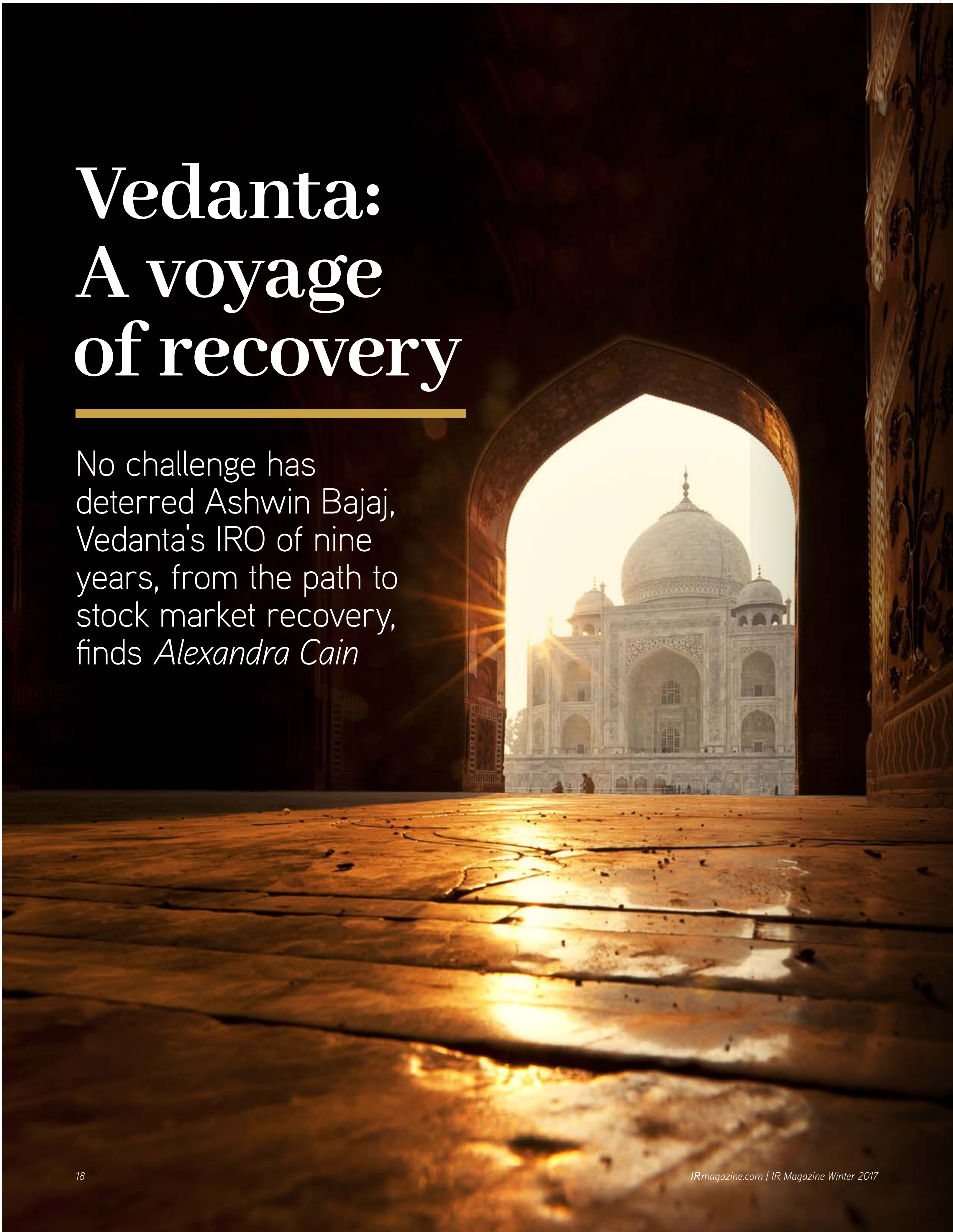

Vedanta: A voyage of recovery

No challenge has deterred Ashwin Bajaj, Vedanta's IRO of nine years, from the path to stock market recovery, finds *Alexandra Cain*

At a glance

NO SMALL CHALLENGE
The share price of India's mining giant Vedanta Resources had plummeted severely following a commodities price correction in 2015, while earlier reputation issues had led to divestments by several significant institutional investors. It was high time to take action in order to 'regain credibility and investor confidence'.

MASTERING RECOVERY
Head of IR Ashwin Bajaj boosted his investor relations program with disclosure of detailed business data, regular site visits including 'open interactions with on-the-ground operating staff', and management access. The team also developed a simplified message to allow for a 'comprehensive overview in a one-hour meeting'.

RISK COMMUNICATION
An investor relations professional shouldn't hesitate to 'deliver tough feedback to management' if needed. Often a challenge, risk communication has increasingly been at the center of IR concerns. Avoiding negative aspects may lead to a higher risk premium by the market and therefore a higher cost of capital, Bajaj stresses.

It's been a long way back for Vedanta, the diversified Indian resources company whose share price has more than trebled in the last 18 months. That might suggest an easy ride for Ashwin Bajaj, head of investor relations for the Mumbai-headquartered Vedanta Ltd and London-listed Vedanta Resources Plc. Life wasn't always like this, however.

Indeed, this recent period followed the challenge of a severe commodity price correction. In mid-2015 commodity prices crashed, causing a slide in Vedanta's share price from its high of INR306.20 ($4.74) in June 2014 to just INR63.40 in February 2016. The mining behemoth also faced serious reputation issues related to environmental protection and health and safety, which led to several divestments by institutions such as Norway's Government Pension Fund, the Church of England and Dutch pension fund PGGM. At time of writing, however, the stock was trading at INR320.10, representing a huge turnaround.

Taking action

Following the commodity market crash, Bajaj and his team embarked on a comprehensive program to return Vedanta to its former place as a resources-sector stock market darling. 'We have never taken our focus away from investor relations,' he says. 'Even when the commodity world was off course, we believed in the company and its strengths.'

Following a cost-cutting exercise, Bajaj embarked on communication of the company's turnaround strategy in April 2016, when it released its full-year results. (Indian businesses typically have a March year-end.) The IR team began educating the market about a program of asset ramp-ups across the aluminum, power and iron ore businesses, positioning Vedanta as one of the only resources companies poised for significant organic growth. Then, in July that year, better market conditions meant the business could announce more attractive terms for the merger of Vedanta Ltd and oil and gas company Cairn India, originally announced in June 2015. The merger was subsequently approved in September 2016 and completed in March 2017.

The market warmed to other initiatives, too. For instance, Vedanta Ltd owns a 65 percent share of Hindustan Zinc, which delivered a $2.1 bn special dividend. Then in March 2017 Vedanta Ltd announced its highest-ever special dividend of $1 bn, along with a new dividend policy, which has been well received. JPMorgan praised the company for giving 'clarity on capital allocation', while a Macquarie research note described management as having 'delivered on operations and corporate restructuring guidance'

> 'We believe Vedanta can continue to attract top global investors into the register, and we are focused on that'

and 'regained credibility and investor confidence.'

Bajaj is now working on positioning Vedanta Ltd as a leading global diversified natural resources company. 'Given our strengths we believe Vedanta can continue to attract top global investors onto the register, and we are focused on that,' he says. The IR team is also

> ‘You often need to deliver tough feedback to management so you need a fair amount of courage’

working to ensure it has the best possible coverage from sell-side analysts and a robust shareholder register, populated with long-term investors. ‘We ensure markets have all the information they need about Vedanta and understand the story well,’ Bajaj adds. ‘Our goal is to ensure that our equity valuation is in line with or better than our peers’ and that we have a competitive cost of borrowing in the bond markets.’

That’s important to Bajaj partly because Vedanta Resources is a major issuer of US dollar bonds but also because he is responsible for debt investor relations, too. ‘We have $4 bn of bonds outstanding, each tranche between $500 mn and $1 bn, and we have a very strong bondholder base,’ he explains. ‘We are well covered by credit analysts: I would say we are one of the most actively followed emerging markets bond issuers in the natural resources space.’

The broader IR program involves earnings calls as well as roadshows in London, New York, Boston, Hong Kong, Singapore and Mumbai. And the IR team participates in a range of metals and mining, emerging markets and Indian investor conferences. ‘We also host week-long site visits to all our operations, capital markets days and site visits that look at a particular area of our business,’ Bajaj says.

One objective is to keep the messaging and disclosures consistent across all forums for equity and bondholders of both companies. ‘Investors and analysts regularly tell us we do this quite successfully,’ Bajaj says. ‘They often point other companies in India toward our IR practices, which tells us we must be doing something right.’

KEEPING UP WITH THE VEDANTAS

- Vedanta Ltd is the main operating company and the flagship of the group, which was founded in the 1970s. It is 50.1 percent owned by Vedanta Resources Plc, with the remainder of the company in free float.
- The group has large-scale assets in metals such as zinc, aluminum, silver and copper, as well as oil and gas and iron ore.
- With a primary listing in India and Level 3 ADRs on the NYSE, Vedanta Ltd has a market capitalization of about $19 bn.
- The stock is included in the Nifty 50 index as well as in the global MSCI and FTSE indices.

The right associations

Indian domestic institutional investors, both mutual funds and insurance companies, are an important part of Vedanta Ltd’s shareholder base. Many of these are joint ventures with global companies such as HDFC Standard Life and ICICI Prudential. Global asset managers such as BlackRock, HSBC GAM, Templeton and Eastspring (the Asian arm of Prudential UK) are also invested in the company.

Other investors include global pension funds like APG. Sovereign wealth funds – such as GIC of Singapore and Abu Dhabi Investment Authority – are also major investors, as are similar funds from countries like Saudi Arabia, Kuwait and China. ‘Compared with our Indian peers, Vedanta Ltd has historically had higher foreign institutional ownership given our global profile and ADR program,’ Bajaj notes.

The Vedanta investor relations team works very closely with the group CEO and CFO, according to Bajaj, who reports to the board in detail on shareholders and analysts, their views of the company and the IR messaging. ‘I regularly interact with the CEOs and CFOs of our different businesses, in addition to the group chief executive and CFO,’ he says. ‘You often need to deliver tough feedback to management so you need a fair amount of courage, and to display leadership both within and outside your company.’

Doing things differently

Bajaj says what sets Vedanta’s IR program apart is the team’s ability to put the whole package together well. ‘Our endeavor is to simplify a fairly rich story for investors,’ he explains. ‘We have six lines of business and I can walk a sell-side analyst through these in about 45 minutes, and spend another 10-15 minutes on strategic and corporate issues, thus providing a comprehensive overview in a one-hour meeting.’

He says the company’s detailed but clear disclosures are a plus. FTI Consulting has an India Disclosure Index and Vedanta Ltd has been in its top tier for the last couple of years. ‘Our team effort makes Vedanta’s

IR successful,' he notes. 'We have a very good team, and we ensure we keep each other well informed and work cohesively, leveraging our mutual strengths.'

Analysts back this up. Credit Suisse analyst and India equity strategist Neelkanth Mishra started covering Vedanta when it was still known as Sterlite, more than a decade ago. 'The data Ashwin's team provides for Vedanta's businesses is the most detailed in the sector, and among the best in India,' Mishra says. 'The firm organizes regular trips to its mines, oilfields and smelting units, and allows open interactions with on-the-ground operating staff.'

Mishra adds that the IR team provides access to senior management to understand strategy, 'with targets discussed in detail' – which he says is a rarity in the sector in India.

Mumbai-based analyst Jigar Mistry, who runs Buoyant Capital, says: 'The Vedanta IR program has grown and transformed to global standards under Ashwin's leadership. He has built strong trust and credibility with analysts and investors globally, and enhanced Vedanta's presence in the financial markets.'

Bajaj acknowledges risk communication is one of the most challenging aspects of investor relations. He says Vedanta tries to be transparent, avoiding the natural human tendency to 'emphasize the positives and downplay the negatives' and notes the importance of balance to build long-term credibility.

'Over time the markets figure out how balanced and transparent each company's IR and management team is,' he says. 'You need to be transparent, and have clear and relevant disclosures. You need to deliver what you promise to the market. Looking at this from the opposite end, you need to promise realistically, and IR plays a key role here. If a company is known to avoid disclosing the negatives, the market could simply ascribe a higher risk premium to that company, leading to a higher cost of capital.'

Additional reporting by Janet Dignan

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The reputation issue

By Candice de Monts-Petit

Companies in the mining industry experience a lot more volatility in response to the value of their reputation and what that implies for helping maintain stability and share price, explains Simon Cole, founder of London-based consultancy Reputation Dividend. 'A typical assumption is that companies in the sector go for a 'show the numbers and let the rest speak for itself' approach,' he says. 'The result is that when the numbers are good, their reputations tend to ride high and when the numbers are bad, they flop down again.'

This is because, as with other extractive industries such as oil and gas, mining firms tend to display 'one-dimensional' reputations, in contrast to other sectors where there is more 'breadth and richness,' Cole says. 'It's less about the work and more about what else is going on.'

Heavyweights such as Rio Tinto or Glencore, for example, currently have pretty good reputation ratings, but this hasn't always been the case. 'Earlier this year, Glencore's reputation asset was providing sufficient confidence among investors to account for about 43 percent of the total market cap – it carries a lot of weight,' explains Cole. 'And that's despite the investment community thinking these are 'messy' businesses, with all sorts of stereotypical negatives attached to mining companies. Rio's reputation asset was even higher, about 48 percent.'

This compares with Glencore's and Rio's 2015 figures, respectively standing at 16 percent and 15 percent when commodity prices were collapsing. 'They've been up and down a lot compared with other sectors. Pharmaceutical companies, for instance, benefit from a fuller, wider reputation that becomes more robust when things start to chip away at it.'

Sustainability is a relatively small driver of corporate value but it is an increasingly important one, according to Cole. Another one is a company's ability to attract talent. 'Companies without a sustainability program don't benefit from that mark-up,' he points out, adding that these need to be 'realistic, honest programs. Then it's a case of ensuring skepticism from the outside audience is countered, and promoting the sustainability program as part of the reputation of the company.'

Larger firms have an advantage in that they are better understood and the matters influencing investors are already well known, Cole adds. 'When you go down to smaller companies, investors spend more time examining them because their reputation doesn't speak for them. My advice to mining firms is to address the wider issues – it's about being understood and open. Don't lose out on a value gain by not spending the time telling people about the good things you're doing. There's still room in this world for 'messy' businesses if they're operating well.'