

Company overview of vedanta resources



INTRODUCTION

Vedanta resources is the first Indian company to be listed in the London stock exchange in December 2003. It is an FTSE 100 metals and mining company with its headquarters located in London, UK and is India's largest non-ferrous company based on their revenues. The company is principally situated in India, although they have possessions and operations in other locations such as Zambia and Australia. Vedanta Resources is mainly invested in copper, zinc, Aluminium businesses, however the company is now adding to their portfolio by diversifying into a commercial power generation business.

The group has experienced a significant growth in recent years on grounds of various expansions in projects owing to a world class resource base containing copper, zinc and Aluminium, the result of this being the acquisition of Sesa Goa in April 2007, which enabled them to penetrate into the iron ore market. Therefore the organization is actively participating in the iron-ore, zinc, Aluminium and copper businesses.

Vedanta has a precise vision and mission statement, vision being to be clear and committed so that they might become the market leaders in the non-ferrous market segment and their mission is to be a low cost, million-ton per annum producer, the ultimate goal however is to make the company a success, needless to say that such a mission will certainly put India on a global competitive platform, in the metals and mining segment.

The company has continuously demonstrated that they are able to bring - in projects that are of high significance thereby contributing unmatched growth

at minimum pricing while ensuring high returns to all their shareholders.

Also, the organization makes certain that they meet the high conservative standards that are set, so that unjustifiable numbers are not shown in their balance sheets.

Vedanta Resources deals with a diverse portfolio of mining and metals business as they make available eminent proceeds to their shareholders even as they make sure that they are socially and environmentally accountable, as the management keeps track of their employees health and safety, community issues and of their surroundings.

Several of Vedanta Resource's operations are authorized by International Management Systems Standard ISO 14001, proof of it being the many awards won by the company such as Recognition of Commitment Award from the Institute of Internal Auditors, USA in 2005, Vedanta Resources being the only manufacturing company out of a total of four Indian companies to have ever received this award, not to mention the numerous safety and environment awards.

To quote the chairman of Vedanta Resources, Mr. Anil Agrawal ' India is a fast-emerging and attractive resource destination, and we believe our strategy and business objectives will harness India's high-quality wealth of mineral resources at low costs of development, positioning it as a leader on the global metals and mining map.'

ORGANIZATIONAL STRUCTURE

Vedanta is an emerging multinational conglomerate with many overseas operations. Its organizational structure is a complex one with many

<https://assignbuster.com/company-overview-of-vedanta-resources/>

subsidiaries, governing board and a management committee. The governing board consists of executive and non executive directors. The executive board of directors consists of Mr. Anil Agarwal, Mr. Navin Agarwal and Mr. M S Metha. Mr. Anil Agarwal founded the company and is leading the company as the executive chairman. Mr. Navin Agarwal is the deputy executive chairman of Vedanta and looks after the corporate business strategy and responsible for overall performance and growth. He also heads the executive committee. Mr. M. S. Metha is the chief executive officer of Vedanta. He joined the conglomerate in the year 2000 and previously was working at Lloyds Steel Industries.

The non executive board consists of Mr. Naresh Chandra, Mr. Aman Metha and Mr. Euan Macdonald. Mr. Naresh Chandra was a Padma Vibhushan award winner from the Government of India and he is an Indian Administrative Service officer. He joined the group in 2004 after holding many prestigious positions in India. Aman Metha also joined the group in 2004. Before that he was the CEO of HSBC. Euan Macdonald was the chairman of SBC Warburg India and specializes in emerging market finance.

The management committee is lead by Mr. Navin Agarwal and consists of:

COMMITTEE

DESIGNATION

TARUN JAIN

PRESIDENT GROUP HUMAN RESOURCES

DD JALAN

WHOLE TIME DIRECTOR & CEO ALUMINIUM BUSINESS

MS METHA

WHOLE TIME DIRECTOR BALCO

P K MUKHERJEE

DIRECTOR OPERATIONS KCM

DILIP GOLANI

COO HZL

RAJAGOPAL K. KUMAR

CEO COPPER & ZINC BUSINESS

AKHILESH JOSHI

HEAD MANGT ASSURANCE FUNCTION

J. JANAKARAJ

CEO VEDANTA RESOURCES

PRAMOD SURI

CEO IRON ORE BUSINESS

M SIDDIQI

CFO VEDANTA RESOURCED

A THIRUNAVUKKARASU

DOF STERLITE

Vedanta Resources plc. is the parent company with many subsidiaries operating in different sectors in different names. Vedanta has interests in five main businesses. Each business is operated by one of its subsidiary. Below is the Vedanta resources plc's group tree.

Copper Business:

Copper business are run and operated by Sterlite Industries (India) Limited, Konkola Copper Mines Plc and Copper Mines of Tasmania, however, Vedanta holds 53.9%, 79.4% and 100% stakes respectively and management control in the above companies. The total copper business has an annual production of 678,412 tons and generates revenue of \$4,012 million. The end products are the Continuous Cast Rods and Copper Cathodes. Copper from the copper mines are smelted using ISA process, one of the world's leading technology in copper smelting. They have the latest version of CS 3000 Distributed Control System of Yokogawa from Japan to control the entire copper smelter.

Aluminium Business:

Bharat Aluminium Company Limited (BALCO) and Vedanta Aluminium Limited (VAL) are responsible for Aluminium business. Aluminium business has a total production capacity of 500,000 tons per annum. Vedanta has the controlling stakes of 70.5% in VAL and Sterlite, the subsidiary of Vedanta

owns a stake of 51% and exercises management control. Currently the Aluminium business is under vigorous expansion and by 2012 it would become top five Aluminium producers in the world. The company produces metallurgical grade alumina and Aluminium ingots, billets and bars used for making buses. The Aluminium smelter used the advanced technical specifications of British Standard Institute (BSI). The company has bagged OHSAS 18001 certification for good health and protection standards. VAL unit has obtained ISO 9001 and ISO 14001 certificates for quality production and management practices. These Aluminium complexes also have integrated power plants in them.

Zinc business:

Zinc business is wholly owned and operated by Hindustan Zinc limited (HZL). Vedanta own 64.9% of share capital in HZL. It has an annual production of 9,64,000 tons of zinc that generates revenue of \$1,782 million. HZL is the world's integrated second largest producer of Zinc and Lead. Apart from Zinc and Lead the plant also produces Silver, Cadmium and generates power. Silver and Cadmium are obtained as a byproduct of Lead and Zinc metal respectively. The equity shares of HZL are traded at the Indian stock exchange. The metals are refined and sold according to their quality.

Iron ore business:

The whole iron ore business is operated by its subsidiary Sesa Goa limited. Vedanta has a controlling stake of 57.1%. The company makes iron ore, pig iron and metallurgical coke. The company has a production capacity of 21.4 million tons of iron ore fines and lumps which generates revenue of \$1221.7 million. Apart from these they also sell the in-house technology for coke

<https://assignbuster.com/company-overview-of-vedanta-resources/>

making. They found new technology using vibro – compaction to stabilize coal before using in the furnace for firing. Sesa Goa's mines have ISO status for good management standards and safety.

Commercial Power Generation business:

This is a new business venture for Vedanta group and is run by its subsidiaries Sterlite Energy Limited (SEL) and Madras Aluminium Company Limited (MALCO). SEL is a 100% subsidiary of Sterlite Industries Ltd. As of now the excess power from its various plants are sold. Specialized commercial power generation plants are being set up in India. By the end of 2011 the power plants would become fully operational. Two plants are being set up with a combined generation of 4380MW per year.

OPERATIONS OF VEDANTA RESOURCES PLC:

CORPORATE STRATEGY

Since its incorporation in 1976, Vedanta has been very successful in its operations. The current turnover of company is \$ 7931 million. The success can be owed to the corporate strategy of Vedanta which can be explained as follows:

Organic Development:

This includes developing organization's own capabilities. It is done by making using of latest technology for manufacturing processes; spreading investments over a time, venturing the scope of entry in new markets, analyzing the ability of the company to enter them and then enter into such markets.

Latest Technology for Mining & Smelting Operations: Vedanta has been doing it by using highly advanced technology for manufacturing and designing. This helps in reducing the production costs and thereby gaining advantage to compete in the market. For e. g. The Sesa Goa's team did a detailed experimentation involving studies on the temperature profile of the oven and redesigning the refractories. Followed by the systematic plant trials, it developed ' energy recovery coke making', an environment-friendly technology that is characterized low capital and operating cost, high energy recovery and capable of producing high quality metallurgical coke.

Implementing cost reduction techniques: Vedanta has signed long-term contracts with suppliers of raw materials. This not only reduces production costs but also accounts for the continuous availability of resources without getting affected by market fluctuations.

Launching Brownfield and Greenfield Projects: These form a very important consideration for a mining industry. Brownfield projects are abandoned sites that are available for industrial or commercial reuse. The development or expansions of such land is more difficult owing to contamination by earlier use. Greenfield projects are the ones which lack any constraints imposed by prior work. There is no need to demolish or remodel the structure. Vedanta has been investing in Brownfield and Greenfield projects for expansions. A 1.4 mtpa aluminium refinery project at Lanjigarh and an aluminium smelter of capacity 500, 000 tpa both in state of Orissa, India are few of the Greenfield projects launched by the company.

Entry in New Market: Also the company has now ventured into Commercial Power Generation. It recognised the tremendous scope in the industry for commercial power generation, in India. It has therefore started commercial power generation plants in Chhattisgarh and Orissa. Also these plants are located at strategic positions, mainly in the coal rich zones of India, thereby facilitating transport and easy availability of coal.

Consolidation of Group Structure:

As shown above, Vedanta has many subsidiaries like KCM, Sterlite Industries India Ltd, Sesa Goa Ltd etc. Although it has the Holding Stocks and management control over all these, some of the stakes are owned by private investors. Vedanta is constantly trying to buyback its stock and purchase shares of all its subsidiaries. This would help in a consolidated group structure. The main advantage of it is ease in the management decisions.

Mergers and Acquisitions:

Since 2004, the Vedanta Resources had only one acquisition till date by acquiring the Madras Aluminium Co Ltd. While taking stake into consideration the Vedanta resources taken over 5 companies till finalization of balance sheet for 2010. Acquisitions include Konkola Copper Mines Plc. in 2004 and part in 2009 with a total of 79.4% stake, next Sterlite Gold Ltd and Finsider International Co Ltd both in the year 2007. Moreover, the company acquired approximately 25.8% by the outstanding common shares of Sterlite Gold on a fully-diluted basis. Also the company acquired Finsider International Co Ltd. Fully from a Japanese company called Mitsui & Co at around USD 981 million. In the year 2009 the company acquired 51% of Sesa

Goa Ltd, India's largest producer-exporter of Iron-Ore in the private sector at INR 4070 Crore.

Now, the Vedanta Resources are planning to acquire 60% stake in Crain India Company. The Cairn India is a leading player in Oil and Gas industry in India. Moreover, Crain India is one the biggest private exploration and Production Company currently operating in India. Edinburgh based Crain Energy is holding a total of 62.37 percent stake in Crain India. According to the deal the Crain Energy will sell its stake to Vedanta Resources Plc for the deal amount of USD 9.6 billion at 405 INR per share.

Successful acquisition of KCM, MALCO, Sterlite Gold Ltd and Sesa Goa has added substantial growth to the Vedanta as a whole. They are continue looking for a new growth and acquisition opportunities in the metal and mining sector and related opportunities in India and elsewhere. They are taking all these steps by keeping government privatization programmed in mind.

PESTEL ANALYSIS

Political & Legal:

As minerals are a nation's wealth, the mining industry operates under the huge cloud of political and legal pressure. Mainly they are state owned or nationalized and involves a large and complicated process for licensing. The industry is very much regulated by governmental law that mainly focuses on labour and environmental factors. In the recent days, the increasing concern for environmental issues has made the government to pressurize the mining policies. Upon this the media focus is still more an added pressure for the

mining industry. Even though the government's policies are mainly aimed to protect the resources but they also encourage exports by giving subsidies and encourage new technology developments.

Economic:

Mining is an industry that requires very high capital investment. Thus, interest rates make a major impact. Not all countries are rich in deposits of minerals; hence mining generally involves import and export of products. The exchange rates fluctuations are a dominant concern. The import taxes and international trade cycle are also important economic factors for the mining industry.

Social:

Being an industry that impacts the surrounding environment in areas of its operation, the support of the local community is of the most important and underlying factors for mining. Mining, though, a resource based industry, cannot be carried out in areas of high population because of the concerns that it may affect the public health. Mining has also been under the scanner of various activist groups over the recent years. The industry thus has also been attracting continuous media attention. Vedanta has been attracting a lot of media attention recently over ESG issues.

Technology:

The process involved in the mining industry right from the raw material transportation still export involves risky process. In those conditions the laws prevent the use of human resources that make the mining industry heavily dependent on technology. Recently the mines are using computerized

machines that operates according to its program and automated conveyor belts to reach its specified destination i. e. harbor or warehouse. But still the underground mining relies mainly on human resource due to its complicated nature of mining.

Environmental:

Mining is an industry that affects and makes a negative impact on the environment during and after the process. Thus any mining activity has to go through a number of clearances and regulations concerning the environment. Almost all countries demand an investigation of its impact on the environment before any activity can start.

PORTERS 5 FORCES ANALYSIS

The following diagram gives the 5 Forces Analysis for Vedanta Resources:

Threat of New Entrants: The threat of new entrants to Vedanta is very low. This is mainly because of high capital investments required. The limited resources in mining and the costs of exploration, the various government laws, the equipment required, additional costs incurred in rehabilitation of people living at mining sites etc all make it difficult for new entrants to venture in this industry.

Threat of Substitutes: The threat of substitutes also is low. This is mainly because metals are required basically for all types of manufacturing industries as an input. Even if substitution is considered, it has limited scope. Also the price/performance ratios of iron, aluminium etc is low, making the threat of substitutes even less.

Bargaining Power of Suppliers: The suppliers include the suppliers of raw materials required, that of equipment etc. There are very few suppliers and therefore their bargaining power is high. Also the cost of switching suppliers is high making it difficult to do so. Vedanta has entered into long term contracts with their suppliers, thus reducing the costs. It also ensures that Vedanta get supply of goods without being affected by market fluctuations.

Bargaining Power of Buyers: This is low as the demand of the metals and metal products is very high. Also switching costs are high as the costumers normally have contracts with the company.

Competitive Rivalry: Some of the competitors of Vedanta Group are Rio-Tinto, BHP Billiton Ltd, Grupo-Mexico, Hindalco etc. The competition is intense as every player is trying for their market share as the resources are becoming restricted and limited.

SWOT ANALYSIS:

A complete SWOT analysis of Vedanta Resources plc would provide a clear and unbiased strategic analysis of the company's strengths and weakness and potential opportunities and threats, this sort of analysis helps the business in understanding its partners, customers and competitors better.

STRENGTHS: The strength can be determined by the fact that the company has assets that are global with respect to both scale and size; their low cost of production which makes the group competitive among its peers and the skill and experience that are incorporated in the nature of their assets is of high quality. Their recent growth in volume and the many measures that the group have taken in reducing costs has increased their cash flow

considerably; The Company understands the fact that it is important to maintain a low leverage by enabling adequate liquidity and meeting all their financial obligations, possessing a strong vision, making strategic acquisitions and having an ability to think ahead. They also understand the value of their employees which is a competitive advantage as it's not easily reproducible like technology and the fact that they strive for excellence has only increased their strength.

WEAKNESSES: Poor brand management, not giving importance to marketing of the company, keeping silent while a swarm of people accusing the company has increased trouble for the company. Therefore, the company must make all efforts in order to correct the problem before they run out of business and need to curtail their operations.

OPPORTUNITIES: The opportunities for the group are many, success in the group will allow the company to compete globally. Several efforts are made by the company with respect to expansion of the company and growth and this can be clearly seen in the group on having acquired Sesa Goa, which makes it possible for the company to penetrate through the iron ore market and by making strategic decisions, will guarantee that Vedanta Resources triumphs.

THREATS: The potential threats as reported by The Independent news paper is the fact that the human rights protestors that stood outside the company's building in their avatar costumes, outshone the company's accomplishments which is a major threat to the company's image. The backing out of the Church of England; only six months after researching into the company or

Aviva who is one of their backers, who voted against them in three resolutions in board meeting which they attended. Vedanta however, denies the rumors concerning the pollution of Lanjugarh, or any breach in human rights, the encroachment of land in Nyamgiri Hills in Orissa and any other accusations that have been made against the company and they continue to contest any allegations made against the group. Although the rumors are overtaking their defensive stand and is causing a serious dent to the Vedanta Group's image. (The Independent, 2010)

COMPETITIVE ADVANTAGE:

In terms of the competitive advantages for Vedanta resources Plc, Firstly, they have a mining site located where the availability of natural resources is high. Their production is done on the basis of the accessibility of the raw material. As the natural resources are highly available, the supply of the raw material and the cost of production can be low, and the cost of capital can be divided to sustain it in the current market.

The raw material in the industry is nothing but the resources held by the group and as they located where there is a rich source of natural resources, not to mention the availability of cheap labour at their mining site which results in Vedanta having a low cost of production per unit leading the company to win an award for the low cost of production in year 2007. Culture of the society where there are located, is also well known by them so the adjustment to the market environment would not be an issue placing the company in a very advantageous position

The company has also started their operations in power production unit. They had produced the power sufficient enough for their production and the excess production was sold out and this resulted to the investment in a power generation plant. Now they have obtained blocks for 112. 2 million tons with the ministry of coal. They have signed a contract with Chhattisgarh government for the interested thermal and coal power generation plant for 1200 MW power capacity.

India is fifth largest in the world for the bauxite with the reserve about of 2, 600 million tones and for the coal reserves and for iron ore it is sixth. The most of the mining and smelting site for Vedanta resources are in India. This is advantageous for potential growth in the further prospective for the company.

CORE COMPETENCE

For Vedanta the core competence of their business strategy is developing low cost, with inexpensive skilled and educated labour. (Business Standard, 2008) In the mining industry, the high costs are to do with the investment in acquiring a mining site and costs need for production. However, Vedanta has reduced its cost of production owing to their location, which is rich in natural resources. The current production for the Aluminium is 1. 4 mtpa which is planned to be increased by 6, 00, 000 tpa to reach its total production of 2 mtpa. The company aims at investing \$ 9. 8 Billion by which they will be the fifth mining company for Aluminium metal.

CORPORATE SOCIAL RESPONSIBILITY

In the present-day business scenario, Corporate Social responsibility (C. S. R.) and sustainability have become a very high-profile agenda in many countries and industries. Thus, due to the nature of its business, Corporate Social Responsibility is a pretty confound and complicated issue for Vedanta Resources Plc. The company has quite a mixed record on the social responsibility front. Nonetheless, the company has made certain valiant efforts to conduct their business in a socially responsible manner.

Vedanta's current C. S. R. agenda acknowledges the responsible management of the Environmental, Community, Health and Safety and Employee issues with respect to all of their operations. The company's Health, Safety and Environment (H. S. E) management framework administers the healthy and sound management of its operations. According to its current agenda, the company aims to reduce the impact of its activities on the environment. Efficient consumption of energy and water and use of recycled materials is one of its main motives. It has taken initiatives through its subsidiaries to fulfill its motives. Being a mining company, the health and safety of its employees and the community is a core concern for Vedanta. The company has a Health and Safety management framework and policies in place, which aim to ensure a risk-free environment for its employees. Vedanta has also taken efforts to support and enhance the local community in the areas of their operations. Sterlite Foundation is financially supported by the group, which provides free computer training to the young under-privileged people. The company has also made several contributions and

donations to the community. For example being the donation of US\$1. 1 million to the Rajasthan drought relief fund, through its subsidiary – H. Z. L.

Despite making certain efforts to conduct its business in a socially responsible manner, Vedanta has been engulfed in a web of allegations concerning this issue over the last few years. The company has been under immense criticism for having a poor human rights and environmental record by various activist groups and authorities. A human rights group called Amnesty International, has criticized and raised the issue of ill treatment of the local tribal people by Vedanta in the Niyamgiri hills in Orissa, India. Various other activist groups have also accused Vedanta and its subsidiaries of threatening the livelihood of the community residing in and around the areas of its mines. This also led to recent public demonstrations and protest against the company worldwide. However, the company has maintained a stance that, it would act in a responsible manner and that the proposed project will only enhance the community as a whole in the particular area.

Vedanta's Alumina refinery at Lanjigarh in Orissa, India, has also been critiqued by the State Pollution Control board in India for air and water pollution. Amnesty International has accused Vedanta of failing to curb the impact created by its refinery of air pollution on the local community. The company is also facing investigations and charges regarding pollution because of its project in Armenia. This is another issue that has been raised by various activist groups.

The company has also failed to maintain a clear health and safety record recently. Separate incidents have darned its reputation concerning safety

efforts. An under construction chimney at its smelter in Chhattisgarh, India collapsed causing death of more than 40 workers and employees. The company has also been accused of safety negligence as its unsafe mining operations have led to deaths of more than 25 workers and employees and injuries to hundreds of others in 2007.

The controversies, poor human rights and environmental allegations have caused a lot of socially responsible investors to divest from the company. After protests by Survival International – a human rights group regarding the Orissa issue, the Church of England sold its stake worth 3.75 million pounds in Vedanta resources on the basis of ethical grounds. The Church stated that “we are not satisfied that Vedanta has shown, or is likely in future to show, the level of respect for human rights and local communities that we expect of companies in whom the Church investing bodies hold shares,” The Scottish investment firm Martin Currie Investments also sold its stake worth more than 2 million pounds following protest from activist groups. Other responsible investors like the Swedish Government, Joseph Rowntree Charitable Trust, Dutch investment firm PGGM and a few others have joined the bandwagon of disinvesting from the company following its poor recent social record. The BP Pension fund has also reduced its share following similar concerns. The UK and Norwegian governments have also condemned the company. The disinvestment by shareholders has been a major concern for Vedanta as it certainly threatens to affect its growth.

On 24th August 2010, the Indian government blocked the company's proposal for a new mine in India alleging Vedanta of having a poor human rights and environmental record. India's Environment minister stated, “

<https://assignbuster.com/company-overview-of-vedanta-resources/>

There is no emotion, no politics, no prejudice... I have taken the decision in a purely legal approach, that these laws are being violated". This has been a major blow for Vedanta as it was planning to invest more than 5 billion pounds in the Niyamgiri project.

The company has also been alleged of charges of bribery in Chennai, India for the reopening of a factory that was shut down due to a major accident. Sterlite, a subsidiary of Vedanta was slapped with tax notice of more than 44 million pounds by the India Excise department in 2010 while a few other legal violations have also tarnished the company's image.

All the recent allegations and controversies in the recent times resulted in a negative image for the company. Its stock rose tremendously by more than 200% from April 2009 to April 2010 but after the recent allegations and concerns over disinvestment by investors, the stock has been a sharp decline. Thus, the issue of corporate social responsibility has certainly made an impact on its growth recently and could also be a cause of concern if the company does not adopt new strategies to improve its CSR record. Vedanta must revive its CSR agenda to clarify investor concerns. The company has however claimed that it aims resolve all the issues regarding the allegations and aim to enrich and empower the community wherever they operate.

Projects Under Scrutiny

Lanjigarh Bauxite Mine

Lanjigarh Smelter

Chhattisgarh Chimney Collapse

<https://assignbuster.com/company-overview-of-vedanta-resources/>

Chennai Factory

Source:

CONCLUSION:

In conclusion Vedanta Resources is India's largest non-ferrous metal and mining company based on revenue. This FTSE-100 company has a strong balance sheet with cash and liquid investment of \$7.2 billion and has cash in excess of \$7.0 billion. Moreover, it's the only Indian manufacturing company listed at London Stock Exchange. They are working with workforce of 30,000.

The analysis shown above certainly explains the success of Vedanta Resources in mining industry. This success can be hugely owed to its corporate strategy. However there are still some glitches in the strategy. This is evident by the SWOT analysis, so also the effects on its business as an aftermath of its weak corporate social responsibility. Therefore it is evident that their current corporate strategy is not sustainable. Although due consideration has been given in asset optimization, reducing costs and thereby gaining profits; Vedanta has not given due consideration to the threat posed by its competitors. If any of the competitors enter India, for mining then Vedanta would not be able to survive. Moreover their corporate social responsibility has been lacking; this has severely affected their Brand-name, a very important factor in today's market. It has also resulted in decreased market share and withdrawal from many of their investors like Church of England. Therefore certain changes have to be made in their current corporate strategy.

First of all, the company should give due consideration to its Social Responsibility, it should provide rehabilitation facilities to people, who have lost their lands due to mining activities. It should provide safety and security measures for their workers. It should also come with policies that are in accordance with the human right and environment. All this would add up with Brand Image of the company. It should try to improve relations with Indian governm