Beyond Profits: Governance, Dividends and Value Creation: A Case Study

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ABSTRACT

Hindustan Zinc Limited presents a useful governance question: can strong operating performance coexist with a board that falls short of the applicable independence rule? We examine its annual reports and governance disclosures from FY2021 to FY2025, with FY2025 comparisons to Hindalco Industries and National Aluminium Company. Revenue increased from ₹22,629 crore to ₹34,083 crore, while the company reported ₹10,353 crore in FY2025 profit after tax. Yet its nine-member board had only three independent directors on 31 March 2025. The annual report identifies a shortfall under SEBI Regulation 17(1)(b), and discloses
₹36.60 lakh in FY2025 exchange penalties, excluding GST. Economic value added also fell from ₹8,553 crore to ₹4,900 crore across the observation period. These facts establish a tension between the firm's cash-generating operations and the independent oversight of decisions about cash. They do not, by themselves, prove that dividends or related-party transactions harmed minority shareholders. We recommend a board composition plan that actually satisfies the 50% rule, clearer disclosure of capital allocation tests and related-party review, and measurable reporting on ethics and community outcomes.

Keywords: Hindustan Zinc, corporate governance, independent directors, agency theory, dividends, economic value added, business ethics

INTRODUCTION

Mining companies must commit capital long before they know the prices at which much of their output will be sold. That timing makes governance consequential. A board has to weigh current distributions against future mine development, safety, water management and the liquidity needed in a downturn. Shareholders may agree that a dividend is attractive and still disagree on its size or timing. For a company with a controlling shareholder, the question is also whether the process gives minority owners enough confidence that every material choice was tested on equal terms (Shleifer & Vishny, 1997; Mallin, 2019).

Hindustan Zinc Limited (HZL) is an integrated zinc, lead and silver producer. At 31 March 2025, Vedanta Limited held 63.42% of its equity, the Government of India held 27.92%, and other shareholders held 8.66% (Hindustan Zinc Limited, 2025). The company had a profitable FY2025: revenue of ₹34,083 crore, EBITDA of ₹17,465 crore and profit after tax of
₹10,353 crore. These results make the governance issue more, rather than less, relevant. A valuable operating business has more cash and more strategic choices to oversee.

The immediate concern is concrete. HZL reported three independent directors on a nine-member board at the end of FY2025. Because its non-executive chairperson is related to the promoter, the applicable SEBI listing rule calls for at least half the board to be independent. HZL itself reported a two-director shortfall, pending nomination through the Government of India under the shareholder agreement (Hindustan Zinc Limited, 2025; Securities and Exchange Board of India, 2015). We investigate what this board composition means in the context of five years of earnings, dividends, changing equity and the firm's existing audit and ethics systems.

The analysis asks three questions. First, how did operating earnings, cash generation and the balance sheet change from FY2021 to FY2025? Second, what does the reported independence gap indicate about oversight of capital

allocation and related-party dealings? Third, which disclosures would help readers assess whether formal policies work in practice? Our aim is an evidence-based case study, not a causal estimate of the effect of a particular director or dividend on firm value.

REVIEW OF LITERATURE

Agency theory begins with a familiar problem: managers control resources funded by investors and may not always choose what those investors would choose themselves. Jensen and Meckling (1976) describe the costs of monitoring and imperfect alignment; Fama and Jensen (1983) explain why decision making and decision control should be separated. Independent directors and audit committees help create that separation, although their effectiveness depends on information, incentives and active judgment rather than a title alone (Hermalin & Weisbach, 1991; John & Senbet, 1998; Klein, 2002).

A concentrated owner changes the shape of this problem. Strong ownership can make managers easier to monitor, but it can also leave minority holders exposed to decisions that serve the controller. Cross-country research documents how control rights can diverge from dispersed investors' interests, and work on Indian business groups describes ways that resources may move between affiliated firms (Claessens et al., 2000; La Porta et al., 1999; Bertrand et al., 2002). Young et al. (2008) describe this as a principal-principal conflict. It is a framework for asking questions, not evidence that a particular transaction at HZL was improper.

There is another way to understand management. Stewardship theory argues that leaders can act as committed custodians of a business, particularly where long investment horizons reward continuity (Donaldson & Davis, 1991). This possibility matters in mining: a project can require years of patient spending before ore is produced. The practical response is to make independent oversight useful to management by asking clear questions about project returns, funding buffers and counterparty terms, while also retaining the capacity to challenge decisions. Formal independence and capable stewardship can reinforce one another.

The business ethics literature widens the circle of people whose interests a board must consider. Stakeholder theory links durable performance with obligations to workers, customers and affected communities (Donaldson & Preston, 1995; Freeman, 2015). In mining, local acceptance depends on trust, procedural fairness and the response to environmental and social concerns, not merely a reported expenditure total (Moffat & Zhang, 2014). Studies of corporate social responsibility caution against assuming that a policy or programme count establishes a beneficial outcome (Aguinis & Glavas, 2012; Crane et al., 2019). These perspectives support a close look at the quality of HZL's disclosure, alongside its audited financial figures.

RESEARCH GAP

The source paper contains substantial information on performance, board composition and CSR, but these strands need a tighter analytical connection. A high margin does not answer whether board oversight is sufficient; a dividend total does not show whether minority owners lost value; and a whistle-blower policy cannot establish how many concerns were raised and resolved. This study brings those observations into a single, explicitly bounded case analysis. It also distinguishes a company-reported metric from a ratio calculated from rounded amounts and separates a documented compliance finding from an inference about risk.

OBJECTIVES

We examine five-year financial trends, the reported dividend and equity movements, HZL's board independence under Regulation 17(1)(b), its audit and ethics mechanisms, and the limited lessons available from two FY2025 peers. We then propose disclosures and governance steps that readers could assess in later reports. The central objective is to show exactly where the evidence supports a conclusion and where further documents would be needed.

RESEARCH METHODOLOGY

This is a documentary single-company study covering FY2021 through FY2025. The supplied HZL research draft provided its five-year data table; we cross-checked key FY2025 operating and board facts against HZL's FY2025 integrated report and its corporate governance report. The report provides company-defined EBITDA and economic value added (EVA), which we retain as company measures. We use peer figures from the supplied draft for contextual comparison only; differences in consolidation, product mix and definitions prevent a controlled performance ranking (Hindalco Industries Limited, 2025; Hindustan Zinc Limited, 2025; National Aluminium Company Limited, 2025).

Amounts are in ₹ crore unless stated otherwise. Our calculations use four annual intervals: revenue growth = (34,083 / 22,629 − 1) × 100 = 50.62%, and revenue CAGR = (34,083 / 22,629)^(1/4) − 1 = 10.78%. For FY2025, EBITDA margin = 17,465 / 34,083 =
51.24%; net margin = 10,353 / 34,083 = 30.38%. The board independence ratio is 3 / 9 = 33.33%. Two more independent directors would bring the numerator to five only if the nine-seat denominator were maintained by replacing two non-independent seats; simply adding two seats would result in 5 / 11 = 45.45%.

Several measures require care. The draft's "free cash flow from operations" is presented as a company-defined measure rather than independently reconstructed cash flow after capital expenditure. EVA reflects HZL's own capital-employed and cost-of-capital definitions, and is not interchangeable with net income. The draft's cash-plus-investments and borrowing figures do not reconcile exactly to every separately labelled net-cash figure, so we do not use those net-cash values to infer precise cash balances. The analysis is descriptive: no counterfactual model identifies the causal effect of governance structure on profits or valuation.

Table 1. Hindustan Zinc selected five year financial and operating indicators

Measure	FY21	FY22	FY23	FY24	FY25
Revenue	22,629	29,440	34,098	28,932	34,083
EBITDA[1]	11,739	16,289	17,590	13,677	17,465
Profit after tax	7,980	9,629	10,511	7,759	10,353
Operating cash flow	10,567	12,691	15,129	13,346	14,160
Mined metal (kt)	972	1,017	1,062	1,079	1,095
Book equity	32,313	34,281	12,932	15,195	13,326
Gross borrowings[2]	7,177	2,823	11,841	8,456	10,651

Source: Supplied HZL research draft, compiled from the company's annual reports; FY2025 headline revenue, EBITDA, PAT and board facts cross-checked with HZL FY2025 report. [1] Company-defined EBITDA. [2] Excludes leases in draft; verify line-item definitions before submission.

DATA ANALYSIS AND INTERPRETATION

Operating performance and cash conversion

Revenue rose by ₹11,454 crore between FY2021 and FY2025, or 50.62%. It did not climb evenly: FY2024 revenue of ₹28,932 crore was below FY2023's ₹34,098 crore before recovering to ₹34,083 crore in FY2025. EBITDA followed a similar pattern, falling from
₹17,590 crore in FY2023 to ₹13,677 crore in FY2024 and then reaching ₹17,465 crore. This is why a single-year margin can mislead. FY2025's calculated EBITDA margin was 51.24%, but the five-year table also contains a marked cyclical dip in the preceding year. Production increased more steadily: mined metal rose from 972 kt to 1,095 kt, a gain of 12.65%. Price and cost conditions therefore matter to any explanation of revenue changes (Hindustan Zinc Limited, 2025).

Operating cash flow increased from ₹10,567 crore to ₹14,160 crore, a gain of 34.00% on the rounded figures in the supplied draft. Dividing operating cash flow by profit after tax gives approximately 132.4% in FY2021 and 136.8% in FY2025. The gap is useful evidence that accounting earnings translated into operating cash across these endpoints. It is

not a direct measure of spare cash available for dividends: investment in underground assets, debt service and working-capital needs still have to be financed. A more complete distribution analysis would reconcile operating cash flow, maintenance and growth capital expenditure, borrowing changes, liquid investments and dividends in each year.

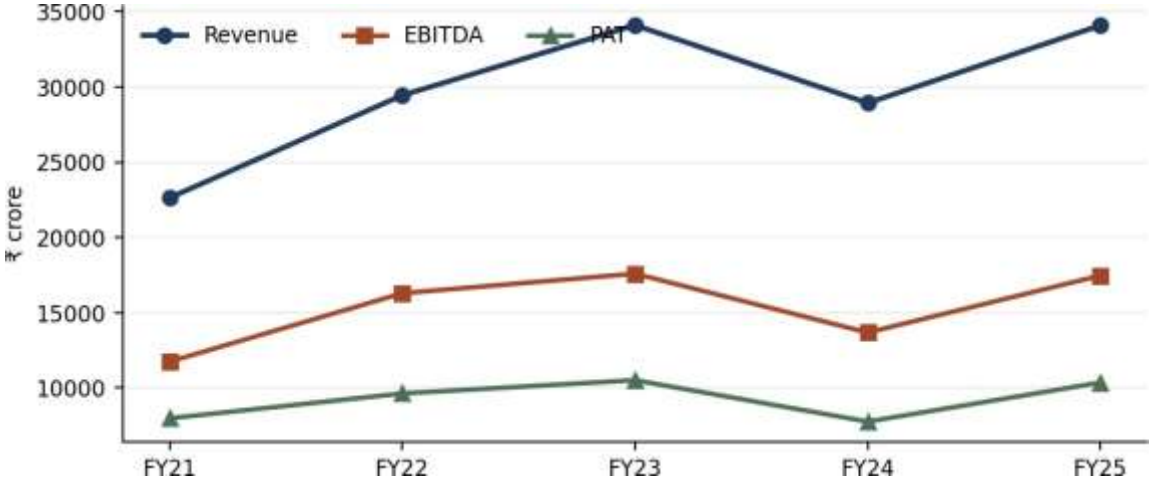


Figure 1. Revenue, company-defined EBITDA and profit after tax, FY2021 to FY2025. Source: values in Table 1.

Dividends, equity and value creation

The draft reports cash dividends of ₹7,000 crore, ₹8,000 crore, ₹31,901 crore, ₹13,000 crore and ₹13,324 crore across FY2021–FY2025, a total of ₹73,225 crore. This amount is large relative to the FY2023 profit of ₹10,511 crore, when the draft lists ₹31,901 crore in distributions. Book equity was ₹32,313 crore in FY2021 and ₹13,326 crore in FY2025, a reduction of 58.76%; gross borrowings rose from ₹7,177 crore to ₹10,651 crore. The ratio of those closing borrowings to closing book equity moved from approximately 0.22 to 0.80. A lower equity denominator contributes to the rise, so this ratio alone should not be described as the amount of new debt financing.

Dividend payments are shared pro rata among shareholders and can be a legitimate return of surplus capital. A controlling investor nevertheless has a stronger ability to influence when and how much the firm distributes. The combination of lower equity, higher borrowings and substantial payouts warrants a published explanation of how the board tested liquidity after committed capital expenditure. It does not establish that money was improperly transferred to the parent. Evidence for such a claim would require transaction-level terms, board and committee approvals, and a demonstrated counterfactual showing that HZL or its minority holders were worse off (Bertrand et al., 2002; Young et al., 2008).

HZL's published EVA data provide a second lens. The company reports EVA of ₹8,553 crore in FY2021 and ₹4,900 crore in FY2025, a fall of 42.71%. Its reported EVA relative to average capital employed declined from 61.2% to 27.3%, while its reported weighted average cost of capital changed from 15.1% to 11.9% (Hindustan Zinc Limited, 2025). EVA subtracts a capital charge from net operating profit after tax; it therefore answers a different question from PAT. A lower EVA in FY2025 than FY2021 is a finding about the endpoints, not proof of a monotonic decline across the intervening years or proof that board structure caused it.

Table 2. Capital allocation and board indicators

Indicator	FY2021	FY2025	Reading
Book equity (₹ cr)	32,313	13,326	Down 58.76%
Gross borrowings (₹ cr)	7,177	10,651	Up 48.40%
Borrowings / equity	0.22	0.80	Both numerator and denominator changed
Reported EVA (₹ cr)	8,553	4,900	Down 42.71%
Independent directors	—	3 of 9	33.33%; rule calls for 50%

Source: Supplied research draft for equity and gross borrowings; HZL FY2025 integrated report for reported EVA and

board composition. Ratios calculated from displayed rounded values.

Board independence and assurance

HZL's FY2025 governance report states that eight of its nine directors were non-executive, three were independent and three were women. It also records a promoter-related non-executive chair. Under Regulation 17(1)(b), that chair classification makes the minimum independent proportion 50%, or at least five members for a nine-seat board. The report describes two further independent nominations as pending under its shareholder agreement with the Government of India and the secretarial auditor records continuing non-compliance (Hindustan Zinc Limited, 2025; Securities and Exchange Board of India, 2015). The same report lists combined BSE and NSE penalties of ₹36.50 lakh in FY2023, ₹36.50 lakh in FY2024 and ₹36.60 lakh in FY2025, each excluding GST. The draft's FY2025 figure of ₹39,52,800 has been replaced here by the figure in the company report.

The nomination issue needs a precise implementation test. If five directors of a nine-member board are independent, the rule is met at 55.56%. If the two pending appointments simply expand a board of nine to eleven, however, independence would be five of eleven, or 45.45%. A compliant path could replace two current non-independent seats while maintaining nine seats, or add three independent seats to reach six of twelve, subject to appointments and the relevant agreement. The board should disclose its intended total size and final composition, not only the number of names awaiting nomination. This is a calculation of the stated rule; HZL and counsel must assess the final legal structure.

HZL also has meaningful control infrastructure. Its report identifies an audit and risk management committee, a statutory financial audit with an unmodified opinion, internal audit performed by Deloitte Touche Tohmatsu India LLP and a whistle-blower mechanism with direct committee access. These arrangements address financial reporting and process risks.

They do not cure a full-board composition breach, and an unmodified financial audit does not judge whether every discretionary dividend was the best use of available cash. The governance improvement therefore lies in connecting the assurance programme to explicit, independent review of major capital allocation and related-party decisions (Klein, 2002; Hindustan Zinc Limited, 2025).

Ethics and community accountability

HZL's governance report describes a code of conduct, ethics training for new joiners and channels to raise concerns. A disclosed channel is a necessary starting point, but readers cannot infer its effectiveness solely from the existence of a policy or from a small number of formally confirmed incidents. Cases can be screened out, resolved informally or classified under other headings. A useful annual report would show the number received, categories, how many were investigated, median time to closure, substantiated cases and action taken, with privacy protected. Year-to-year consistency would reveal more than a headline zero (Crane et al., 2019; Hindustan Zinc Limited, 2025).

The draft presents five-year CSR spending above the stated 2% obligation and reports that programme reach increased to 2.30 million in FY2025. These figures should be treated as spending and reported reach, respectively; the material provided does not establish whether reach counts distinct individuals or repeated contacts. For mining communities, a better evaluation would connect a programme to a baseline and a measured result, such as access to safe water over time or an independently sampled health outcome. Independent assurance and a clear geographic reporting boundary would make these results easier to assess (Aguinis & Glavas, 2012; Moffat & Zhang, 2014).

Peer comparison and its limits

The supplied draft compares HZL with Hindalco Industries and National Aluminium Company (NALCO) for FY2025. On its figures, HZL's EBITDA-to-revenue ratio is 51.24%, Hindalco's is 14.88%, and NALCO's operating-profit-to-revenue ratio is 45.06%. Hindalco's consolidated business includes downstream fabrication through Novelis, whereas HZL is primarily an integrated zinc and lead miner and smelter. NALCO is a public-sector aluminium producer. The operating-profit label used for NALCO is also not necessarily identical to the company-defined EBITDA values for the other two. Consequently, the table offers industry context rather than a like-for-like ranking of

management quality.

The board comparison is more directly relevant, provided the chair classification and applicable exemptions are checked for each firm. The supplied peer table lists seven independent directors of fourteen at Hindalco, against HZL's three of nine; it lists three of ten at NALCO. These snapshots show that ownership and appointment structures differ. They should not be used to infer that one company's board causes its particular margin. What the HZL case demonstrates on its own is a disclosed shortfall against its applicable threshold. Cross-company inference would require a matched sample, consistent financial definitions and attention to government nomination arrangements (Hindalco Industries Limited, 2025; National Aluminium Company Limited, 2025).

FINDINGS AND RECOMMENDATIONS

The five-year pattern is mixed but coherent. HZL increased production, revenue and operating cash flow, while its FY2025 book equity was far below FY2021 and its reported EVA was lower. The company acknowledged a board independence shortfall and exchange penalties. It also disclosed multiple assurance channels. Taken together, these observations support a narrower conclusion than the original draft sometimes suggested: HZL has strong operations and a documented governance compliance gap, and its distribution policy deserves more transparent scrutiny. They do not demonstrate unlawful tunneling, a failed audit or a causal link between the board gap and a specific financial outcome.

First, HZL should publish a dated board composition plan that gives the expected board size after each appointment, the independent count, and the resulting percentage. The plan should identify how the shareholder-agreement nominations will operate and state who is responsible for moving them forward. A quarterly status line would let investors compare promises with actual appointments. The target must satisfy the applicable percentage after all seats, including new ones, are counted.

Second, the audit and risk management committee should publish a concise account of how it evaluates material transactions involving the promoter group. The company already describes approvals and quarterly review of related-party transactions (Hindustan Zinc Limited, 2025). More useful disclosure would set out categories reviewed, the valuation or market benchmark used for material dealings, the handling of interested directors and the independent members' role. Where commercial confidentiality limits detail, the committee could report the method and range rather than confidential contract prices.

Third, the board should explain each major dividend against a consistent capital allocation schedule: operating cash generated, capital expenditure already committed, debt maturities, a stress case for weaker metal prices, and the cash buffer remaining after payment. A payout ceiling should be tied to these inputs and reviewed across the commodity cycle. Such disclosure respects the legitimacy of dividends while allowing every shareholder to evaluate their timing. The board should avoid describing an arbitrary 12-to-18-month reserve as a proven optimum without a cash stress test specific to HZL.

Finally, HZL should publish comparable annual complaint-flow statistics and clearly distinguish CSR programme contacts from unique beneficiaries and independently measured outcomes. These changes would make a formal ethics policy and substantial social spending more useful to readers. They would also give independent directors concrete indicators they can question when they review risk, community relations and management performance (Donaldson & Preston, 1995; Moffat & Zhang, 2014).

CONCLUSION

HZL's FY2025 profitability is substantial, but profitability alone cannot settle whether governance oversight is sufficient. The five-year records show growth in revenue and operating cash, large dividends, a much smaller book equity base and lower company-reported EVA at the endpoints. The clearest governance fact is the disclosed three-of-nine independent board, against a minimum of half under the rule triggered by its chairperson's relationship to the promoter. A sound response starts with a composition plan that works mathematically, followed by transparent reviews of distributions, related-party terms and ethics outcomes. These actions can be assessed in subsequent filings,

without presuming misconduct from the current descriptive evidence.

LIMITATIONS

The study is confined to one company and five annual-report years. The original data compilation was supplied as a draft, rather than as a full set of underlying audited working papers; only selected FY2025 facts and the cited governance passages were cross-checked directly during this revision. Definitions of free cash flow, net cash and peer operating profit need line-by-line reconciliation before external submission. The association of dividends, equity and board composition is descriptive, and cannot establish motive or causation. Figures from different business models and reporting perimeters are included for context only. The authors should validate every annual-report page reference and transaction-specific inference against the final primary filings before submitting the manuscript.

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