Vedanta - ESL's Debt Raise Shows Lack of Options

ESL Steel's attempt to raise ₹2,000 crore ($223m) shows the collapse of the deleveraging strategy. Funds will likely be funneled to VRL to meet upcoming KCM investment deadlines.

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December 2, 2025 - On November 28, 2025, it was reported that Vedanta Limited's (VEDL) subsidiary ESL Steel (ESL) will raise ₹2,000 crore ($223m) through 10%-12% non-convertible debentures being marketed as routine corporate refinancing.

Vedanta back in debt market, seeks Rs 2k cr via metals arm

By Shilpy Sinha, ET Bureau • Last Updated: Nov 28, 2025, 08:05:00 AM IST

Figure 1 - Vedanta back in debt market, seeks Rs 2k cr via metals arm – The Economic Times[1]

This raise lands days before VEDL's parent Vedanta Resources Ltd (VRL) must meet its $206m December funding obligation for Konkola Copper Mines (KCM), funds it does not have.

Vedanta is raising debt at ESL precisely because ESL cannot repay or service it. ESL is now a disposable funding vehicle which allows the Group to funnel the proceeds upstream to meet VRL's liquidity deadlines. The Group's much-promoted deleveraging strategy has collapsed.

ESL: An Asset in Terminal Decline

The ESL report we published on September 26, 2025, shows the Company's dire financial condition[2]:

- ESL has generated negative free cash flow in 5 of the last 7 years. EBIT margins have been negative or near-zero for the past 3 years.

ESL Normalized Free Cash Flow (₹ crore)	FY25	FY24	FY23	FY22	FY21	FY20	FY19
Operating profit before WC Changes	**400**	**162**	**305**	**686**	**882**	**570**	**1,009**
Adjustments:							
Interest and other borrowing costs paid	(405)	(399)	(381)	(339)	(382)	(384)	(3,108)
Interest received	28	22	24	136	25	39	35
Payments for PPE	(575)	(474)	(592)	(779)	(51)	(82)	(71)
Proceeds from PPE	200	0	0	0	0	2	0
Income tax expense	(6)	3	(8)	(3)	9	(6)	(11)
Normalized FCF	**(356)**	**(687)**	**(651)**	**(299)**	**483**	**138**	**(2,146)**

Figure 2 – ESL Normalized Free Cash Flow

- Operations continue only because courts have stayed action on lapsed Environmental Clearances and CTOs. ESL's annual accounts have carried a Material Uncertainty Related to Going Concern warning every single year.
- Mandatory mining payments and penalties destroy ESL's margin before a single rupee reaches the bottom line, making the entire Company structurally unprofitable.
- VEDL's most recent financial results presentation disclosed only ₹1,015 crore ($113m) in approved but unspent capex for ESL's 3 MTPA hot metal expansion.

[1] https://economictimes.indiatimes.com/markets/bonds/vedanta-back-in-debt-market-seeks-rs-2k-cr-via-metals-arm/articleshow/125627563.cms

[2] https://viceroyresearch.org/wp-content/uploads/2025/09/Vedanta-ESL-Was-Bankrupt-Before-Soon-To-Be-Bankrupt-Again-20250926.pdf

Royalty, Bid Premium and Other Mining Expenses Analysis (₹ crore)	FY25	FY24	FY23	FY22	FY21
Royalty, Bid Premium and Other Mining Fees	1,568	1,958	1,309	204	-
Total Other Expenses	7,032	7,284	7,214	6,513	4,645
Royalty, Bid Premium and Other Mining Fees as a % of Total Expenses	**18%**	**21%**	**15%**	**3%**	**0%**

Figure 3 – Royalty, Bid Premium and Other Mining Expenses Analysis

- "Capex" is padded with environmental afforestation penalties masquerading as assets, inflating the balance sheet and hiding further losses.

ESL Capex Analysis (₹ crore) Year	FY25	FY24	FY23	FY22	FY21	FY20	FY19
Gross Capex	575*	474	592	779	51	82	71
Afforestation Capex	127*	231	50	11	66	55	-
Gross Capex ex Afforestation	447*	**243**	**543**	**769**	**(15)**	**27**	**71**
Depreciation	389	386	356	336	346	306	304
Gross Capex Less Afforestation and Depreciation	**59***	**(143)**	**187**	**432**	**(361)**	**(279)**	**(233)**

* The FY25 result is skewed by an outsized ₹200 crore proceeds from sale of PPE.

Figure 4 – ESL Capex Analysis

No rational lender would fund "capex" at a business that cannot legally operate profitably. Either lenders do not understand these funds will be upstreamed to meet VRL's offshore obligations or they are lending against VEDL's implicit support. ESL's creditors are financing a loss-making subsidiary with no ability to service the debt, knowing that proceeds are more likely to leave ESL than be invested in it.

This demonstrates a serious lack of diligence at the lender level.

VRL Has Run Out of Funding Options

VEDL raised ₹5,000 crore ($559m) in NCDs earlier this year at 8.9-9.45%. VRL then attempted a $1b raise in September, only to secure $500m[3,4]. Now the Group is pursuing a far more expensive raise through ESL, a loss-making subsidiary, because higher level funding options appear exhausted.

Raising the funds through ESL instead of VRL:

- creates the false impression that the funds will be used for Capex,
- allows the cash to be redirected to VEDL or KCM through dividends or related party loans,
- hides the fact this funding is unlikely to be used by ESL, and
- proves that Indian banks and PSUs are not extending further credit to VEDL.

The debt raise also contradicts multiple analysts who claimed that VEDL would have no major capex (read: debt raising) requirements in the medium term.

> business will depend on identification of a new technology partner and various regulatory approvals, including the production-linked incentive scheme, which are monitorable. Crisil Ratings understands that there is no major capex requirement for the Konkola Copper Mines Plc (KCM) business over the medium term and the same is not to be undertaken at Vedanta level. Further developments in this regard will remain monitorable.

Figure 5 – CRISIL Ratings Rationale dated October 24, 2025

It also blows a hole in the deleveraging narrative that favorable analysts have been parroting even as net debt at VEDL increases.

[3] https://www.business-standard.com/companies/news/vedanta-ltd-to-raise-rs-5-000-crore-via-ncds-as-profit-surges-in-q4-125053001457_1.html
[4] https://economictimes.indiatimes.com/markets/bonds/vedanta-resources-raises-500-mn-via-bond-issuance-to-use-proceeds-to-repay-near-term-obligations/articleshow/124822902.cms?from=mdr

"Vedanta's focus on demerger, delivery and deleveraging (3Ds) is on course to pay off, supported by tailwinds of commodity prices. The likely favourable outcome by NCLT in December 2025 (demerger likely by Q4FY26-end), and removal of overhang (not buying JP Associates) are additional triggers,"

Figure 6 - Vedanta poised for 16% annual growth in pre-tax earnings through FY28 on volume ramp-up (quoting Nuvama)

These analyses pointedly exclude VRL's upcoming investment commitments to KCM under the SHA, which they must meet to retain the asset.

KCM: The $206m Elephant in the Room

The KCM SHA requires VRL to contribute $206m by December 31, 2025, and larger commitments every six months thereafter.

15.1.2 in the case of VRHL, VRHL and/or its Affiliates have not advanced and paid to the Company, in aggregate (on a cumulative basis), at least the following amounts in terms of the Capital Expenditures Support Commitment by the following dates:

(a) by the date falling 6 months following the Funding Assessment Period Commencement Date: USD124,000,000;

(b) by the date falling 12 months following the Funding Assessment Period Commencement Date: USD330,000,000;

(c) by the date falling 18 months following the Funding Assessment Period Commencement Date: USD428,000,000;

(d) by the date falling 24 months following the Funding Assessment Period Commencement Date: USD600,000,000;

(e) by the date falling 30 months following the Funding Assessment Period Commencement Date: USD645,000,000;

(f) by the date falling 36 months following the Funding Assessment Period Commencement Date: USD740,000,000;

(g) by the date falling 42 months following the Funding Assessment Period Commencement Date: USD785,000,000;

(h) by the date falling 48 months following the Funding Assessment Period Commencement Date: USD870,000,000;

(i) by the date falling 54 months following the Funding Assessment Period Commencement Date: USD923,000,000; and

(j) by the date falling 60 months following the Funding Assessment Period Commencement Date: USD1,000,000,000,

and in each case, if applicable, VRHL fails to remedy such breach, if capable of remedy, within ninety (90) days following the due date for payment arising as set out in this Clause 15.1.2, provided that:

KCM Shareholder Funding Schedule (per SHA 5.1.2) ($m)		
Due Date	**Cumulative Commitment**	**Incremental Amount Due**
30-Jun-25	124	124
31-Dec-25	330	206
30-Jun-26	428	98
31-Dec-26	600	172
30-Jun-27	645	45
31-Dec-27	740	95
30-Jun-28	785	45
31-Dec-28	870	85
30-Jun-29	923	53
31-Dec-29	1,000	77

Figure 7 – KCM SHA & KCM Shareholder Funding Schedule (per SHA 5.1.2)

ESL is aiming to raise ₹2,000 crore (~$223m). KCM is unable to self-fund, VRL is unable to fund without missing debt service, and so VEDL's subsidiaries are being strip-mined instead. Investors and stakeholders should treat this for what it is: another diversion of Indian cash to plug a foreign balance-sheet hole.

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