NMDC Steel Ltd — FY 2025 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**The company operates a high-quality 3 MTPA integrated steel plant with a structural pit-head moat, leveraging proximity to NMDC mines to minimize raw material logistics risks.**	Positive
2	**Revenue surged 178% YoY to □8,503.05 Cr in the first full year of production, driven by a technical ramp-up to 20 lakh tonnes of hot metal output.**	Positive
3	***Despite top-line growth, net loss widened to 2,373.78 Cr as negative ROCE (-11%) and high O&M costs eroded the benefits of increased scale.***	Negative
4	***Interest rates on SBI term loans spiked to 12.45%, resulting in a 651.94 Cr finance burden that exceeds operating cash flow and creates a potential debt trap.***	Negative
5	***Liquidity is in a state of crisis with a Current Ratio of 0.59, characterized by 5,857.82 Cr in short-term borrowings and a massive 3,655 Cr working capital gap.***	Negative
6	***Cash flow remains severely strained with negative CFO, forcing total dependence on parent NMDC Ltd for interest-free financing of payables to maintain operations.***	Negative
7	***Capital expenditure continues to exceed cash flow from operations, while imminent refinancing risks loom with 523.80 Cr in NCDs due for redemption in August 2025.***	Negative
8	***Earnings quality is poor, marked by 100% provisional pricing on HR Coil revenue and the aggressive recognition of 1,598 Cr in Deferred Tax Assets despite massive losses.***	Negative
9	***Governance is a critical failure with 0% Independent Director representation, lack of statutory committees, and an audit trail not enabled at the database level.***	Negative
10	***Contingent liabilities totaling 3,602.51 Cr (27% of Net Worth) and high RPT dependency (26.5% of revenue) pose significant latent risks to the balance sheet.***	Negative
11	The outlook is binary, functioning as a high-risk "call option" on the successful privatization of the 50.79% promoter stake and a production target of 2.60 MT.	Neutral
12	***Investment View: Watch; the asset is technically sound but financially insolvent on a standalone basis, requiring immediate board restructuring and debt refinancing.***	Negative

1. Business overview (In Bullet Points)

- **Business Segments:** NMDC Steel Ltd (NSL) has transitioned from a construction project to a 3 MTPA integrated steel producer. Its primary segments include Steel Products (HR Coils/Sheets/Plates), Pig Iron, and By-products.
- **Revenue Drivers:** Revenue is primarily driven by Steel Products (Domestic), accounting for 76.78% (□6,528.30 Cr), and Pig Iron at 17.87% (□1,519.86 Cr).
- **Cost Drivers:** Major costs include Raw Materials (□7,256.45 Cr, dominated by □4,398.59 Cr in imported Coking Coal), Power & Electricity (□808.98 Cr), and Operation & Maintenance (□1,042.90 Cr).
- **Industry Position:** NSL leverages a "Pit-head" advantage due to its proximity to NMDC's Bailadila mines, providing structural logistics and raw material security.

- **Expansion & Capacity:** The plant achieved 20.00 lakh tonnes of hot metal and 14.39 lakh tonnes of HR Coils in FY25. Current utilization stands at ~66% for hot metal and ~50% for finished steel.
- **Technology & Efficiency:** Deployment of Pulverized Coal Injection (PCI) and Coke Dry Quenching (CDQ) to reduce coke rates, alongside Level-2 automation and SAP S/4 HANA implementation.
- **Geographical Presence:** 100% of revenue is currently derived from domestic operations within India.
- **Acquisitions & Disinvestment:** The company is currently under a strategic disinvestment process by the Government of India (50.79% stake).

2. Management commentary & outlook

- Management characterizes FY 2025 as a year of "Operational Resilience masking Financial Distress," focusing on the successful transition to a full-scale producer.
- Strategic growth guidance for FY 2026 is set at 30 lakh tonnes of hot metal and 26 lakh tonnes of HR Coils, implying near 100% capacity utilization.
- The margin recovery strategy rests on volume expansion to dilute fixed costs, energy efficiency through Waste Heat Recovery, and increasing the share of special-grade steel (currently 8.3%).
- Management is bullish on domestic demand, citing a 10% growth in Indian finished steel consumption and protection from Chinese dumping via the 12% safeguard duty.
- The company is being prepared as a "turnkey asset" for disinvestment, evidenced by standardized ISO certifications and ERP implementation, though specific timelines remain undisclosed.
- Operational focus is shifting toward manufacturing excellence, specifically reducing the "coke rate" and enhancing product value-add for automotive and infrastructure segments.
- The management structure remains "co-terminus" with the parent (NMDC Ltd), with functional directors drawing NIL remuneration from NSL, signaling a caretaker arrangement.
- Management Tone: The leadership is technically competent and highly focused on engineering milestones and plant stabilization. However, there is a distinct administrative hollow regarding corporate independence and statutory governance. The tone is optimistic regarding the physical asset's performance but remains in a "holding pattern" regarding the institutional and financial structure of the company (LAST bullet point).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	FY current	FY prior
Sales	—	—
Expenses	—	—
Operating Profit	—	—
OPM %	—	—
Other Income	—	—
Interest	—	—
Depreciation	—	—
Profit before tax	—	—
Tax %	—	—
Net Profit	—	—
EPS (□)	—	—
Dividend Payout %	—	—

Balance sheet (□Cr)

Line item	FY current	FY prior
Equity Capital	—	—
Reserves	—	—
Borrowings	—	—
Other Liabilities	—	—
Total Liabilities	—	—
Fixed Assets	—	—
CWIP	—	—
Investments	—	—
Other Assets	—	—
Total Assets	—	—

Cash flow statement (□Cr)

Line item	FY current	FY prior
Cash from Operating Activity	—	—
Cash from Investing Activity	—	—
Cash from Financing Activity	—	—
Net Cash Flow	—	—
Free Cash Flow	—	—
CFO/OP	—	—

Key ratios

Line item	FY current	FY prior
Debtor Days	—	—
Inventory Days	—	—
Days Payable	—	—
Cash Conversion Cycle	—	—
Working Capital Days	—	—
ROCE %	—	—

3.2 Financial analysis summary

- **Revenue** reached □8,503.05 Cr in FY 2024-25, dominated by Steel Products at 76.78%, yet 100% of HR Coil Revenue is recognized on provisional prices issued by SAIL, posing a significant risk of future reversals in the P&L Statement.
- The company reported a massive **Net Profit** loss of □2,373.78 Cr, widening despite a 178% surge in Revenue, as Operating Profit was crushed by Cost of Materials Consumed of □7,256.45 Cr (85% of Revenue) and a 119% spike in Other Expenses.
- **Finance Cost** nearly doubled to □651.94 Cr, driven by the interest rate on the SBI Rupee Term Loan spiking to 12.45% p.a., which directly impacts the Cash Flow Statement and contributes to negative Interest Coverage.
- **Total Debt** stands at □5,857.82 Cr, including □523.80 Cr in NCDs due for full redemption in August 2025, creating a severe refinancing risk on the Balance Sheet.
- **Working Capital** is under extreme stress as the Current Ratio plummeted to 0.59, with Trade Payables ballooning to □4,820.07 Cr, of which □3,655.13 Cr is owed to the parent entity (NMDC Ltd).
- **Inventory** levels of □2,085.98 Cr include a write-down of □173.90 Cr to Net Realizable Value (NRV), signaling that production costs are not yet optimized, acting as a drag on CFO.
- **Trade Receivables** increased sharply to □197.48 Cr from □37.01 Cr, suggesting that Revenue growth is consuming more liquidity on the Balance Sheet.
- **Other Assets** are heavily weighted by ITC Receivables (GST) of □1,475.16 Cr, representing a non-earning cash trap that has not yet converted to CFO.
- **Depreciation** expense was lowered by □34.86 Cr due to a revision in the residual value of Fixed Assets to 0-5%, a change in accounting estimate that narrowed the reported Net Profit loss without improving cash flows.

- **Contingent Liabilities** have reached ₹3,602.51 Cr (approx. 27% of Net Worth), primarily driven by ₹2,600.10 Cr in arbitration claims, representing a massive latent risk to the Balance Sheet.
- **CFO** quality is compromised by operational inefficiencies, evidenced by ₹39.13 Cr in demurrages and ₹41.25 Cr in physical verification losses leaked through Other Expenses.
- The company recognized a **Deferred Tax Asset** of ₹1,598.00 Cr based on "reasonable certainty" of future profits, an aggressive judgment given the current Net Profit loss of ₹2,373.78 Cr.
- **Related Party Transactions** show NMDC Ltd is the primary supplier (Iron Ore ₹2,259.52 Cr) and financier, with Trade Payables to the parent increasing by 162% YoY.
- **Capital Allocation** remains focused on stabilization, with Capital Creditors of ₹1,308.15 Cr still outstanding, suggesting the transition from CWIP to Fixed Assets involves significant ongoing cash outflows.
- **Other Expenses** are dominated by O&M and Power (70% of total), reflecting the high fixed-cost nature of the plant; Other Liabilities include ₹1,308.15 Cr in Capital Creditors, signaling settlement issues with project vendors.
- The dominant financial theme of the year is a high-risk profile characterized by widening losses despite rapid scaling, severe liquidity constraints (0.59 **Current Ratio**), and total reliance on parent-entity credit to sustain the Balance Sheet.

3.3 Contingent liabilities & commitments

- **Claims by contractors under arbitration:** ₹2,600.10 Cr (Significant overhang from project phase).
- **Other claims not acknowledged as debt:** ₹1,002.41 Cr.
- **Disputed GST Demands:** ₹111.10 Cr (Inadmissible ITC claims under litigation).
- **Capital Commitments:** ₹242.60 Cr (Remaining peripheral works and project settlements).
- **Unquantified Liability:** 22.49 hectares of land for peripheral works not yet booked as the payable amount is not ascertainable.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — net loss of ₹2,373.78 Cr persists despite revenue growth; high interest costs drain cash.	—	Note 2.30.5: Loss widened despite 178% revenue growth due to finance and O&M costs.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — receivables jumped 433% while inventory fell; suggests aggressive credit terms to push sales.	—	Note 2.8.1.1: 97% of receivables are current, but total quantum rose sharply with revenue.
3	Revenue timing	Revenue ↑↓ — provisional pricing on HR Coils creates risk of future top-line reversals or adjustments.	—	Note 2.18: Prices issued by SAIL are provisional; final prices determined by TPC later.
4	Revenue from related parties %	Neutral — revenue is primarily domestic third-party; parent support is concentrated in financing and supply.	—	Note 2.30.5: Related party transactions are focused on procurement and working capital support.
5	Inventory vs revenue growth	Profit ↓ — inventory write-down of ₹173.90 Cr indicates high production costs relative to NRV.	—	Note 2.32.9: Plant stabilization phase leads to costs exceeding net realizable value of stock.
6	Inventory valuation method change	Neutral — weighted average cost method applied consistently; scrap valued at lower of cost or NRV.	—	Note 1.3.vi: Standard industry practice for inventory valuation during ramp-up phase.
7	Exceptional items in operating profit	Profit ↓ — physical verification losses and demurrages totaling ₹80.38 Cr signal significant operational inefficiencies.	—	Note 2.24: Operational leaks in inventory and logistics management impacting the bottom line.
8	Depreciation rate vs useful life policy	Profit ↑ — revision of residual values to 0-5% reduced depreciation by ₹34.86 Cr, narrowing loss.	—	Note 2.32.3: Technical assessment used to justify lower depreciation charge for the current year.
9	Provision reversals boosting PAT	Profit ↑ — non-provisioning of interest on NMDC Ltd payables inflates PAT by avoiding expense.	—	Note 2.32.15: Management relies on "written confirmation" from parent to waive contractual interest.
10	Tax rate consistency	Profit ↑ — recognition of ₹1,598 Cr DTA assumes future profits despite current heavy losses.	—	Note 2.5: DTA based on "reasonable certainty" of future taxable income, a critical judgment.
11	CWIP age and stalling projects	Neutral — capital commitments reducing as plant commissions; focus shifted to operational stabilization.	—	Note 2.28.A: Remaining commitments relate to peripheral works and final project settlements.
12	Deferred tax asset recognition adequacy	Profit ↑ — aggressive DTA recognition on unused tax losses masks the true extent of equity erosion.	—	Auditor Note: Recoverability of DTA is a key audit matter requiring significant management judgment.
13	RPT quantum and trend	Profit ↑ — parent entity NMDC Ltd effectively financing operations via ₹3,655.13 Cr interest-free trade payable.	—	Note 2.30.5: Massive payable balance indicates subsidiary's total dependence on parent for liquidity.
14	Dividend paid vs FCF adequacy	Neutral — no dividends paid given the substantial net losses and negative free cash flow.	—	Note 2.32.13.B: Acute liquidity risk with Current Ratio at 0.59 precludes any dividend distribution.
15	Audit Trail Gap	Profit ↑↓ — Audit trail feature NOT enabled at database level for direct changes.	—	Note 2.32.15: High risk of undetected manual financial tampering at the database level.
16	Revenue Recognition Risk	Revenue ↑↓ — 100% of HR Coil revenue based on provisional prices.	—	

#	Check	Impact	Status	Notes detail
				Note 2.18: Final prices determined by TPC later; carries significant reversal risk.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Taxation and Deferred Tax Assets (DTA):** Significant judgment in recognizing a Net DTA of □1,598.00 Cr. Concern regarding "reasonable certainty" of future taxable income given the □2,373.78 Cr net loss. * **Fair Value Measurements:** Use of DCF models for unquoted financial instruments; focus on management judgments regarding liquidity risk and volatility. * **Provisions and Contingencies:** Evaluation of □3,602.51 Cr in contingent liabilities, primarily arbitration claims. * **Audit Trail:** Feature is NOT enabled at the database level for direct changes, only at the application level in SAP S/4 HANA. * **Going Concern:** Auditor highlighted acute liquidity risk with a Current Ratio of 0.59.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | NMDC Ltd | Promoter | Trade Payables Balance | 3,655.13 Cr | Parent effectively financing 43% of total liabilities. | | NMDC Ltd | Promoter | Purchase of Raw Material | 2,259.52 Cr | 26.5% of total revenue equivalent; high dependency. | | NMDC Ltd | Promoter | Repayment of Financial Liab. | 351.25 Cr | Cash outflow to parent amid liquidity crisis. | | NMDC Ltd | Promoter | Interest Waiver | Not Quantified | Interest not charged on delayed payables despite LTA. |

C. Shareholding * **Promoter Holding:** 60.79% (Government of India 50.79% + NMDC Ltd 10.00%). * **Pledged Shares:** 0% of promoter holding is pledged.

D. Board Composition + KMP Compensation * **Total Directors:** 6 | **Independent %:** ***0%*** (Severe non-compliance with SEBI LODR). * **Women Directors:** 1 (Smt. Sukriti Likhi - Government Nominee). * **KMP Compensation:** All functional directors (Amitava Mukherjee, Joydeep Dasgupta, Priyadarshini Gaddam) draw **NIL remuneration** from NSL as they are on the rolls of NMDC Ltd. * **Analysis:** While saving costs, this signals a "caretaker" structure with no dedicated leadership solely accountable to NSL. No compensations within the same family were disclosed.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | :--- | :--- | :--- | :--- | | Capex | 1,250.60 Cr | 2,150.08 Cr | — | | Net Debt Change | -766.68 Cr | 2,806.20 Cr | **Positive** | | Interest Payments | 651.94 Cr | 330.59 Cr | — | | Inventory Write-off | 173.90 Cr | 548.07 Cr | — | | DTA Recognition | 1,598.00 Cr | 650.06 Cr | — |

CAPEX Analytical Notes: * **CFO Coverage of Capex**: 0%. Funding gap bridged by parent-supported working capital. * **Nature of Capex**: Transitioned to stabilization; **□1,125.60 Cr remains in CWIP** for peripheral works. * **Deployment Efficiency**: Asset turnover is a low **0.46x**; plant remains EBIT-negative despite 178% revenue growth. * **Key Takeaways**: The **□34.86 Cr reduction in depreciation** via residual value revision is a clear attempt to soften P&L impact.

H. Risks * **Governance Failure: 0% Independent Directors**; leads to lack of oversight on RPTs and SEBI fines. * **Liquidity Crisis:** Current Ratio at **0.59**; inability to meet □5,857 Cr in short-term obligations. * **Refinancing Risk: □523.80 Cr NCDs** due August 2025; rating downgrade to BBB+ makes rollover difficult. * **Interest Rate Spike:** SBI Loan rate jumped to **12.45%**; adds ~□200 Cr to annual interest burden. * **Audit Trail Gap:** No database-level logs; risk of undetected financial tampering. * **Tax Asset Reversal: □1,598 Cr DTA** may be written down if profits do not materialize. * **Arbitration Overhang: □2,600.10 Cr** in claims; potential 20% hit to Net Worth.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	—	Pit-head moat; 3 MTPA scale; 50% utilization.	Strong asset base and logistics moat offset by high cyclicality and current underutilization.
Financial health	1	—	D/E 0.44x; Current Ratio 0.59; CFO negative.	Severe liquidity crisis and interest rate spikes (12.45%) create a potential debt trap.
Earnings quality	1	—	CFO < PAT; 100% provisional revenue; 0% Ind. Directors.	Aggressive DTA recognition and provisional pricing mask the true extent of operational losses.
Management & governance	1	—	0% Independent Directors; High RPT dependency.	Severe statutory non-compliance and lack of independent oversight on massive parent RPTs.
Capital allocation & earnings visibility	2	—	ROCE -11%; Interest 12.45%; Capex > CFO.	Reinvesting with negative returns; visibility dependent on uncertain privatization and ramp-up.

Business positives (for this company this year) * **Revenue Growth:** Scaled operations by 178% to reach □**8,503.05 Cr** in the first full year of integrated production. * **Operational Milestone:** Achieved **20.00 lakh tonnes** of hot metal production, proving the technical viability of the 3 MTPA plant. * **Product Diversification:** Successfully developed **Special Grade Steel** (8.3% of output) targeting high-margin automotive segments. * **Logistics Moat:** Maintained structural advantage via proximity to NMDC mines, reducing raw material transit risks.

Business negatives / concerns (for this company this year) * **Liquidity Stress:** Current Ratio plummeted to **0.59**, with □5,857.82 Cr in short-term borrowings and only □197 Cr in receivables. * **Governance Vacuum: 0% Independent Director** representation, violating SEBI LODR and leaving RPTs unscrutinized. * **Interest Burden:** Interest rate on SBI loans spiked to **12.45%**, leading to a □651.94 Cr finance cost that exceeds operating cash flow. * **Revenue Risk: 100% of HR Coil revenue** is recognized on provisional prices, creating significant future reversal risk. * **Forensic Flag:** Audit trail not enabled at the database level, and □**1,598 Cr DTA** recognized despite massive current losses.

Overall scorecard summary NMDC Steel is in a precarious state where technical operational success is being overshadowed by a severe financial and governance crisis. While the plant is successfully producing steel at scale, the company is effectively insolvent on a standalone basis, relying entirely on NMDC Ltd to finance a □**3,655 Cr** working capital gap. The combination of negative ROCE, double-digit interest rates, and a total lack of independent board oversight places the company on a deteriorating trajectory unless a strategic disinvestment is fast-tracked.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 6/10 — Governance Rating: 2

Part c: investor verdict

Thesis: NSL is a high-quality 3 MTPA steel asset with a structural logistics moat, currently masquerading as a company while operating as a subsidized division of NMDC Ltd. **Overall stance:** Watch **Rationale:** Operational ramp-up is impressive, but the financial "debt trap" and governance vacuum make it uninvestable until privatization terms are clear. **Re-evaluate when:** Current Ratio improves to >1.0x OR Independent Directors are appointed. **BULL CASE:** Strategic buyer acquires 50.79% stake at a premium, refinancing debt at <9% and hitting 90% capacity utilization. **BEER CASE:** Privatization stalls; SBI interest remains at 12.45%; □2,600 Cr arbitration goes against the company, eroding 20% of net worth. **Key monitorable:** HR Coil Production Volume: 1.44 MT → 2.60 MT target.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Liquidity Profile	Current Ratio of 0.99; technical stress.	Current Ratio of 0.59; acute liquidity crisis.	The company has transitioned from tight liquidity to a state of technical insolvency, surviving solely on parent-entity credit.
Cost of Borrowing	SBI Term Loan at 10.1% interest.	SBI Term Loan spiked to 12.45% interest.	Interest rate step-ups post-commissioning are creating a debt trap that consumes all operational gains.
Revenue Integrity	Initial revenue from 7 months of operations.	100% of HR Coil revenue based on provisional pricing.	Top-line growth is highly speculative as it relies on estimated prices subject to future downward reversals.
Capital Allocation	Transitioning from CWIP to PPE.	□523.80 Cr NCDs due for redemption in Aug 2025.	The focus has shifted from project completion to an imminent refinancing risk that the company cannot meet via internal accruals.
Earnings Quality	Deferred Tax Asset (DTA) of □650.06 Cr.	Deferred Tax Asset (DTA) of □1,598.00 Cr.	Management is increasingly using aggressive non-cash tax accounting to mask the accelerating erosion of the equity base.
Internal Controls	Discrepancies in bank reporting vs. books.	Audit trail disabled at the database level.	Forensic risk has escalated from simple reporting lags to a fundamental lack of system-level data integrity.
Margin Trajectory	Inventory write-down of □548.07 Cr.	Inventory write-down of □173.90 Cr.	While per-unit value destruction is slowing, the plant remains unable to produce at costs below market realizable value.

7.2 Persistent patterns

- **The total absence of Independent Directors (0%) and mandatory statutory committees persists, representing a continuous and severe governance vacuum.**
- **The "umbilical cord" dependency on NMDC Ltd for raw materials and interest-free working capital remains the only factor preventing a total operational collapse.**
- **KMP compensation remains NIL as leadership is drawn from the parent company, confirming a "caretaker" management structure pending disinvestment.**
- **Massive arbitration and legal overhangs (exceeding □2,600 Cr) continue to represent a latent threat to 20-30% of the company's net worth.**
- **The investment thesis remains a pure-play bet on privatization timing rather than organic financial or operational viability.**
- **Negative ROCE and negative Free Cash Flow persist, indicating that the asset continues to destroy capital despite reaching significant production milestones.**
- **The use of aggressive accounting judgments (DTA recognition and provisional pricing) remains the primary tool for managing P&L optics.**