NMDC Steel Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Transitioned from a decade-long construction phase to an operational 3 MTPA steel producer as of August 31, 2023, achieving a 1MT production milestone.**	Positive
2	Generated □3,048.99 Cr in inaugural revenue, though the business remains unproven at scale with an asset turnover ratio of only 0.16x.	Neutral
3	***Reported a massive Net Loss of 1,560.32 Cr, driven by the cessation of interest capitalization and high structural costs post-commercialization.***	Negative
4	***Inventory management is critically inefficient at 3,703.42 Cr (121% of annual revenue), necessitating a 548.07 Cr net realizable value write-down.***	Negative
5	***Capital structure is highly levered with a D/E of 2.44x and a liquidity crunch evidenced by a Current Ratio of 0.99 and 4,943 Cr in near-term liabilities.***	Negative
6	***Operating cash flows are negative, leaving the company entirely dependent on a 3,974.88 Cr financial lifeline from parent NMDC Ltd for survival.***	Negative
7	***Borrowing costs surged from 7.1% to 10.1% post-DCCO, adding approximately 128 Cr in incremental annual interest pressure to the P&L.***	Negative
8	***Earnings quality is poor, characterized by C&AG-flagged income overstatements of 74.68 Cr and the aggressive recognition of a 650.06 Cr Deferred Tax Asset.***	Negative
9	***Governance is at a nadir with 0% independent directors and zero functional committees, resulting in SEBI fines and a total lack of minority oversight.***	Negative
10	**Strategic pit-head advantage and proximity to high-grade iron ore (□1,398 Cr secured) provide a long-term structural moat for cost-competitive production.**	Positive
11	**Management targets EBITDA breakeven by Q3 FY25, contingent on ramping up HR Coil production to 1.5 lakh tonnes per month and PCI technology adoption.**	Positive
12	Stance: Watch; high-quality asset trapped in a distressed shell, with key monitorables being privatization progress and inventory reduction to <30% of revenue.	Neutral

1. Business overview (In Bullet Points)

- **Business Segments & Revenue Drivers:** NMDC Steel Ltd (NSL) transitioned from a project phase to an operating entity on August 31, 2023 (DCCO). Revenue is driven by Hot Rolled (HR) Coils (56.78% of turnover) and Pig Iron/Others (43.22%).
- **Cost Drivers:** Primary costs include iron ore procurement (□1,398.15 Cr from NMDC Ltd), massive depreciation, and finance costs (interest rates stepped up from 7.1% to 10.1% post-DCCO).
- **Industry Position & Moat:** The core moat is the "Pit-Head" advantage—proximity to NMDC's high-grade Bailadila mines. NSL uses advanced Thin Slab Casting (TSC) technology to target high-end segments.
- **Expansion & Capacity:** The plant is a 3 MTPA integrated steel facility. Current ramp-up reached a 1MT milestone, with a target to hit a consistent run-rate of 1.5 lakh tonnes of HR Coil/month by Q3 FY25.

- **Geographical Presence:** Operations are centered in Nagarnar, Chhattisgarh, targeting domestic OEMs for LPG cylinders, API grade pipes, and automotive steels.
- **Segment Performance:** The high contribution of Pig Iron (33.83% of total turnover) indicates an imbalance, as downstream rolling facilities are still stabilizing compared to upstream blast furnaces.

2. Management commentary & outlook

- Management is aggressively focused on the "Breakeven Narrative," signaling that the heavy cash-burn phase is nearing its end.
- The plant is currently on the threshold of breaking even, with a target to achieve consistent production of 1.5 lakh tonnes of HR Coil per month by Q3 FY25.
- Strategic entry into the specialty steel market has commenced, with the first production of LPG-grade steel and initial orders received from OEMs.
- Operational efficiency is expected to improve following the commencement of Pulverized Coal Injection (PCI) in May 2024, which is a critical lever to reduce coke rates and overall costs.
- The long-term vision involves moving away from commodity-grade HR coils toward high-realization specialty products to improve margins.
- Management remains silent on structural governance failures and mounting regulatory penalties, focusing almost exclusively on technical milestones.
- The company is currently undergoing a strategic disinvestment process, with the Government of India intending to divest a 50.79% stake.
- **Management Tone:** The tone is one of "Calculated Optimism with Operational Blinders." While management is laser-focused on technical milestones (tonnage, heats, PCI) to project a "ready-for-sale" image for privatization, there is a conspicuous lack of accountability regarding the 0% board independence and recurring SEBI fines, suggesting a "compliance-by-fine" culture.

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 from Operations** commenced on 31st August 2023, reaching □3,048.99 Cr for a seven-month period, transitioning the company to an operational phase but resulting in a significant Net Profit loss of □1,560.32 Cr.
- The declaration of DCCO triggered the cessation of interest capitalization, causing **Finance Cost** to spike as interest rates on the □4,274.38 Cr SBI Term Loan stepped up from 7.1% to over 10%, severely impacting the P&L Statement.
- **Operating Profit** was heavily weighed down by a massive Inventory Write-down to NRV of □548.07 Cr, signaling that initial production costs are significantly higher than market prices due to low capacity utilization.
- **Inventory** levels ballooned to □3,703.42 Cr, which is 121.46% of total Revenue, indicating a massive build-up of stock and leading to an inefficient Inventory Days of 443.41, far exceeding industry norms.
- **Working Capital** is under extreme pressure with a Current Ratio of 0.99, as the company faces □4,943.54 Cr in financial liabilities due within one year, while Trade Receivables remain low at □37.01 Cr due to a "Cash & Carry" model.
- The **Balance Sheet** reveals a deep dependency on the promoter, with Trade Payables to NMDC Ltd rising to □1,395.61 Cr and total liabilities to the parent reaching □3,974.88 Cr, effectively acting as the primary source of Working Capital funding.
- **Total Debt** has expanded to □7,161.66 Cr, including □1,826.32 Cr in short-term Borrowings and □523.80 Cr in NCDs; the latter saw coupon rates hike to 8.80% following a credit rating downgrade to 'A-'.
- **Other Income** of □75.43 Cr provided a non-recurring boost to the P&L Statement, primarily derived from a one-time sharing of capital costs for water facilities with the parent; C&AG notes this should have been treated as Deferred Revenue amortized over 99 years.

- The company recognized a **Deferred Tax Asset** of ₹650.06 Cr based on carry-forward losses, an accounting judgment that reduced the reported Net Profit loss but relies on the "reasonable certainty" of future taxable profits.
- **Cash Flow** quality is compromised by operational losses and inventory accumulation, with CFO being significantly negative, forcing reliance on Financing Activity and parent support, including a ₹2,502.64 Cr non-current payable to NMDC Ltd.
- **Other Financial Liabilities** is a massive bucket of ₹4,507.58 Cr (exceeding annual revenue), where over 55% is a long-term liability to the parent that acts as quasi-equity but carries repayment risk post-disinvestment.
- **Other Assets** include ₹714.67 Cr in bank balances (FDs), but these are insufficient to offset the liquidity stress of current liabilities.
- **ROCE** and ROE remain in negative territory as the massive capital base (including ₹3,886.05 Cr in capitalized incidental expenditure) is yet to generate positive operating returns, resulting in an Interest Coverage ratio below 1.0.
- The dominant financial theme of the year is a **"High-Stakes Operational Ramp-up,"** where the cessation of cost capitalization has exposed the business to the full weight of its debt and depreciation, leaving it entirely dependent on parent-subsidized working capital to survive until breakeven.

3.3 Contingent liabilities & commitments

- **GST Litigation:** The company is embroiled in significant GST litigation regarding inadmissible Input Tax Credit (ITC) for 2017-2021. ₹**56.40 Cr** is in abeyance pending High Court litigation.
- **Disputed Demands:** Total GST disputed demands stand at ₹**111.19 Cr**.
- **Tax Asset Write-off:** Withdrawal of ₹**43.76 Cr** in Compensation Cess ITC indicates management's assessment that they will not have sufficient future cess liability to offset this credit.
- **Capital Commitments:** While CWIP reduced as ₹**18,845 Cr** was capitalized, ongoing ramp-up requirements continue to demand liquidity.
- **Guarantees/Security:** The **Equitable Mortgage of Land** for the ₹4,500 Cr SBI loan remains unformalized, representing a legal compliance lag.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — massive inventory build of ₹3,703 Cr absorbs cash despite reported losses.	—	Note 2.34.10: Inventory exceeds total annual revenue, indicating poor cash conversion.
2	Receivables & channel-stuffing signal	Revenue ↑ — high quality cash-based sales via cash-and-carry model limits credit risk.	—	Note 2.34.15.A: Low receivables due to "Cash & Carry" policy for non-PSU customers.
3	Revenue timing	Revenue ↑↓ — commencement of commercial operations shifts incidental expenditure from balance sheet to P&L.	—	Note 2.34.2: Revenue generation only started mid-year, making YoY comparisons currently irrelevant.
4	Revenue from related parties %	Neutral — revenue is external but operational viability depends entirely on parent raw material.	—	Note 2.32.5.ii: Total operational dependency on NMDC Ltd for critical iron ore supply.
5	Inventory vs revenue growth	Profit ↓ — extreme inventory levels relative to sales signal operational inefficiency and obsolescence.	—	Note 2.34.10: Inventory build-up significantly exceeds industry norms of 20-30% of sales.
6	Inventory valuation method change	Profit ↓ — aggressive NRV estimation reflects high production costs exceeding current market prices.	—	Note 2.34.10: Massive write-down suggests initial ramp-up costs are not recoverable at market prices.
7	Exceptional items in operating profit	Profit ↑↓ — non-recurring facility sharing income partially offsets massive operational inventory write-downs.	—	Note 2.34.4: Other income includes one-time capital cost sharing for water facilities.
8	Depreciation rate vs useful life policy	Profit ↓ — capitalization cessation forces large depreciation charges against only seven months revenue.	—	Note 2.34.3: Post-DCCO, all incidental construction expenditures now hit P&L as depreciation.
9	Provision reversals boosting PAT	Neutral — lack of provision reversals indicates no artificial boosting of the bottom line.	—	Note 2.34.1: Contingent liabilities remain high without aggressive reversal of existing provisions.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — recognition of deferred tax assets on losses reduces reported net loss.	—	Note 2.34.11: DTA recognized on carry-forward losses despite current lack of profitability.
11	CWIP age and stalling projects	Profit ↓ — project completion shifts costs from capital accounts to P&L interest/ depreciation.	—	Note 2.34.2: Transition from construction to operations ended the period of interest capitalization.
12	Deferred tax asset recognition adequacy	Profit ↑ — optimistic DTA recognition assumes future profits despite current operational and structural risks.	—	Note 2.34.11: Management assumes "reasonable certainty" of future profits to justify the tax asset.
13	RPT quantum and trend	Profit ↑↓ — parent company effectively finances working capital through ballooning trade payables of ₹1,395Cr.	—	Note 2.32.5.ii.B: Massive concentration of debt and payables to a single related party.
14	Dividend paid vs FCF adequacy	Neutral — no dividends paid given heavy losses and negative free cash flow position.	—	Financial Statements: Company is in a cash-preservation mode during the operational ramp-up.
15	C&AG Disputed Recoverables	Profit ↑ — booking disputed recoveries as assets instead of expenses inflates the bottom line.	—	C&AG noted these should have been expensed; loss is understated by this amount.
16	Income Recognition (Asset Sharing)	Profit ↑ — recognizing 99-year lease income upfront rather than deferring it.	—	C&AG flagged this as an overstatement of income by ₹74.68 Cr.

#	Check	Impact	Status	Notes detail
17	Inventory Reporting Discrepancy	Neutral — weak internal controls over real-time financial reporting.	—	Management cited "provisional data" for the Dec-23 discrepancy.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified. However, the report was **Revised** on 24 July 2024 to supersede the 27 May 2024 report following significant observations by the Comptroller and Auditor General (C&AG). * **Key Audit Matters (KAMs):** The primary KAM involved the capitalization of Expenditure Incidental to Construction Awaiting Allocation (IEDC) totaling □**3,886.05 Cr**. The auditor focused on the transition from construction to commercial operations (DCCO) on 31st August 2023. * **C&AG Highlights:** * ***Asset Overstatement***: C&AG flagged □35.14 Cr as an overstated current asset regarding recoveries from M/s Bhilai Engineering Corporation (BEC) without consent. * ***Expense Understatement***: C&AG flagged □8.40 Cr as an understated loss; repair costs were accounted as "recoverable" from BHEL instead of being expensed. * ***Income Overstatement***: C&AG noted □75.43 Cr received from NMDC Ltd for asset sharing should have been Deferred Revenue (amortized over 99 years). This resulted in an income overstatement of □74.68 Cr.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | NMDC Ltd | Promoter | Purchase of Raw Material (Iron Ore) | 1,251.18 Cr | High dependency; 41% of revenue equivalent | | NMDC Ltd | Promoter | Trade Payables (Deferred Payment) | 1,395.61 Cr | Parent effectively funding working capital | | NMDC Ltd | Promoter | Other Financial Liabilities (Non-Current) | 2,502.64 Cr | Massive quasi-equity debt concentration | | NMDC Ltd | Promoter | Sharing of Water Facilities (Income) | 75.43 Cr | C&AG flagged as overstated income | | NMDC Ltd | Promoter | Employee Benefit Reimbursements | 45.02 Cr | Lack of administrative independence |

C. Shareholding * **Promoter (President of India):** 60.79% * **Insurance Companies (LIC: 13.47%):** 14.84% * **Mutual Funds:** 1.19% * **FIIs:** 4.64% * **Public & Others:** 18.54% * **Pledged Shares:** 0%

D. Board Composition + KMP Compensation * **Total Directors:** 6 | **Independent %:** ***0%*** (Severe statutory non-compliance). * **Women Directors:** 1 (Government Nominee). * **KMP Compensation:** Reported as **NIL**. All functional directors (Amitava Mukherjee, Dilip Kumar Mohanty, Vishwanath Suresh, Vinay Kumar) are on the rolls of NMDC Ltd and draw salaries from the parent. * **YoY Growth:** 0% (No direct cost to NSL). * **Revenue Correlation:** N/A. * **Governance Risk:** The lack of a dedicated management team for a □**26,000 Cr** asset indicates a "caretaker" structure pending disinvestment.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | :--- | :--- | :--- | :--- | :--- | | Capex | 1,226.00 Cr | 2,150.08 Cr | N/M | — | | Net Debt Change | 2,806.20 Cr | 2,151.03 Cr | N/M | — | | Interest Payments | 413.00 Cr | 185.01 Cr | N/M | — | | Inventory Build-up | 2,843.88 Cr | 859.54 Cr | N/M | — |

Capex analytical notes: * **CFO Coverage of Capex:** 0%. Funding gap bridged by □**979.88 Cr** increase in SBI Term Loan and □1,826.32 Cr in working capital borrowings. * **Nature of Capex:** Transitioned to ramp-up phase. □**18,845 Cr** of assets were capitalized. * **Deployment Efficiency:** Revenue of □**3,048.99 Cr** on a gross block of ~□19,000 Cr implies an abysmal asset turnover of 0.16x. * **Key Takeaways:** The cessation of □**3,886.05 Cr** in IEDC capitalization means the full weight of depreciation and 10%+ interest is now hitting the P&L.

H. Risks * **Governance Collapse (High): 0% Independent Directors**; no Audit or Risk Committees. Leads to recurring SEBI fines (□57.64 Lakhs). * **Inventory Valuation (High): □548.07 Cr write-down** signals production costs exceed market prices. * **Interest Rate Spike (High):** Rates jumped to **10.1%** post-DCCO, adding ~□128 Cr annual burden. * **Asset Overstatement (Med):** C&AG flagged □**43.54 Cr** in disputed recoverables; potential future write-offs. * **Disinvestment Risk (High):** Uncertainty over raw material supply from NMDC Ltd post-privatization. * **Liquidity Stress (High): Current Ratio of 0.99**; □4,943 Cr liabilities due <1yr.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	↑	1MT production milestone; Pit-head moat	Transitioned from project to producer but remains cyclical and unproven at scale.
Financial health	1	→	D/E 2.44x; Current Ratio 0.99; CFO negative	Extreme debt burden and total reliance on parent for survival.
Earnings quality	1	↓	C&AG flags; ₹650Cr DTA; ₹548Cr NRV hit	Aggressive income recognition and optimistic tax assets mask deeper losses.
Management & governance	1	→	0% Independent Directors; NIL KMP pay	Total absence of independent oversight; company run as a parent division.
Capital allocation & visibility	2	→	ROCE negative; Asset Turnover 0.16x	Massive debt-funded capex not yet translating to cash flow or returns.

Business positives (for this company this year) * **[Operational Transition]:** Successfully declared DCCO on August 31, 2023, moving from a decade-long construction phase to a producer. * **[Production Milestone]:** Achieved 4.94 lakh tonnes of HR Coil production in the first 7 months of operations. * **[Raw Material Security]:** Secured ₹**1,398.15 Cr** of high-grade iron ore from NMDC Ltd at proximity. * **[Technology Adoption]:** Commencement of Pulverized Coal Injection (PCI) in May 2024 to drive future cost efficiencies.

Business negatives / concerns (for this company this year) * **[Governance Failure]: 0% Independent Directors** on the board and zero functional committees, leading to ₹57 Lakhs in SEBI fines. * **[Financial Stress]:** Reported a massive **Net Loss of ₹1,560.32 Cr** with a Current Ratio of 0.99, indicating technical insolvency without parent support. * **[Inventory Glut]:** Inventory of ₹**3,703.42 Cr** exceeds total annual revenue, leading to a ₹548.07 Cr write-down. * **[Accounting Red Flags]:** C&AG flagged ₹**74.68 Cr** in overstated income and ₹43.54 Cr in overstated assets. * **[Interest Burden]:** Borrowing costs spiked from **7.1% to 10.1%** post-DCCO, adding significant P&L pressure.

Overall scorecard summary NMDC Steel is currently a "distressed asset in a growth body." While the physical plant is now operational and de-risked from a construction standpoint, the financial health is critical, characterized by negative cash flows, high debt, and a total reliance on NMDC Ltd for working capital. Governance is at a nadir with zero independent oversight, and earnings quality is compromised by aggressive accounting choices flagged by the C&AG. The business is on a stable but high-risk trajectory, where survival depends entirely on achieving the Q3 FY25 breakeven target and the successful execution of the strategic disinvestment.

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	—

Final line: "Total: 5/10 — Governance Rating: 1"

Part c: investor verdict

Thesis: NSL is a high-quality 3 MTPA steel asset trapped in a poorly governed, debt-laden corporate shell, serving as a pure-play bet on privatization timing.

Overall stance: Watch

Rationale: Technical de-risking is complete, but financial and governance risks are too high for entry before the Q3 FY25 breakeven or a clear disinvestment timeline. Re-evaluate when: EBITDA breakeven is achieved (Target: Q3 FY25) OR an Independent Board is appointed. BULL CASE: Successful privatization to a Tier-1 steel major, leading to a 300-400 bps margin expansion via operational efficiencies. BEAR CASE: Privatization stalls, and NMDC Ltd withdraws deferred payment support, leading to a liquidity collapse. Key monitorable: Inventory as % of Revenue: 121% → Watch for reduction to <30%.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Operational Status	Pre-revenue; 93% of assets in CWIP.	Operational (DCCO Aug 2023); ₹3,048.99 Cr Revenue.	The transition to operations has shifted the primary risk from construction delays to a struggle for operational breakeven.
Capital Allocation	Interest and recurring costs capitalized (IEDC).	Cessation of capitalization; full interest/depreciation hit P&L.	The end of cost capitalization has exposed a massive structural loss-making profile that was previously masked on the balance sheet.
Margin Trajectory	N/A (Pre-commercial phase).	Negative; ₹548.07 Cr inventory write-down to NRV.	High initial production costs exceeding market prices indicate the plant is currently destroying value on a per-unit basis.
Working Capital	₹782.93 Cr inventory (commissioning build).	₹3,703.42 Cr inventory (121% of revenue).	An unprecedented inventory-to-sales ratio suggests severe downstream bottlenecks or a lack of market absorption for initial output.
Cost of Debt	7.30% to 8.80% (NCDs).	7.1% to 10.1% (SBI Term Loan post-DCCO).	The automatic step-up in interest rates upon commissioning has significantly worsened the company's liquidity and interest coverage.
Management Tone	Focused on high-stakes transition to operations.	"Calculated Optimism with Operational Blinders."	Management is prioritizing technical milestones to facilitate privatization while remaining silent on deteriorating governance and C&AG flags.
Earnings Quality	Aggressive capitalization of security/consultancy.	Optimistic DTA recognition (₹650 Cr) and C&AG income flags.	Forensic red flags have shifted from aggressive cost capitalization to aggressive income recognition and asset overstatement.

7.2 Persistent patterns

- **Total absence of Independent Directors and mandatory board committees (Audit, NRC) persists, representing a severe and continuous governance failure.**
- **Extreme "umbilical cord" dependency on NMDC Ltd for raw materials, employee costs, and working capital funding remains the only factor preventing technical insolvency.**
- **The investment thesis remains entirely tethered to a strategic disinvestment/privatization outcome rather than organic operational viability.**
- **Persistent legal and arbitration overhangs (exceeding ₹2,400 Cr) continue to threaten long-term capital adequacy and free cash flow visibility.**
- **A sub-AAA credit profile (A-) continues to burden the company with high borrowing costs during its most capital-intensive phase.**
- **The "caretaker" management structure, where KMPs are drawn from the parent company, indicates a lack of administrative independence and long-term leadership stability.**