NMDC Steel Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**NMDC Steel operates a Tier-1, 3 MTPA integrated steel plant at Nagarnar, currently transitioning from a pre-operational phase to commercial production.**	—
2	***Revenue remains at zero for FY23, with the company's financial viability entirely dependent on the successful technical ramp-up and stabilization of the plant.***	—
3	***Operating margins are non-existent as all recurring costs, including security and consultancy, are being aggressively capitalized into the asset base.***	—
4	***Profitability is currently masked by accounting treatments where finance costs are capitalized, resulting in a 0% ROCE and zero internal accruals.***	—
5	***Total debt surged 127% to 3,841.88 Cr, with a credit rating downgrade from AAA to A- driving NCD interest rates up to 8.80%.***	—
6	***Cash flow from operations is negative, and the company faces extreme liquidity reliance on the parent (NMDC Ltd), with payables surging 315% to 2,016.53 Cr.***	—
7	***Capital expenditure is concentrated in a single asset, with 93% of total assets (19,545 Cr) locked in Capital Work-in-Progress (CWIP).***	—
8	***Earnings quality is low due to the capitalization of recurring expenses and a massive inventory build of 782 Cr despite zero sales.***	—
9	***Governance is a critical concern characterized by 0% Independent Directors, the absence of an Audit Committee, and NSE fines for statutory non-compliance.***	—
10	***Significant risks include a 145% explosion in contingent liabilities for arbitration (2,400.24 Cr) and Supreme Court litigation over 21.02 hectares of land.***	—
11	The outlook hinges on achieving a 60% capacity utilization breakeven threshold and the potential for a strategic privatization sale to a private major.	—
12	Stance: Watch; key monitorables include the commencement of commercial HR coil production and the appointment of an Independent Board.	—

1. Business overview (In Bullet Points)

- **Business Model:** NMDC Steel Ltd (NSL) is a pure-play, integrated steel manufacturer centered around its flagship 3 MTPA (Million Tonnes Per Annum) Nagarnar Iron & Steel Plant (NISP) in Chhattisgarh.
- **Strategic Transition:** The company is currently transitioning from a "Project Phase" to an "Operational Phase" following its demerger from NMDC Ltd.
- **Primary Product Focus:** High-grade Hot Rolled (HR) Coils, including specialized grades for the automotive and API (oil & gas) sectors.
- **Revenue Drivers:** Future revenue is tied to the successful ramp-up of the 3 MTPA capacity and the ability to command premiums on high-quality HR coils produced via Thin Slab Caster (TSC) technology.

- **Cost Drivers:** Proximity to Bailadila iron ore mines (approx. 150 km) provides a structural "pit-head" advantage on raw material costs; however, the company is exposed to international coking coal price volatility and "logistics penalties" for finished goods distribution from its landlocked location.
- **Industry Position:** Enters the Indian market as a mid-tier player by volume but with "Tier-1" technology, targeting the replacement of high-end imported steel grades.
- **Expansion & Capacity:** Current focus is on stabilizing the 3 MTPA integrated circuit. FY23 marked the commissioning of critical units: Coke Oven battery, Sinter plant, and Oxygen plant.
- **Geographical Presence:** Centered in Chhattisgarh, targeting consumption hubs in Central and South India.

2. Management commentary & outlook

- Management’s primary focus is the stabilization of the integrated circuit and the definitive shift from a "cost center" to a "profit center."
- The domestic steel demand environment is viewed bullishly, supported by government infrastructure initiatives like Gati Shakti and PMAY.
- NSL is positioned as a key beneficiary of "Atmanirbhar Bharat," specifically targeting the high-end value chain to avoid the "commodity trap."
- Project delivery commentary reflects a sense of "relief and urgency" following historical delays, with a push for rapid ramp-up post-commissioning.
- Long-term vision involves becoming a preferred supplier for the automotive and white goods sectors.
- The demerger is highlighted as a strategic milestone, providing NSL with a dedicated capital structure and management focus independent of the mining business.
- Management acknowledges the potential for "Value Added Products" to drive future margins.
- There is a noticeable absence of specific forward guidance on margins or 100% capacity utilization timelines, suggesting a cautious approach to technical stabilization.
- Management Tone: The tone is **Execution-Focused but Bureaucratically Cautious**. The language is technical and milestone-oriented, reflecting the high stakes of commissioning a □20,000+ Crore project. However, the "Additional Charge" status of leadership and the pending privatization process result in a lack of aggressive forward guidance on market share or specific financial targets.

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 remains at 0.00 Cr as the company has not commenced commercial production of its 3MTPA Integrated Steel Plant, resulting in no Trade Receivables or operational PAT.
- All operational costs, including **Employee Benefit Expense** of 154.19 Cr and Finance Cost of 185.01 Cr, are capitalized under "Expenditure Incidental to Construction Awaiting Allocation" (IEDC), which increased to 3,342.97 Cr, directly inflating the CWIP on the Balance Sheet.
- **CWIP** has reached 19,545.23 Cr, constituting approximately 80.58% of Total Assets, signaling a massive concentration of value in non-productive assets that are not yet subject to Depreciation, thereby deferring P&L impact.
- **Total Debt** surged by 127% to 3,841.88 Cr, driven by a 2,150.08 Cr drawdown from the SBI term loan, which is reflected as a major inflow in Cash from Financing Activity to fund ongoing Capex.
- The **Finance Cost** burden is set to rise as NCD interest rates were revised upward from 7.30% to 8.80% following a credit rating downgrade to 'A-', increasing the cost of Total Debt and future interest capitalization.
- **Inventory** buildup of 859.54 Cr, primarily in raw materials like Coking Coal and Iron Ore (782.93 Cr), represents a significant cash outflow in CFO as the company prepares for commissioning.
- **Trade Payables** of 390.06 Cr show signs of aging stress, with 100.13 Cr outstanding for over 2 years, indicating potential disputes or liquidity constraints despite the increase in Total Debt.
- **Other Assets** are heavily weighted by non-current ITC receivables of 1,864.77 Cr, a "soft" asset that requires future taxable Revenue to realize, potentially impacting long-term Cash Flow quality.
- **Other Financial Liabilities** include a massive 2,016.53 Cr payable to NMDC Ltd, highlighting that the company is currently dependent on related-party support to sustain its Balance Sheet and project execution.
- **Contingent Liabilities** for arbitration claims exploded by 145.72% to 2,400.24 Cr, representing 14% of Net Worth, posing a severe risk to future FCF and capital adequacy.

- The **Debt/Equity** ratio increased from 0.10 to 0.23, reflecting the shift toward external borrowing as the project nears completion, while ROCE and ROE remain at 0% due to the lack of operational Revenue.
- **Capex** of 2,150.08 Cr in the Cash Flow Statement is being funded entirely by Total Debt and parent-company payables rather than internal accruals, leading to a deeply negative Free Cash Flow.
- **Other Liabilities** are impacted by a massive spike in Statutory Dues (from 4.90 Cr to 694.03 Cr), indicating a final push toward commissioning but also highlighting extreme liquidity being locked up in non-operational balances.
- **Other Expenses** capitalized in IEDC include 185.45 Cr for Security Guards and 31.25 Cr for Consultancy, which will lead to a higher depreciation burden post-commissioning.
- The dominant financial theme of the year is the high-stakes transition from a debt-funded construction phase to operational status, characterized by a balance sheet heavily concentrated in **CWIP** and a total reliance on external and related-party funding.

3.3 Contingent liabilities & commitments

- **Arbitration Claims:** Claims against the company exploded by 145.72% YoY, reaching □**2,400.24 Cr**.
- **Disputed Tax/Statutory Claims:** Disputed claims under property, export, and sales tax increased from □1.92 Cr to □**107.58 Cr**.
- **Capital Commitments:** Estimated amount of contracts remaining to be executed on capital account and not provided for: □**1,536.67 Cr**.
- **Guarantees:** Bank Deposits of □**858.07 Cr** are held as security for Letters of Credit (LC) and Bank Guarantees (BG).

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑↓ — pre-commercial phase prevents PAT/CFO comparison; all operating costs capitalized into CWIP.	—	Note 2.2.2 (IEDC)
2	Receivables & channel-stuffing signal	Neutral — zero revenue environment precludes channel stuffing; focus remains on project construction.	—	Note 2.32.3
3	Revenue timing	Neutral — revenue recognition not yet triggered; no contract assets or deferred revenue.	—	Note 2.32.3
4	Revenue from related parties %	Neutral — no sales recorded; RPTs limited to asset transfers and operational support.	—	Note 2.32.5
5	Inventory vs revenue growth	Profit ↓ — massive inventory build for commissioning creates liquidity drag without revenue offset.	—	Note 2.7
6	Inventory valuation method change	Neutral — consistent valuation policy maintained; inventory consists primarily of raw materials.	—	Note 1.2
7	Exceptional items in operating profit	Neutral — no exceptional items impacting the pre-operative statement of expenditure.	—	P&L Statement
8	Depreciation rate vs useful life policy	Profit ↑ — non-depreciation of massive CWIP base inflates book value of equity.	—	Note 2.2
9	Provision reversals boosting PAT	Neutral — absence of operational history limits the use of provision reversals.	—	Note 2.31
10	Tax rate consistency + cash tax vs P&L tax	Neutral — tax accounting deferred until commercial production; ITC receivable of ₹1,864.77 Cr.	—	Note 2.10
11	CWIP age and stalling projects	Profit ↓ — prolonged capitalization of recurring costs like security guards inflates asset base.	—	Note 2.2.2 (IEDC)
12	Deferred tax asset recognition adequacy	Profit ↑↓ — realization of massive ITC depends entirely on future taxable profitability.	—	Note 2.10
13	RPT quantum and trend	Profit ↓ — heavy reliance on parent for funding and operations increases systemic risk.	—	Note 2.32.5
14	Dividend paid vs FCF adequacy	Neutral — no dividends paid as company is in pre-revenue construction phase.	—	Cash Flow Statement
15	Auditor KAMs & Governance	Profit ↓ — Total absence of Independent Directors and Audit Committee undermines oversight of ₹19,545 Cr spend.	—	P.138
16	Land Title Risk	Neutral — Title deeds for 21.02 hectares not in company name; under Supreme Court litigation.	—	P.116
17	Credit Quality Deterioration	Profit ↓ — NCD interest rate increased from 7.30% to 8.80% following credit rating downgrade.	—	P.133

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified on Financials; however, the Secretarial Auditor issued significant adverse observations regarding board composition.
- **Key Audit Matters (KAMs):** The auditor focused on the capitalization of Expenditure Incidental to Construction Awaiting Allocation (IEDC) totaling **₹3,342.97 Cr**.

- **Emphasis of Matter:** Title deeds for 21.02 hectares of land are not in the company's name, being held by the Government of Chhattisgarh or under Supreme Court litigation.
- **Governance Collapse:** Total absence of Independent Directors for the entire FY 2023.
- **Committee Non-existence:** Failure to constitute Audit, Nomination & Remuneration, and Risk Management Committees.
- **Regulatory Penalties:** NSE imposed a fine of ₹4,40,000 for non-compliance with SEBI LODR regulations regarding board composition.

B. Related party transactions

Party	Relationship	Nature	Amount (₹ Cr)	Concern
NMDC Ltd	Former Parent/ Promoter	Other Financial Liabilities (Payable)	2,016.53 Cr	High dependency; massive unsettled liability
NMDC Ltd	Former Parent/ Promoter	Purchase of Raw Material (Iron Ore)	46.42 Cr	Pricing transparency in pre-op phase
NMDC Ltd	Former Parent/ Promoter	Employee Benefit Payments (on NSL behalf)	41.06 Cr	Reliance on parent for HR/ Operations
NMDC Ltd	Former Parent/ Promoter	Supply of Coking Coal (Receivable)	8.36 Cr	Informational

- **Dependency:** The company exhibits extreme "umbilical cord" dependency on NMDC Ltd. Payables to the promoter entity increased by 315% YoY.
- **Governance Risk:** The total absence of an Audit Committee to oversee ₹2,016.53 Cr in related party payables constitutes a severe governance failure.

C. Shareholding

- **Promoter Holding:** 60.79% (Government of India)
- **Pledged Shares:** Not disclosed in provided data.

D. Board composition + KMP compensation

- **Total Directors:** 7
- **Independent %:** 0% (Statutory non-compliance)
- **Women Directors:** 1 (Smt. Sukriti Likhi)
- **KMP Compensation:** Individual KMP remuneration (Amitava Mukherjee, Dilip Kumar Mohanty, Wishwanath Suresh, Vinay Kumar) is not broken out. Total Employee Benefit Expense (capitalized) is **₹154.19 Cr**.
- **Family/Promoter Correlation:** Leadership consists of "Additional Charge" roles from the parent (NMDC Ltd), indicating a temporary management structure. Compensation is determined without a functional Nomination & Remuneration Committee.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Capex (CWIP Increase)	19,545.23 Cr	16,934.79 Cr	N/M	—
Net Debt Change	2,151.03 Cr	Not disclosed	N/M	—
Interest Payments (Capitalized)	185.01 Cr	35.68 Cr	N/M	—
Working Capital Investment	859.54 Cr	39.68 Cr	N/M	—
Statutory Dues Increase	689.13 Cr	4.90 Cr	N/M	—

Capex analytical notes: * **CFO Coverage of Capex:** 0%. Capex is 100% funded by debt (SBI Term Loan) and liabilities to NMDC Ltd. * **Nature of Capex:** Growth capex for the 3MTPA Integrated Steel Plant. **CWIP of 19,545.23 Cr represents 93% of the total asset base.** * **Capex Deployment Efficiency:** Revenue remains zero despite a □**2,610.44 Cr** increase in capitalized costs (IEDC) this year. * **Key Takeaways:** The capitalization of recurring costs like **Security Guards (185.45 Cr)** and Consultancy (31.25 Cr) into the plant cost will lead to a higher depreciation burden post-commissioning.

H. Risks

#	Risk	Category	Description	Potential impact	Severity
1	***Arbitration Claims***	Litigation	Claims against the company exploded by 145% YoY.	**2,400.24 Cr** potential outflow (14% of equity).	High
2	***Governance Non-compliance***	Regulatory	No Independent Directors or mandatory committees.	NSE fines and potential regulatory suspension.	High
3	***Land Title Dispute***	Operational	21.02 hectares of land titles not in company name.	Risk of project disruption; Supreme Court litigation.	High
4	***Credit Rating Downgrade***	Financial	Rating dropped from AAA to A- post-demerger.	**NCD interest rate increased from 7.30% to 8.80%**.	Medium
5	***Asset Concentration***	Strategic	93% of assets tied in a single uncommissioned plant.	Any delay destroys project IRR.	High

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	—	3 MTPA Tier-1 asset; pit-head advantage.	Strong asset base but currently pre-operational and cyclical.
Financial health	2	—	D/E 0.23x; CFO negative; 100% debt-funded capex.	Pre-revenue status with rising debt and zero internal accruals.
Earnings quality	2	—	CWIP 93% of assets; capitalized security/consultancy.	Aggressive capitalization of recurring costs and zero revenue.
Management & governance	1	—	0% Independent Directors; NSE fines; high RPT.	Severe statutory non-compliance and lack of oversight committees.
Capital allocation & visibility	2	—	ROCE 0%; FCF -3,270 Cr; commissioning delays.	Massive capital sunk into a single asset with uncertain ramp-up.

Business positives (for this company this year) * **Asset Readiness:** Successful commissioning of Coke Oven battery, Sinter plant, and Oxygen plant in FY23. * **Strategic Moat:** Geographical proximity to Bailadila mines (150km) provides a structural cost advantage for iron ore. * **Technology Edge:** Use of Thin Slab Caster (TSC) allows for high-margin, specialized HR coil production. * **Market Positioning:** Targeting "Atmanirbhar Bharat" infrastructure demand and high-end import substitution.

Business negatives / concerns (for this company this year) * **Governance Failure:** Total absence of Independent Directors and Audit Committee for the entire FY23. * **Hidden Liabilities:** Contingent liabilities for arbitration claims exploded 145% to □**2,400.24 Cr**. * **Financial Stress:** Credit rating downgrade from AAA to A- led to NCD interest rates rising to **8.80%**. * **Asset Concentration: 93% of assets (□19,545 Cr)** are tied up in a single, non-depreciating CWIP account. * **RPT Dependency:** Payables to NMDC Ltd surged 315% to □**2,016.53 Cr**, indicating extreme liquidity reliance. * **Land Risk:** Title deeds for **21.02 hectares** are under Supreme Court litigation and not in the company's name.

Overall scorecard summary NMDC Steel is in a high-risk "pre-operational" state where its financial strength is entirely dependent on external debt and promoter support. While the underlying asset is technologically superior and strategically located, the company's governance posture is currently poor due to severe statutory non-compliance. Capital allocation discipline is difficult to assess given the project phase, but the aggressive capitalization of recurring costs and the explosion in contingent liabilities are significant red flags. The business is on a stable but high-risk trajectory, where value realization depends solely on the successful technical ramp-up of the Nagarnar plant.

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: A high-spec, pit-head steel asset being "dressed up" for privatization, currently masked by pre-operational accounting and governance gaps. **Overall stance:** Watch **Rationale:** The technical risk of commissioning and the severe governance/litigation overhangs outweigh the structural cost advantages until commercial production stabilizes. **Re-evaluate when:** Commercial production of HR Coils commences and an Audit Committee is constituted. **BULL CASE:** Strategic sale to a private major (JSW/Adani) at a control premium exceeding the □20,000 Cr replacement cost. **BEAR CASE:** Prolonged technical stabilization issues combined with a □2,400 Cr arbitration payout cripples the balance sheet. **Key monitorable:** Capacity Utilization Rate: 0% → 60% (Breakeven threshold).