**NMDC Steel Ltd — FY 2026 Annual Report Analysis**

# Annual Report Analysis (Consolidated)

## Investor Snapshot

The reported turnaround to a ₹58.72 Cr PAT is functionally artificial, sustained entirely by the non-accrual of interest on ₹4,508.23 Cr in trade payables due to parent NMDC Ltd. This interest-free subsidy, estimated at ~₹360 Cr annually, masks an underlying operating loss and makes bottom-line stability a matter of parent-entity forbearance rather than operational viability.

Systemic internal control failures pose a significant forensic risk, highlighted by a ₹5,177.24 Cr discrepancy between book creditors and filings made to State Bank of India—a gap representing nearly 40% of the company's net worth. The risk is compounded by the lack of a database-level audit trail in the SAP S/4 HANA system, leaving financial records vulnerable to unauthorized modification.

The balance sheet is facing a critical liquidity squeeze, evidenced by a Current Ratio of 0.53 following the reclassification of the ₹1,851.39 Cr demerger liability to current status. With contingent liabilities totaling ₹3,823.17 Cr (29% of equity)—primarily high-risk arbitration claims from project contractors—the company has no margin for adverse legal rulings or a tightening of parent credit.

Governance is currently non-compliant with basic regulatory standards, featuring 0% independent director representation and no women directors on the board. The "caretaker" management structure, where KMPs draw zero remuneration from the company and remain on the parent's payroll, creates a fundamental conflict of interest that limits accountability to minority shareholders.

Operational scaling provides the only positive momentum, with revenue surging 60.4% to ₹13,641.81 Cr as Nagarnar plant utilization hit 77%. However, even this growth is qualified by "provisional pricing" under the SAIL agreement, which subjects 85% of the revenue stream to potential back-ended adjustments by a pricing committee.

STANCE: Avoid. Monitorables for re-evaluation include the appointment of a 50% independent board, the transition of NMDC trade payables to arms-length interest-bearing terms, and a formal reconciliation of the ₹5.1k Cr bank reporting discrepancy.

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | ***Reported profitability is engineered via interest-free parent credit ( 4,508 Cr payable); excluding this ~ 360 Cr subsidy, the entity remains loss-making.*** | — |
| 2 | ***Severe internal control failure indicated by a 5,177.24 Cr discrepancy in creditor reporting to banks and lack of database-level audit trails.*** | — |
| 3 | ***Acute liquidity risk with a Current Ratio of 0.53 and reclassification of 1,851.39 Cr in demerger dues to current liabilities.*** | — |
| 4 | ***Governance is in critical non-compliance with 0% Independent Directors and shared KMP structures limiting minority oversight.*** | — |
| 5 | ***High contingent liability overhang of 3,823.17 Cr (29% of Net Worth), primarily stemming from Nagarnar construction arbitration.*** | — |
| 6 | **Strong operational ramp-up with revenue up 60.4% and Nagarnar steel production reaching 77% capacity utilization.** | — |
| 7 | **Successful debt repositioning, reducing finance costs through an interest rate reset from 12.45% to 8.40%.** | — |
| 8 | ***Revenue quality is obscured by provisional pricing under the SAIL agreement, introducing estimation uncertainty into the top line.*** | — |
| 9 | Stance: Avoid. Monitor independent board appointments and normalization of related-party credit terms. | — |

## 1. Business overview

| Segment | Revenue (□Cr) | Share (%) | YoY growth (%) |
|---|---|---|---|
| Steel Products | 11,608.58 | 85.09% | 77.8% |
| Pig Iron | 1,631.43 | 11.96% | 7.3% |
| By-Products/Others | 401.80 | 2.95% | (11.7%) |
| Total | **13,641.81** | **100.00%** | **60.4%** |

| Geography | Revenue (□Cr) | Share (%) |
|---|---|---|
| Domestic | 13,641.81 | 100.00% |
| Export | 0.00 | 0.00% |

- **Business Segments & Revenue Drivers:** NSL remains a single-segment pure-play in Iron and Steel. Revenue growth of 60% YoY (□13,641.81 Cr) was driven almost entirely by volume ramp-up of the Nagarnar Integrated Steel Plant, which achieved a production scale of 2.32 MTPA of HR Coils (~77% utilization rate) against a 3.0 MTPA nameplate capacity.
- **Logistics & Cost Structure:** The company possesses a structural "pit-head" advantage due to its proximity to NMDC's Bailadila mines. Specific energy consumption declined to 6.21 Gcal/tcs (vs. 6.99 Gcal/tcs), signaling improved efficiency. However, 32.49% of all purchases are sourced from NMDC Ltd, making margins highly sensitive to parent-entity pricing.
- **Industry Position & Product Strategy:** NSL is targeting premium segments, evidenced by CE Certification and ISO 29001:2020 attainment for the Petroleum/Gas sector. This strategy aims to insulate the portfolio from generic HR coil price volatility by targeting automotive and oil & gas sectors.
- **Expansion & Capital Expenditure:** Focus has transitioned from Greenfield CAPEX to operational debottlenecking. There is no current mention of Phase II expansion, with management focusing on stabilizing the balance sheet and current 3 MTPA capacity.

## 2. Management commentary & outlook

- Management characterizes FY 2026 as the **"Year of Turning the Corner,"** highlighting the shift from sequential commissioning to commercial sustainability and the achievement of a positive EBITDA of ₹1,604.44 Cr.
- Hot Metal production increased 53.5% YoY to 30.71 lakh tonnes, and Liquid Steel rose 60.8% YoY to 24.25 lakh tonnes, which management attributes to resolved teething issues in the 4,506 m³ blast furnace.
- The domestic outlook is highly optimistic, supported by the GoI's ₹11.21 lakh crore capital outlay, PM Gati Shakti, and the PLI Scheme for Specialty Steel.
- Global outlook remains cautious due to geopolitical tensions, trade policy instability, and a global excess capacity of approximately 680 MT.
- Management acknowledges headwinds from raw material price volatility and decarbonization (CBAM) but is notably silent on the "debt trap" concerns or the high reliance on interest-free trade payables to the parent entity.
- Strategic focus has shifted from "Technical Viability" in FY25 to "Profitability and Market Expansion" in FY26, including plans to target European markets via CE certification.
- **Management Tone:** The tone is confident and promotional regarding production milestones but becomes defensive and legalistic regarding financial reporting nuances, such as C&AG comments on land transfer charges and ECL observations. Management is successfully selling an "Operational Recovery" story to mask a "Financial Fragility" reality, likely grooming the company for disinvestment by focusing on EBITDA positivity while relying on parent-entity subsidies (168-day payable cycle).

## 3. Financial analysis

### 3.1 Financial statements

### 3.2 Financial analysis summary

- The company achieved a sharp turnaround in **Revenue** from Operations, which surged 60.43% to ₹13,641.81 Cr, driven by the organic ramp-up of the Nagarnar Integrated Steel Plant; however, top-line quality is impacted by "provisional pricing" under the SAIL agreement, introducing significant estimation uncertainty in Trade Receivables of ₹179.05 Cr.
- **Profit After Tax (PAT)** reached ₹58.72 Cr, a recovery from the FY2025 loss of ₹2,373.78 Cr, aided by high operational leverage as Cost of Materials Consumed grew only 18.4% to ₹8,594.27 Cr despite the 60% revenue growth.
- **Finance Costs** declined by 25.3% to ₹486.64 Cr, benefiting from a significant interest rate reset from 12.45% to 8.40% effective January 2026, which supported bottom-line recovery while the company reduced Total Debt via the redemption of ₹523.80 Cr in NCDs.
- **Inventory** rose 27.5% to ₹3,897.38 Cr, with raw materials in-transit jumping to ₹1,350.79 Cr, funded by stretching Trade Payables to ₹6,043.75 Cr, of which ₹4,508.23 Cr (74.59%) is due to the related party NMDC Ltd.
- **Cash Flow from Operations (CFO)** is effectively subsidized by a "consistent historical pattern of non-enforcement" of interest on the ₹4,508.23 Cr payable to NMDC Ltd; avoiding this estimated ~₹360 Cr annual interest hit was critical to reporting a positive PAT.
- **Gross Block** stabilization is evident as Property, Plant and Equipment stood at ₹19,406.00 Cr and Capital Work-in-Progress (CWIP) reduced to ₹570.22 Cr, though ₹259.07 Cr of CWIP is aged >3 years, posing impairment risks.

- **Selling Expenses** saw a 203.5% spike in railway freight to ₹578.77 Cr, indicating that the cost of reaching wider domestic markets is consuming a larger portion of the EBITDA margin.
- The **Balance Sheet** faces liquidity pressure as the Demerger Liability of ₹1,851.39 Cr was reclassified to current liabilities, while Contingent Liabilities reached ₹3,823.17 Cr (29% of Net Worth), largely due to arbitration claims.
- **Deferred Tax Assets (DTA)** of ₹1,580.94 Cr are recognized based on "projected future taxable income," a judgment that ties balance sheet strength to sustained plant success.
- Internal control weaknesses are significant, with a lack of database-level audit trails in SAP and a **₹5,177.24 Cr** discrepancy in creditor reporting to banks, suggesting financial infrastructure has not kept pace with operational scale.
- **Other Assets** are dominated by ITC Receivables of ₹1,293.95 Cr; while these are non-cash, they represent significant tied-up value. Other Expenses were impacted by Operation & Maintenance costs of ₹608.48 Cr and Manpower Supply of ₹884.75 Cr (paid to NMDC), indicating that "Employee Costs" in the P&L are understated as core plant labour is outsourced to the parent.
- **FY2026 marked a critical operational pivot where aggressive volume growth and interest rate repositioning enabled marginal profitability, yet the business remains fundamentally reliant on parent-entity credit and faces severe liquidity risks from reclassified demerger dues and legal contingencies.**

### 3.3 Contingent liabilities & commitments

| Item (note's own caption) | Current yr | Prior yr | Change | What it means |
|---|---|---|---|---|
| Arbitration Claims (Capital Account) | ₹2,805.36 Cr | ₹2,600.10 Cr | + ₹205.26 Cr | Potential 21.2% hit to Net Worth; primarily claims from capital contractors. |
| Other Claims Not Acknowledged as Debts | ₹1,001.76 Cr | ₹1,002.41 Cr | - ₹0.65 Cr | General legal disputes. |
| Disputed Income Tax | ₹15.89 Cr | ₹0.00 Cr | + ₹15.89 Cr | New tax litigation for the current year. |
| Total Contingent Liabilities | **₹3,823.01 Cr** | **₹3,602.51 Cr** | **+ ₹220.50 Cr** | **Represents 29.02% of total Equity.** |
| Capital Commitments | ₹242.60 Cr | ₹183.73 Cr | + ₹58.87 Cr | Estimated amount of contracts remaining to be executed. |

- **Legal Risk:** The bulk of contingent liabilities (₹2,805.36 Cr) involves high-risk arbitration with capital contractors related to the Nagarnar project construction.
- **GST Dispute:** Pre-demerger GST claims of ₹56.40 Cr are pending before the High Court of Bilaspur; these are currently handled by NMDC Ltd per the demerger scheme.
- **Land Title Risk:** 22.49 hectares of land acquired from the Chhattisgarh Government have not been recorded on the books as the acquisition cost is currently "not ascertainable," creating an unquantified hidden liability.

## 3.9 Earnings quality & forensic checks

| Read | Question | Verdict | Confidence | Checked |
|---|---|---|---|---|
| 1 | Is the growth real? | ***Watch*** | High | 6/6 |
| 2 | Does profit become cash? | ***Watch*** | High | 5/5 |
| 3 | Is the P&L being manufactured? | ***Flag*** | High | 6/6 |
| 4 | Is value leaving to insiders? | ***Watch*** | High | 6/6 |
| 5 | Can the balance sheet take a hit? | ***Flag*** | High | 5/5 |

### Read 1 — Is the growth real? → Watch

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Revenue from Operations growth vs Receivables growth | □8,503.05 Cr | □13,641.81 Cr | Revenue grew 60.4% while receivables fell 9.3% | Clean | — |
| Trade Receivables ageing (< 1 year) | Not disclosed | □171.67 Cr | Not disclosed | Watch | 95.8% of receivables are current |
| Contract Liabilities (Advances from customers) | □387.78 Cr | □273.39 Cr | Decreased 29.5% | Watch | Suggests potential slowdown in new booking advances |
| Revenue from related parties (NMDC Ltd supply dependency) | Not disclosed | □3,301.86 Cr | Not disclosed | Watch | Critical supply dependency on parent for iron ore |
| Customer concentration (SAIL Agreement) | Not disclosed | Significant | Not disclosed | Watch | Revenue based on provisional prices; estimation uncertainty |
| Unbilled revenue / Contract assets | Not disclosed | Not disclosed | Not disclosed | Clean | None identified |

> **Mechanism:** Revenue growth is driven by the organic ramp-up of the Nagarnar plant, but relies heavily on provisional pricing through a SAIL agreement and a 'Cash & Carry' model that keeps receivables low. **Aggregate impact:** 60.4% revenue growth is supported by a □114.39 Cr reduction in customer advances. **Trend:** Single year only. **Direction:** stable · **Watch next:** The finalization of provisional prices by the TPC.

### Read 2 — Does profit become cash? → Watch

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Cfo_ebitda (CFO / Clean EBITDA) | — | 1.12 | — | Watch | CFO of □1,795.50 Cr exceeds EBITDA of □1,604.20 Cr |
| Op_conversion_pretax ((CFO + tax paid) / EBITDA) | — | 1.12 | — | Watch | Cash tax paid is negligible at □3.15 Cr |
| Inventory absorption of operating cash | □646.59 Cr | (□840.55 Cr) | Swung to heavy absorption | Watch | Absorbed □840.55 Cr of cash (approx. 52% of EBITDA) |
| Working capital movement (Payables Leverage) | □2,329.02 Cr | □1,212.03 Cr | Significant but declining | Watch | Operating cash bolstered by □1,212.03 Cr increase in payables |
| Cash tax paid vs book tax | □4.25 Cr | □3.15 Cr | Decrease of □1.10 Cr | Clean | Cash tax significantly lower than P&L charge |

**Mechanism:** Operating cash flow is healthy but is artificially supported by a massive increase in trade payables (□1,212.03 Cr), which offsets a significant inventory build-up (□840.55 Cr). **Aggregate impact:** Net working capital changes contributed □259.90 Cr to CFO. **Direction:** deteriorating · **Watch next:** Conversion of the □1,356.86 Cr Bill Discounting arrangement.

**Read 3 — Is the P&L being manufactured? → Flag**

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Non-accrual of Interest on NMDC Payables | — | □0.00 Cr | — | Flag | Estimated ~□360 Cr of interest avoided (8% on □4,508 Cr) |
| Deferred Tax Asset recognition | (□947.94 Cr) | □17.06 Cr | □965 Cr swing | Watch | □1,580.94 Cr DTA sits on BS despite history of losses |
| Useful life estimates (vs Schedule II) | Not disclosed | Higher lives | Not disclosed | Watch | Longer lives (20-30 years) reduce annual depreciation |
| NRV write-downs of inventory | □173.90 Cr | □18.75 Cr | Reduced by 89.2% | Clean | Adds □155.15 Cr back to P&L vs prior year |
| Non-operating / Other Income as % of PBT | (2.15%) | 113.48% | Other Income > PBT | Flag | Loss-making at operating level after finance costs if Other Income is excluded |
| Exceptional items | — | — | — | Clean | — |

**Mechanism:** Reported profit of □58.72 Cr is highly engineered via non-accrual of interest on multi-billion rupee payables and a reversal of inventory write-downs. **Aggregate impact:** Profit is entirely dependent on non-operating income and parent's interest forbearance. **Direction:** deteriorating · **Watch next:** Any impairment of the □1,580.94 Cr DTA.

**Read 4 — Is value leaving to insiders? → Watch**

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Related Party Payables (NMDC Ltd) | ₹3,655.13 Cr | ₹4,508.23 Cr | Increased ₹853.10 Cr | Watch | Payables to parent = 74.5% of total trade payables |
| Manpower Supply Services (via NMDC) | ₹1,042.90 Cr | ₹884.75 Cr | Decreased 15.1% | Clean | Significant cost paid to parent for plant workforce |
| KMP Remuneration vs PAT | Not disclosed | Not disclosed | Not disclosed | Unresolved | — |
| Demerger Liability to NMDC | ₹2,151.39 Cr | ₹1,851.39 Cr | Decreased ₹300 Cr | Clean | Debt repayment to parent entity |
| Promoter pledge | — | — | — | Clean | — |

**Mechanism:** The company is operationally intertwined with NMDC Ltd. The increase in trade payables suggests the parent is providing a working capital subsidy. **Aggregate impact:** Total liabilities to parent (Trade Payables + Demerger) stand at ₹6,359.62 Cr. **Direction:** deteriorating.

### Read 5 — Can the balance sheet take a hit? → Flag

| Signal | Prior | This year | Δ | Status | Quantified impact |
|---|---|---|---|---|---|
| Contingent Liabilities vs Net Worth | ₹3,602.51 Cr | ₹3,823.17 Cr | Increased 6.1% | Flag | Contingent liabilities = 29% of Total Equity |
| Inventory and Creditor Reporting Discrepancies | — | ₹5,177.24 Cr | New flag | Flag | ₹5.1k Cr discrepancy in creditor filings to SBI |
| Stalled CWIP (> 3 years) | Not disclosed | ₹259.07 Cr | Not disclosed | Watch | Potential for impairment of legacy assets |
| Audit Trail Deficiency | Not disclosed | Not enabled at DB | — | Flag | Risk of unauthorized direct data changes in DB |
| Title deeds and Land Mortgages | Not disclosed | Not formalized | — | Watch | Equitable mortgage of land not yet formalized for loans |

**Mechanism:** Stressed by massive contingent liabilities and systemic internal control failures, highlighted by multi-billion rupee discrepancies in bank reporting. **Aggregate impact:** Discrepancy in bank filings (₹5,177.24 Cr) is nearly 40% of net worth. **Direction:** deteriorating.

### *Material notes captured*

| Discloses | Prior | This year | Impact | Signal |
|---|---|---|---|---|
| ***Non-provisioning of interest on payables to NMDC Ltd.*** | — | ₹0.00 Cr | Avoids ~₹360 Cr annual expense | Profit ↑ — Interest Avoidance |
| ***Differences between books and bank filings (SBI).*** | Not disclosed | ₹5,177.24 Cr (Creditors) | Systemic internal control failure | Neutral — Disclosure only |
| ***22.49 hectares of land not brought into books.*** | Not disclosed | Not recorded | Hidden liability for land acquisition | Neutral — Future Liability |
| **CWIP Aging (> 3 years)** | Not disclosed | ₹259.07 Cr | Potential future impairment risk | Profit ↓ — Potential Impairment |

## 4. Management & governance

### A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified.
- **Key Audit Matters:**
  1. **Litigation and Tax Proceedings:** High subjectivity in management estimates for ₹3,823.17 Cr in contingent liabilities. Reliance on management reps where legal counsel responses were missing.
  2. **Inventory Valuation:** Judgment in NRV estimation for ₹3,897.38 Cr in stocks; external expert used for physical verification of bulk items.
  3. **Revenue Recognition:** Specifically cut-off risks and the use of "provisional pricing" under the SAIL agreement (₹13,641.81 Cr revenue).
- **Emphasis of Matter:** Non-provisioning of interest on delayed payments to NMDC Ltd and delayed compliance in identifying employees post-demerger.
- **Control Deficiencies:** No internal audit system commensurate with size. **Audit trail NOT enabled at the database level** in SAP S/4 HANA. Total auditor fees (₹0.43 Cr) are exceptionally low for the revenue scale.

### B. Related party transactions

| Party | Relationship | Nature | Amount | Concern |
|---|---|---|---|---|
| NMDC Ltd | Common Control | Trade Payables Balance | 4,508.23 Cr | 74.59% of total Trade Payables; interest-free subsidy. |
| NMDC Ltd | Common Control | Purchase of Raw Material | 3,301.86 Cr | 24.20% of Revenue; high supply chain dependency. |
| NMDC Ltd | Common Control | Demerger Liability (Current) | 1,851.39 Cr | Reclassified to current; looming liquidity threat. |
| NMDC Ltd | Common Control | Interest Waiver | 0.00 Cr | Masks true cost of capital; PBT inflated by interest avoidance. |

- **RPT Verdict: Governance Concern ** — Technical profitability is artificial, relying on non-arms-length interest waivers and supplier credit representing nearly 75% of payables.

### C. Shareholding

- **Promoter (President of India):** 60.79%
- **Public:** 39.21%
- **Promoter Pledges:** 0.00%

### D. Board composition + KMP compensation

- **Board Independence: 0% Independent Directors** (Severe non-compliance with SEBI LODR Regulation 17).
- **Women Directors:** 0 (Position vacant since 31.01.2026).
- **Compensation:** Functional directors draw **NIL remuneration** from NSL as they are on the rolls of NMDC Ltd.
- **Analytical Note:** The "caretaker" management structure (shared Chairman and Directors with NMDC Ltd) limits accountability to NSL-only shareholders.

### F. Capital allocation & capex

| Action | FY current | FY prior | % of EBITDA | Signal |
|---|---|---|---|---|
| Net Debt Change | -1,295.70 Cr | 2,806.20 Cr | N/M | **Positive** |
| Interest Payments | 486.64 Cr | 651.94 Cr | 30.33% | **Positive** |
| Redemption of NCDs | 523.80 Cr | 0.00 Cr | 32.65% | **Positive** |
| Working Capital Stress | -5,736.26 Cr | -4,049.79 Cr | N/M | — |
| Arbitration Overhang | 2,805.36 Cr | 2,600.10 Cr | 174.85% | — |

- **Verdict:** Value-destroying — Survival is based on parent-entity subsidies (rising trade payables to parent by ₹853 Cr) rather than operational cash generation.
- **Capex Notes: ₹259.07 Cr of CWIP is aged >3 years**, signaling potential impairments for legacy construction projects.

### G. Revenue recognition policy

- **Policy:** Point-in-time recognition upon control transfer.
- **Forensic Signal:** Significant revenue derived via **provisional pricing** under the SAIL MoU. Final prices are determined post-facto by a committee (TPC), creating risk of future downward top-line adjustments.

### H. Risks

1. **Governance Failure:** 0% Independent Directors; SEBI fines (₹1.40 Cr/quarter) and lack of RPT oversight. (High)
2. **Legal & Arbitration:** ₹2,805.36 Cr in claims (21.2% of Net Worth). (High)
3. **Liquidity Risk:** Current Ratio at 0.53; reclassified Demerger Liability of ₹1,851.39 Cr. (High)
4. **Internal Control:** Database-level audit trail disabled and massive ₹5,177 Cr bank filing discrepancies. (High)

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 3 | → | 77% Utilization; Single-site risk | Stabilizing production but lacks diversification and pricing power. |
| Financial health | 2 | ↓ | Current Ratio 0.53; ₹1.8k Cr reclassified debt | Massive liquidity pressure and reliance on parent for solvency. |
| Earnings quality | 1 | ↓ | Interest non-accrual; ₹5.1k Cr bank discrepancy | Reported profit is engineered via related-party subsidies and weak controls. |
| Management & governance | 1 | ↓ | 0% Independent Directors; Shared KMPs | Severe regulatory non-compliance and lack of independent oversight. |
| Capital allocation & earnings visibility | 2 | → | ROCE < Interest (normalized); Stalled CWIP | Returns are currently masked by interest waivers; visibility hit by provisional pricing. |

**Business positives (for this company this year)** * **Revenue Growth:** 60.4% YoY surge to ₹13,641.81 Cr following Nagarnar plant ramp-up. * **Operational Leverage:** Material margin expansion as Cost of Materials

grew only 18.4% vs 60% revenue growth. * **Production Scale:** Liquid Steel production reached 24.25 lakh tonnes (+60.8% YoY). * **Debt Management:** Interest rate repositioning from 12.45% to 8.40% and redemption of ₹523.80 Cr NCDs. * **Inventory Turn:** Improvement in turns from 2.52 to 3.92, suggesting leaner scaling.

**Business negatives / concerns (for this company this year)** * **Governance Non-Compliance:** 0% Independent Directors on the Board and no statutory committees. * **Forensic Red Flag:** ₹5,177.24 Cr discrepancy in Creditor reporting to SBI (40% of Net Worth). * **Artificial Profitability:** Non-accrual of interest on ₹4,508 Cr NMDC payable (est. ₹360 Cr benefit) masked an operating loss. * **Liquidity Crisis:** Current Ratio of 0.53 and reclassification of ₹1,851.39 Cr Demerger Liability to current. * **Contingent Exposure:** Arbitration claims of ₹2,805.36 Cr represent 21.2% of Net Worth. * **Audit Trail Gap:** Audit trail not enabled at the database level in SAP S/4 HANA. * **RPT Dependency:** 74.59% of Trade Payables and 24.20% of purchases tied to NMDC Ltd.

**Overall scorecard summary** NSL is in a state of **deteriorating financial quality despite improving operational volumes**. While the Nagarnar plant is technically ramping up, the company's financial strength is an illusion supported by interest-free credit from NMDC Ltd and questionable accounting treatments (DTA recognition/interest non-accrual). Governance is at a critical low with 0% independent oversight, and the massive bank reporting discrepancies suggest internal controls are failing. The trajectory is high-risk unless a successful disinvestment or massive capital infusion occurs.

## 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: 1**

## Part c: investor verdict

**Thesis:** NSL is a technically impressive 3 MTPA steel asset currently operating as a financially distressed, parent-subsidized entity with severe governance gaps. **OVERALL STANCE:** Avoid **Rationale:** The combination of 0% board independence, artificial profitability through interest waivers, and multi-billion rupee reporting discrepancies makes the equity uninvestable for risk-averse capital. **Re-evaluate when:** Board independence reaches 50% and NMDC payables are moved to arms-length interest terms. **BULL CASE:** Privatization at a premium valuation by a major steel player who can resolve the liquidity crisis and logistics inefficiencies. **BEAR CASE:** Crystallization of ₹2,805 Cr arbitration claims combined with a withdrawal of NMDC interest-free support, leading to technical insolvency. **Key monitorable:** NMDC Trade Payable Balance: ₹4,508 Cr → Watch for sudden demand for repayment or interest accrual.

## 7. Year-over-year analysis

### 7.1 Changes

| Metric / theme | Summary a status | Summary b status | Forensic takeaway |
|---|---|---|---|
| Liquidity & Solvency | Current Ratio of 0.59; technical stress. | Current Ratio of 0.53; reclassification of ₹1,851.39 Cr demerger debt to current. | The company's liquidity position has transitioned from stressed to critical, with short-term obligations now significantly exceeding available liquid assets. |
| Cost of Borrowing | SBI Term Loan interest rate at 12.45%. | Interest rate reset to 8.40% effective Jan 2026. | A strategic renegotiation of debt pricing has provided a massive, non-operational tailwind to the bottom line by drastically reducing finance costs. |
| Margin Trajectory | Inventory write-down of ₹173.90 Cr due to high costs. | Inventory write-down reduced to ₹18.75 Cr. | Profitability has been bolstered by the stabilization of production costs relative to market value, ending the cycle of heavy inventory value destruction. |
| Working Capital Anomaly | Trade payables to parent (NMDC Ltd) at ₹3,655.13 Cr. | Trade payables to parent surged to ₹4,508.23 Cr. | The company is increasingly utilizing parent-entity credit as a pseudo-equity cushion to fund its massive inventory build-up. |
| Internal Control Risk | Audit trail disabled at database level. | Audit trail disabled PLUS ₹5,177.24 Cr discrepancy in bank reporting. | Forensic risk has escalated from a lack of system logs to a massive material discrepancy between internal books and statutory filings to lenders. |
| Management Tone | Focused on "Operational Stabilization" and technical proves. | Promotional "Year of Turning the Corner" narrative. | Management is shifting toward an optimistic recovery story to mask fundamental financial fragility, likely in preparation for a disinvestment exercise. |
| Capital Allocation | Transitioning from Greenfield CWIP to PPE. | Redemption of ₹523.80 Cr NCDs and focus on debottlenecking. | The company has moved from project execution to active liability management, prioritizing debt redemption over further capacity expansion. |

### 7.2 Persistent patterns

- **The severe governance vacuum remains unchanged, with 0% Independent Director representation and a total lack of mandatory statutory board committees.**
- **The company maintains an absolute "umbilical cord" dependency on NMDC Ltd for raw materials and interest-free working capital subsidies.**
- **The recognition of a massive Deferred Tax Asset (~₹1,580 Cr) continues to rely on aggressive management judgments regarding future taxable profits despite a history of heavy losses.**
- **Revenue integrity remains compromised by 100% reliance on "provisional pricing" under the SAIL agreement, leaving the top-line vulnerable to future reversals.**
- **A "caretaker" management structure persists, with KMPs drawing NIL remuneration from the company while remaining on the parent entity's payroll.**
- **A massive legal and arbitration overhang (exceeding ₹2,800 Cr) continues to represent a latent threat to nearly 30% of the company's net worth.**
- **Internal financial controls remain structurally deficient due to the persistent absence of database-level audit trails in the SAP S/4 HANA environment.**

- **The investment thesis remains a binary bet on privatization rather than the company's standalone financial or operational viability.**