June 03, 2025

NMDC Steel Limited: Continues on rating watch with developing implications

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
NCD programme	523.80	523.80	[ICRA]BBB+ rating watch with developing implications; continues on watch
Proposed non-convertible debenture (NCD) programme	0.20	0.20	[ICRA]BBB+ rating watch with developing implications; continues on watch
Total	**524.00**	**524.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action for NMDC Steel Limited (NSL) reflects the company's improving operational performance on the back of steadily rising capacity utilization levels of the upstream and downstream facilities. Quarterly trends indicate a consistent rise in hot-rolled coil (HRC) output along with a reduction in the sales of pig iron, which has led to a more favourable product mix and improved blended realisations. Although the operating profits remained negative throughout FY2025, there was a marked reduction in NSL's losses in Q4 FY2025, supported by increasing realisations, higher asset sweating and declining production costs.

NSL has been facing challenges in ramping up HRC production since commissioning, given its limited track record in the steel business. The utilisation rates were notably low at 17% in FY2024 but improved to 51% in FY2025, with a peak of 76% recorded in March 2025. Further productivity gains are anticipated in FY2026. ICRA observes that NSL's HRC realisations have trailed industry benchmarks, with a discount of around Rs. 5,100/tonne in FY2024, and reducing further to Rs. 3,850/tonne in FY2025. This indicates bottlenecks in NSL's marketing and distribution network. The subdued market response during the initial period of operation, along with a mismatch in the ramp-up of upstream and downstream capacities, was also reflected in the high share of low-margin pig iron in NSL's sales mix at 38% in FY2024 and 23% in FY2025. Further, the company encountered a technical issue at a downstream HRC mill in July 2024, constraining HRC output of lower thicknesses, which fetches better realisations.

To help deepen its market footprint, NSL entered into an agreement with SAIL in December 2024, wherein SAIL will provide access to its distribution network for the entire production from NSL's steel plant. This, along with the resolution of the technical issue in January 2025, has enabled a shift toward a richer product mix, evident from the narrowing of the HRC realisation gap to Rs. 2,000/tonne in Q4 FY2025 from Rs. 3,883/MT in 9M FY2025. ICRA expects this trend to continue in FY2026. Besides the improved realisations from the SAIL tie-up, the steel PSU also facilitates faster collection of revenue, thus aiding NSL in managing its working capital requirements more prudently. Moreover, NSL's plant is equipped with a ladle furnace and RH degasser, which can enable it to develop high-grade steel products having niche applications.

NSL has undertaken several initiatives to improve its cost competitiveness. These include the usage of semi-hard/soft coking coal and the increase of pulverized coal injection (PCI) from nil in April 2024 to 140 kg/tonne of hot metal in April 2025. These measures have lowered the fuel costs. A combination of improved realisations, a better product mix and lower raw material costs are expected to drive a gradual recovery in profitability. Additionally, the rally in flat steel prices following the announcement of safeguard duties (SGD) is expected to help NSL further improve its performance in Q1 FY2026.

The rating also derives comfort from NSL's status as a central public sector undertaking (CPSU), with the Government of India (GoI) having a 60.79% equity ownership. The total project cost of NSL was ~Rs.24,000 crore, of which ~71% was funded by equity infusion through NMDC Limited and the rest through external borrowings. Thus, despite consistent operating losses since the commissioning of the project, NSL has a comfortable gearing of below 0.5 times as on March 31, 2025.

Further, ICRA understands that NSL will continue to receive operational and managerial support from NMDC Limited till it is divested by the GoI. NSL procures iron ore from NMDC Limited at flexible credit terms, wherein the payables to NMDC Limited have been accumulating since the commissioning of the plant. This has helped NSL manage its liquidity. Thus, despite the consistent loss-making operations, the debt levels have remained stable as the losses are getting funded by the increasing creditors. As on March 31, 2025, the trade payable to NMDC stood at Rs.3,793 crore (Rs.1,251 crore as on March 31, 2024). However, this use of creditor funding to set off the losses had led to an asset liability mismatch of ~Rs.2,650 crore as on March 31, 2025.

ICRA notes that NSL has a sizeable debt servicing obligation of Rs.1,652 crore in FY2026. NSL's track record of consistent cash burn could lead to a cash flow timing mismatch. Nevertheless, NSL had cash and bank balances of Rs. 907 crore and unused working capital limits of Rs.362 crore as on March 31, 2025. Additionally, NSL benefits from the flexible credit terms from NMDC Limited and the available input tax credit for capex accumulating to Rs.1,475crore, which is expected to provide a liquidity cushion to help NSL tide itself over periods of weak earnings.

The rating also factors in the uncertainty pertaining to the cyclicality associated with the industry, and volatility in raw material prices. The overall operating performance is expected to improve with the imposition of SGD, a stable demand outlook and reduction in coking coal prices, and ICRA expects NSL to report marginal operating profits in FY2026. Further, NSL also benefits from its relatively new plant set-up, and access to high-grade iron ore from NMDC, which is expected to support cost-efficient operations following an optimal ramp-up.

The GoI had announced its decision to divest its 50.79% stake in NSL. As indicated in the preliminary information memorandum (PIM) for inviting bids, the remaining 10% equity stake would be offered to NMDC Limited post the divestment. As per the original expected timeline, the divestment was expected to be in advanced stages by the end of FY2024. However, since the original announcement, there have been no developments on the divestment process. This has led to uncertainty over the ownership structure and strategic direction for the company in the medium term, which can potentially delay the plant's stabilisation. The rating continues to be on watch with developing implications owing to the ongoing divestment process. ICRA will closely monitor the developments in this regard and finalise its views once more clarity emerges.

Key rating drivers and their description

Credit strengths

Status as a majority-owned GoI entity; managerial/operational support from NMDC Limited till NSL gets divested –NSL mirrored the ownership structure of NMDC Limited after the demerger, with the GoI owning 60.79% of the entity's equity stake. Further, NSL will get managerial/operational support from NMDC Limited to manage the operations till the closure of the divestment process. Additionally, as on March 31, 2024, NMDC has provided a non-current interest-free advance of Rs. 2,151.4 crore to NSL on flexible repayment terms, representing the cumulative investment which has been made for the steel plant from its internal resources post April 1, 2021. NMDC is also supporting NSL through flexible credit terms on the iron ore procured by the latter, indirectly providing liquidity cushion. As on March 31, 2025, NSL had trade payables of Rs.3,793 crore towards NMDC Limited for the purchase of iron ore.

Long-term iron ore sourcing arrangement with NMDC Limited ensures steady availability of high-grade iron ore, helping improve hot metal productivity and lower fuel rates – NSL has a 10-year agreement with NMDC Limited to procure high-grade iron ore (lumps and fines) with an average Fe content of 65%, which is valid till March 31, 2032. The iron ore will be supplied from NMDC's Bailadila deposit 4, which has an annual mining capacity of 7 million tonnes per annum (mtpa) against the maximum potential requirement of 5 mtpa for NSL, ensuring the availability of sufficient raw material for production. Additionally, proximity to the NMDC mines in Chhattisgarh will lower the freight cost for NSL, leading to significant cost efficiencies. The lower freight and higher quality of the raw material will support NSL's cost competitiveness over the long term.

State-of-the-art plant supports cost competitiveness at optimal plant utilisation rates – Major project packages for the blast furnace, sinter plant, steel melt shop and thin slab caster/rolling mills have been developed by European OEMs through joint ventures with reputed Indian contractors. The plant has been equipped with these units, translating into a high level of automation and energy-efficient systems. NSL's downstream finished steel unit (consisting of thin slab caster and in-line rolling) provides significant savings in energy costs as it eliminates the requirement of reheating of slabs before rolling, which is the case in the older steel plants. NSL has the capability to captively generate 100 MW of power with 80 MW coming from its mixed gas turbine, which will utilise the process gasses (from coke oven, blast furnace and LD converter), and the balance 20 MW will be from the top recovery turbine in its blast furnace. Overall, 35-40% of the overall power requirement will be met captively with the balance planned to be sourced from the Chhattisgarh State Electricity Board (CSEB) through a dedicated transmission line. As the in-house cost of captive power generation will be minimal, the overall blended power cost is expected to be very competitive for the plant.

Value-added/special steel products in portfolio expected to support realisations over medium to long term – The basic oxygen furnace (BOF) is equipped with a ladle furnace and RH degasser, which enables the development of high-grade steel products. NSL's primary product for sale will be high-grade HRC, which has application across various industries. A few areas of its applications include LPG cylinders, auto components, bridges, steel structures, ships, large diameter pipes (API grade), storage tanks, boilers, railway wagons, pressure vessels and electrical equipment. The production of lower thickness HRC was impacted by a technical issue in a steel mill in July 2024. However, with the issue being resolved in January 2025, the production of HRC products having better realisations is expected to ramp up.

Credit challenges

Significant delay in ramp-up period over earlier expectations, leading to larger-than-expected losses in FY2024/FY2025; however signs of improvement noticed from Q4 FY2025 – NSL's trial run, which was originally expected to commence on March 31, 2023, took place on June 30, 2023, and subsequently the commercial production of the steel plant started on August 31, 2023. As per original expectation, the plant was scheduled to ramp up its operations in FY2024 with an average capacity utilisation of 55%, helping the company achieve cash break-even during its first full year of operations. However, due to the delay in the commissioning and teething issues in the SMS unit and the rolling mill, the ramp-up of the finished products is much lower than the intermediate products.

In FY2025, the sale of semi-finished products constituted 38% of the sales volume mix, in part due to the mismatch in ramp-up of the upstream and downstream facilities as well as the initial challenges in customer acceptability of NSL's finished steel products. In terms of operating performance in FY2025, NSL generated a revenue of Rs. 8,503 crore which was lower than ICRA's estimates and incurred significant operating losses of Rs. 1,788 crore. The losses were larger than anticipated for the fiscal due to a sub-optimal product mix, an adverse cost structure because of lower asset sweating and high input costs (especially coking coal). However, initiatives to strengthen the market presence through the arrangement with SAIL, along with an improvement in the product mix through a higher contribution from HR coils and an increase in the production of value-added products, have helped reduce the operating losses materially for NSL in Q4 FY2025, and ICRA expects the company to reach an operating level break-even in Q1 FY2026.

Lack of captive raw material sources expose the company to risks associated with price volatility and availability of raw materials– Iron ore and coking coal remain the principal raw materials used in steelmaking through the blast furnace route. NSL does not have any captive iron ore or coking coal mines, which adversely impacts its cost competitiveness. The company procures iron ore from NMDC Limited's mines in Chhattisgarh, wherein it has a 10-year agreement for the supply of iron ore. For coking coal, which accounts for 40-50% of the cost of production for a primary steel producer, the company relies largely on imports from Australia, thus making it susceptible to supply chain risks which could disrupt production. Nevertheless, NSL is maintaining a coking coal inventory of 1 month in its warehouses and has an inventory equivalent to another 1 month in transit in the ships and the warehouse at the port.

Sizeable proportion of semis/pig iron sales depresses blended realisations and tempers profit margins– NSL's finished steel capacity stands at 2.98 mtpa against which the hot metal capacity was higher at 3.48 mtpa. Given the capacity constraint and technical issues at the finished steel lines, NSL has sold ~23% of the output as semis/pig iron (in FY2025) which are low value-added compared to finished steel products, where the margins remain higher.

Sizable asset-liability mismatch due to loss funding via short-term borrowings and stretching of creditors, leading to low current ratio- NSL's net working capital deployed in the business stood at a negative of around Rs.898 crore as on March 31, 2025, whereas the short-term/working capital borrowings were at around Rs. 1,597 crore and creditors at Rs. 4,831.7 crore as on March 31, 2025. This indicates that, since the commissioning in Q2 FY2024, a combination of creditor funding and short-term/working capital borrowings has been used to cover for NSL's loss-making operations. This has resulted in a sizeable asset liability mismatch of Rs.26,467crore as on March 31, 2025 and consequently a low current ratio of 0.59 times.

Sizeable debt servicing requirements in near term, with consistent cash burn increasing the uncertainty on cashflow timing mismatch for NSL's debt obligations- In FY2026, NSL has a debt servicing obligation (principal + interest) of ~Rs.1,652 crore. Given the consistent cash burn till date, the company will depend on financing its cash needs from the balance sheet. Nevertheless, the expected improvement in the operating profits in Q1 FY2026 remains a positive from a debt servicing perspective. NSL also benefits from the flexible credit terms it is getting from NMDC, which provide it liquidity cushion to some extent. Further, NSL had a cash and bank balance of Rs. 907 crore as on March 31, 2025. Thus, ICRA believes that NSL should be able to honour all its obligations in a timely manner before the due date.

Inherent cyclicality of the steel sector exposes to earnings volatility– The inherent cyclicality in the steel industry exposes steelmakers to high earnings volatility, which in turn results in swings in the debt protection metrics. However, an improvement in the operating environment in the current fiscal due to a correction in coking coal prices and recovery of realisations will support NSL's journey to achieve a cash break-even.

Environment and Social Risks

Environmental considerations: Steel manufacturing is an energy intensive process and requires a substantial use of fossil fuels, which results in greenhouse gas emissions, industrial waste generation, and environmental pollution. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for manufacturers in the medium term. NSL has made efforts towards sustainable steel production at its new steel plant, which include zero-liquid discharge, utilization of waste gases to generate power and energy efficient upstream and downstream units. Minimizing the adverse impact on environment can reduce the possibility of unfavorable regulatory actions. Further, NSL faces the risk of flood and drought, which can affect its raw material availability.

Social considerations: Social risks for NSL arise from the health and safety aspects of employees involved in the mining and manufacturing activities. Casualties/ accidents at the operating units due to gaps in safety practices could lead to production outages and invite penal actions from regulatory bodies. Being a PSU, the company is expected to follow necessary steps to manage risks related to safety in the areas of process, contractor, road/rail, and occupational health while developing safety leadership capabilities. NSL is also exposed to labour-related risks and risks of protests/social issues with local communities, which might impact expansion/modernization plans. However, as a part of its resettlement and rehabilitation initiatives, the company has employed 750 land losers, which mitigates such risks to an extent.

Liquidity position: Adequate

According to ICRA's baseline estimates, NSL is expected to report positive operating profits of Rs. 100-200 crore in FY2026, and the free cash flow (post capex) is expected to be in the range of Rs. 900-1000 crore, supported by extended credit terms. NSL has scheduled debt service obligations of Rs. 1,652 crore in FY2026, leading to a funding deficit of Rs. 650-750 crore, which would be bridged by on-balance sheet cash and bank balances of Rs.907 crore as on March 31, 2025, and additional undrawn working capital limits of Rs. 362 crore. Further, NSL has an input tax credit for capex of Rs.1,475 crore as on March 31, 2025, from which NSL can avail set off against the GST collected from customers, which provides an additional liquidity release of ~Rs. 600 crore per annum.

Rating sensitivities

Positive factors - The rating may be upgraded with a timely ramp-up and stabilisation of the operations of the steel plant with healthy capacity utilisation rates and operating margins, leading to high free cash flow generation.

Negative factors - The rating may be downgraded in case of further significant delays in the ramp-up and inability to stabilise the operations, resulting in large cash losses for an extended period. The rating may also be impacted by change in the linkages of NSL with the GoI.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Iron & Steel
Parent/Group support	Parent/Group Company: Government of India (GoI) The GoI owns a 60.79% stake in NSL. ICRA also draws comfort from the managerial and operational support from NMDC Limited (a GoI entity) till the ownership is transferred to a new buyer
Consolidation/Standalone	The rating is based on the standalone financials of NSL

About the company

NMDC Steel Limited (NSL) was incorporated in October 2022 with an effective date of April 1, 2021. It is operating a 3.0-metric-tonne-per-annum (mtpa) greenfield integrated steel plant, designed through the blast furnace-basic oxygen furnace (BF-BOF) route at Nagarnar, near Jagdalpur, in the Bastar district of Chhattisgarh. The plant was commissioned on August 31, 2023. NSL's steel plant can produce 2.9 mtpa of finished steel products like HR coils, sheets and plates. The HR plates produced in the plant will be used to manufacture LPG cylinders, API grade pipes, bridges, steel structures, ships, large diameter pipes, storage tanks, boilers, railway wagons, automobiles and pressure vessels.

Key financial indicators (audited)

NMDC Steel Limited (Standalone)	FY2024	FY2025
Operating income	3,049.0	8,503
PAT	-1,560.3	-2,373.8
OPBDIT/OI	-46.9%	-21%
PAT/OI	-51.2%	-27.9%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NM: not material

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	June 03, 2025	Date	Rating	Date	Rating	Date	Rating
NCD	Long Term	523.80	[ICRA]BBB+ rating watch with developing implications	June 05, 2024	[ICRA]BBB+ rating watch with developing implications	Feb 05, 2024	[ICRA]A- rating watch with developing implications	Feb 06, 2023	[ICRA]A rating watch with developing implications
Proposed NCD	Long Term	0.20	[ICRA]BBB+ rating watch with developing implications	June 05, 2024	[ICRA]BBB+ rating watch with developing implications	Feb 05, 2024	[ICRA]A- rating watch with developing implications	Feb 06, 2023	[ICRA]A rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity indicator
NCD	Very Simple
Proposed NCD	Very Simple[1]

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

[1] *Complexity indicator is subject to change when the terms of the NCD are finalised*

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE584A08010	**NCD**	August 28, 2020	9.05%[2]	August 28, 2025	523.80	[ICRA]BBB+ rating watch with developing implications
NA	**Proposed NCD**	-	-	-	0.20	[ICRA]BBB+ rating watch with developing implications

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

[2] *Post the occurrence of the demerger event, the coupon rate has been enhanced by 25 bps (over the base coupon rate of 7.30%) for each notch of rating downgrade below AAA category rating level.*

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