एन एम डी सी स्टील

एन एम डी सी स्टील लिमिटेड
NMDC Steel Limited

(भारत सरकार का उद्यम) (A GOVT. OF INDIA ENTERPRISE)

कार्यालय पता : द्वारा एनएमडीसी आयरन एण्ड स्टील प्लांट, पोस्ट : नगरनार, जिला : बस्तर - 494001, छत्तीसगढ़
Office Address : C/o. NMDC Iron & Steel Plant, Post : Nagarnar, Dist : Bastar - 494001, Chhattisgar
नैगम पहचान सं Corporate Identity Number : L27310CT2015GOI001618

NMDC STEEL

No.18(5)/2024-Sectt. **27.12.2024**

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400001	National Stock Exchange of India Limited Exchange Plaza, C- 1,Block G, Bandra-Kurla Complex, Bandra (East), Mumbai – 400051
Calcutta Stock Exchange 7, Lyons Range, Murgighata, Dalhousie, Kolkata, West Bengal – 700001	

Dear Sir / Madam,

Sub: **<u>Intimation under Regulation 30 of SEBI (LODR) Regulations, 2015 – Revision in credit rating by India Ratings & Research.</u>**

Ref: **<u>Regulation 30 of SEBI (LODR) Regulations, 2015; BSE Equity Scrip ID: 543768, NSE Security ID: NSLNISP; BSE NCD Scrip ID: 959957.</u>**

In line with Regulation 30 read with Schedule-III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, it is informed that India Ratings & Research vide report dated 24.12.2024 has affirmed the long-term rating on the Company's debt instruments at 'IND A-'; however, they have revised the outlook to 'Negative' from 'Stable'. Further, they have downgraded the short-term rating to 'IND A2+' from 'IND A1'.

A copy of the Report of India Ratings & Research containing the requisite details is enclosed herewith.

This is for your information and records.

Thanking you,

Yours faithfully,
for NMDC Steel Limited

ANIKET
KULSHRE
SHTHA

Digitally signed by ANIKET KULSHRESHTHA
DN: c=IN, o=Personal, title=6638,
pseudonym=ca80f5f4c1394e94997fe22b81d8fc12,
2.5.4.20=869762ca77eae6d7ca230851ded59cd0221f0f1f2faa5b16b4a7a06b1061dd9c,
postalCode=500081, st=Telangana,
serialNumber=69702bca78e35af8775aa64279d7ff6bd7c094f76cc63bef28a21ddc553e7f46, cn=ANIKET KULSHRESHTHA
Date: 2024.12.27 12:28:06 +05'30'

(Aniket Kulshreshtha)
Company Secretary

<u>Encl: As above.</u>

Mr. Sanjay Arora
GM-Finance
NMDC Steel Limited
C/O NMDC Iron & Steel Plant, Nagarnar, Bastar,
Chhattisgarh - 494001

December 24, 2024

Dear Sir/Madam,

Re: Rating Letter for NCD & BLR of NMDC Steel Limited

India Ratings and Research (Ind-Ra) has revised the Outlook on NMDC Steel Limited's (NSL) debt instruments to Negative from Stable while affirming its long-term rating at 'IND A-' and downgrading its short-term rating to 'IND A2+' from 'IND A1' as follows:

Instrument Type	**Size of Issue (million)**	**Rating assigned along with Outlook/Watch**	**Rating Action**
Non-convertible debentures (NCDs)	INR5,238	IND A-/Negative	Outlook revised to Negative from Stable; Rating affirmed
Fund-based working capital limits	INR26,000	IND A-/Negative/ IND A2+	Outlook revised to Negative from Stable; Long-term rating affirmed; Short-term rating downgraded
Non-fund-based working capital limits	INR15,000	IND A2+	Downgraded

In issuing and maintaining its ratings, India Ratings relies on factual information it receives from issuers and underwriters and from other sources India Ratings believes to be credible. India Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security.

The manner of India Ratings factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in India where the rated security is offered and sold, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of India Ratings ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information India Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to India Ratings and to the market in offering documents and other reports. In issuing its ratings India Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

India Ratings seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

Ratings are based on established criteria and methodologies that India Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of India Ratings and no individual, or group of individuals, is solely responsible for a rating. All India Ratings reports have shared authorship. Individuals identified in an India Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. India Ratings is not your advisor, nor is India Ratings providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services. Investors may find India Ratings ratings to be important information, and India Ratings notes that you are responsible for communicating the contents of this letter, and any changes with respect to the rating, to investors.

It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between India Ratings and you or between India Ratings and any user of the ratings.

In this letter, “India Ratings” means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

Mahaveer Shankarlal
Director

Annexure: Facilities Breakup

Instrument Description	Banks Name	Ratings	Outstanding/Rated Amount(INR million)
Fund Based Working Capital Limit	State Bank of India	IND A-/Negative/IND A2+	26000.00
Non-Fund Based Working Capital Limit	State Bank of India	IND A2+	15000.00

Annexure: ISIN

Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Ratings	Outstanding/Rated Amount(INR million)
NCDs	INE584A08010	28/08/2020	7.30*	28/08/2025	IND A-/Negative	5238

(*) The current coupon rate is 9.05%

Source: Company, NSDL

Title

India Ratings Revises Outlook on NMDC Steel's NCDs and Bank Loans to Negative; Affirms Long-term Rating at 'IND A-'; Downgrades Short-term Rating to 'IND A2+'

Brief

India Ratings and Research (Ind-Ra) has revised the Outlook on NMDC Steel Limited's (NSL) debt instruments to Negative from Stable while affirming its long-term rating at 'IND A-' and downgrading its short-term rating to 'IND A2+' from 'IND A1' as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR5,238	IND A-/Negative	Outlook revised to Negative from Stable; Rating affirmed
Fund-based working capital limits	-	-	-	INR26,000	IND A-/Negative/ IND A2+	Outlook revised to Negative from Stable; Long-term rating affirmed; Short-term rating downgraded
Non-fund based working capital limits	-	-	-	INR15,000	IND A2+	Downgraded

(*) details in the annexure

Analytical Approach

Ind-Ra continues to take a standalone view of NSL, while factoring in the availability of support on the strong financial flexibility due to a public sector undertaking (PSU) status, ease of raw material availability through common government channels and the use of common government channel for the sale of its products leading to an ease of liquidity.

Detailed Rationale of the Rating Action

The Outlook revision and the short-term rating downgrade reflects NSL's weaker-than-Ind-Ra-expected performance in FY25, stemming from a slower operational ramp-up and teething issues, leading to lower asset sweating and a suboptimal absorption of fixed costs, thereby impacting profitability. Ind-Ra expects an improvement in the company's operational performance in 2HFY25, as it is in the process of formalising an agreement with an established industry player to support sales offtake. Nevertheless, the company is likely to report a negative EBITDA and cash flow from operations before working capital changes during FY25, with sizeable annual debt servicing obligations falling due in FY25 and FY26.

The affirmation reflects the company's adequate liquidity position which is supported by a comfortable free cash and bank balance, unutilised working capital lines and substantial input tax credit receivables. Furthermore, NSL's iron ore procurement arrangement with NMDC Limited supports the company's liquidity by providing flexible credit period.

The ratings continue to benefit from NSL's status as a central public sector undertaking (CPSU), with 60.79% equity ownership by the Government of India (GoI). Ind-Ra expects NSL to receive operational and strategic support from NMDC until its divestment by the GoI. A long-term iron ore sourcing arrangement with NMDC ensures a steady supply of high-grade iron ore.

List of Key Rating Drivers

Strengths

- Integrated operations, secured raw material supply, and locational advantage
- Favorable funding pattern

Weaknesses

- EBITDA likely to remain negative in FY25; although likely to improve from FY26
- Credit profile to remain moderate over the medium term
- GoI's disinvestment to impact financial and operational flexibility
- Industry risks

Detailed Description of Key Rating Drivers

Integrated Operations, Secured Raw Material Supply and Locational Advantage: NSL's steel plant operates as a fully integrated unit, except for captive iron ore mines for which NSL has a long-term tie-up with NMDC, assuring 100% availability of iron ore. The plant is located in proximity to iron ore mines, which is likely to result in significant logistics cost savings for NSL. Furthermore, 100% of the coking coal requirements are being met through centralised quarterly procurement channels, which also cater to key PSUs. Additionally, the plant's operations are supported by 35%-40% captive power generation and the remainder is being procured from the state grid. NSL is now producing hot-rolled (HR) coil of base standard and will start the manufacturing of high-quality products/value-added flat products (HR coils) February 2025 onwards, which will fetch a relatively higher profitability than that earned by commodity products. MECON Limited has been engaged to oversee the plant's operations and maintenance during the commissioning phase and subsequent operations.

Notably, the company's balance sheet will remain less levered than other steel manufacturing greenfield projects' as the debt component constitutes less than 25% of the project cost. Ind-Ra assumes a gradual ramp-up of the plant by FY26.

Favourable Funding Pattern: The plant commenced commercial operations on 31 August 2023. The total project cost of INR238,400 million was funded with 20.45% debt, while the remaining amount was covered by equity. The company has availed INR26,000 million of fund-based working capital limits and INR15,000 million of non-fund-based limits for managing its working capital needs. The debt/equity ratio stands favorable at less than 0.5x, significantly lower than the other comparable steel projects, which typically rely on a much higher proportion of debt funding. As a result, the debt per tonne is also more competitive compared to peers'.

EBITDA likely to Remain Negative or Modest during FY25: The company reported an EBITDA loss of INR8,417 million in 1HFY25 (FY24: INR14,369 million), primarily due to lower asset sweating caused by teething issues, leading to an inadequate absorption of fixed costs. This loss is further attributable to margin pressures faced by domestic industry players amid prevailing headwinds. Despite these challenges, Ind-Ra expects a sequential improvement in the company's operational performance in 4QFY25, supported by a potential arrangement with an established industry player, for sales offtake and provide revenue visibility. The company has recorded a capacity utilisation of around 43% for its finished products (FY24: around 30%) and Ind-Ra expects a further improvement in the utilisation in 3QFY25 and 4QFY25.

An improvement in capacity utilisation and an increase in the sales volume are likely to drive the improvement in operational leverage of the company over the medium term. However, the pace of ramping-up operations will remain a critical credit monitorable.

Credit Profile to remain moderate over the medium term: Although NSL's debt levels are likely to remain lower than other comparable steel plants', Ind-Ra expects its leverage to remain negative in FY25 due to EBITDA losses and at elevated levels in FY26 due to the delay in capacity ramp up. This is due to the expected cash burn during FY25 and a modest EBITDA in FY26.

However, a gradual ramp-up of operations, substantial debt repayments, and an absence of debt-funded capex plans, is likely to result in a gradual improvement in the company's net leverage FY26 onwards.

GoI's Disinvestment to Affect Financial and Operational Flexibility: NSL, a CPSE under the Ministry of Steel, benefits from the support provided by public sector banks for term loans and working capital requirements. Given the company's 60.79% GoI ownership, NSL's ratings factor in the moderate likelihood of operational and financial support NSL receives from the GoI, when required. However, the ongoing disinvestment process will result in NSL losing its CPSE status and the associated benefits. Details pertaining to the potential investors or the timeline for the disinvestment remain unclear. The agency will closely monitor the developments related to the disinvestment process. Nevertheless, the company's ratings are supported by its integrated nature of operations, assured raw material availability, value-added nature of flat products and low debt/equity ratio.

Industry Risks: NSL's cash flows remain exposed to the cyclicality inherent in the steel industry and the volatility in the prices of raw materials, particularly coking coal. The company's inventory days will be on a higher side, as it needs to maintain high inventory levels for raw material to ensure adequate availability of imported inputs.

Liquidity

Adequate: The company has sizeable annual term loan repayments amounting to INR5,372 million and INR4,476 million, during FY25 and FY26, respectively, along with a one-time bullet repayment of INR5,238 million for NCDs falling due in August 2025. Ind-Ra's expectation of modest profitability over FY25-FY26, is likely to result in lean a debt service coverage ratio (DSCR).

The liquidity is, however, supported by NSL's PSU status, which provides it strong financial flexibility, particularly in terms of funds arrangement from public sector banks. Furthermore, NMDC supports NSL's liquidity by providing flexibility in credit terms for iron ore procurement.

The company avails INR26,000 million of fund-based limits and INR15,000 of non-fund-based limits utilised at an average of 79% and 48%, respectively, for the trailing 12 months ended November 2024. The non-fund-based limits are used for procuring imported coal through letters of credit as the majority of the company's coal requirement is being met through imported coal. The company is in the process of tying up with domestic players to secure its domestic coking coal requirements. NSL's liquidity is further supported by its healthy cash balance of INR2,058.3 million as on 30 September 2024 (FYE24: INR1,820.7 million) and INR19,952.3 million of input tax credit receivables at FYE24. NSL has access to capital markets, providing further financial flexibility.

Rating Sensitivities

Positive: An improvement in the capacity utilisation, resulting in the company turning profitable and improved liquidity, leading to a visibility on net leverage falling below 4x beyond FY25 on a sustained basis could lead to the Outlook being revised back to Stable.

Negative: Lower-than-Ind-Ra-expected volume ramp-up, leading to lower-than-expected EBITDA and liquidity buffers with the net leverage exceeding 4x beyond FY25 on a sustained basis, will result in a negative rating action. Additionally, any weakening of linkages with the GoI could lead to a negative rating action.

Disclosures for CE Rating

Disclosures for Provisional Rating

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on NSL, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Any Other Information

About the Company

NSL, incorporated in January 2015, has set up a greenfield integrated steel plant with a crude steel capacity of 3 million metric tonnes per annum at Nagarnar, near Jagdalpur in Chhattisgarh. The company commenced operations in August 2023.

The project was initially conceptualised and undertaken under NMDC, a Navratna CPSE. Following the demerger of the above steel unit under the implementation from NMDC on 6 October 2022, the project has been transferred to NSL and is taken forward in this entity. NSL's registered office is at Nagarnar, Chhattisgarh.

Key Financial Indicators

Particulars	1HFY25	FY24
Revenue (INR million)	35,453	30,490
EBITDA (INR million)	-8,417	-14,369
EBITDA (%)	-23.7	-47.1
Interest coverage (x)	-2.68	-4.35
Net leverage (x)	-3.44*	-4.51
Source: NSL; Ind-Ra (*) annualised		

Applicable Criteria

- Evaluating Corporate Governance
- Short-Term Ratings Criteria for Non-Financial Corporates
- Corporate Rating Methodology

The Rating Process

Status of Non-Cooperation with Previous Rating Agency

Not Applicable

Rating History

Instrument Type	Current Rating/ Outlook			Historical Rating/ Outlook	
	Rating Type	Rated Limits (INR million)	Current Rating	26 December 2023	16 February 2023
Non-convertible debentures	Long-term	INR5,238	IND A-/Negative	IND A-/Stable	IND A-/Stable
Fund-based limits	Long-term/short-term	INR26,000	IND A-/Negative/ IND A2+	IND A-/Stable/ IND A1	-
Non-fund-based limits	Short-term	INR15,000	IND A2+	IND A1	-

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Non-convertible debentures	Low
Non-fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

CORRECTION IN PREVIOUS RATING ACTION COMMENTARY

Ind-Ra corrects the date of issuance and coupon rate for non-convertible debentures to ‘28 August 2020’ from ‘29 August 2018’ for the rating action commentary published on 27 December 2023.

Annexure

ANNEXURE I- DETAILS OF INSTRUMENTS

NCDS:

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE584A08010	29 August 2020	8.80*	28 August 2025	INR5,238	IND A-/ Negative

(*) The current coupon rate I s 9.05%

Source: Company, NSDL

Contact

Primary Analyst
Charu Mahajan
Analyst
India Ratings and Research Pvt Ltd
DLF Epitome, Level 16, Building No.5,
Tower-B, DLF Cyber City, Gurugram, Haryana-122002
+91 124 668 7239
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Shradha Saraogi
Associate Director
+91 33 40302509

Media Relations
Ameya Bodkhe
Marketing Manager
+91 22 40356121

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has six branch offices located at Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Kolkata. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.