Despite challenges, NMDC expects steel plant to break even by second quarter of next fiscal

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NMDC is expecting "stabilisation" and "breakeven" of its recently-commissioned steel plant, NMDC Steel Ltd (NSL) — now a separate listed entity — by mid-FY25. Breakeven is expected as production at the Nagarnar plant (Chhattisgarh) remains consistent at around 1.6-1.8 lakh tonne per month (of crude steel) or around 5,000 tonnes of hot rolled coils (HRC) per day. The plant has a capacity of 3.3 million tonnes per annum (mtpa).

According to Amitava Mukherjee, Chairman and Managing Director (Acting Charge) and Director (Finance), NMDC, the breakeven could happen "as early as Q1-FY25" or latest by the second quarter.

NMDC Steel's monthly production was ramped up to one lakh tonne in January, a 50-odd per cent increase over the 63,000-65,000 tonne per month range that the company was operating at over the last few months post commissioning (October December).

Amitava Mukherjee, CMD, NMDC PTI

"Once we are able to roll around 5,000 coils per day, we could look at breakeven by that time. So we need to ramp up by another 60-70 per cent or so," he said during a recent earnings call. "Definitely in Q2-FY25 (for breaking even) or even in Q1-FY25," Mukherjee said.

However, there are challenges that include constraints in terms of rake movements, securing lime for steel-making, among others. The steel plant was originally expected to be commissioned by end-FY23, and gradual ramp-up of capacity utilisation to an average 55 per cent in FY24. However, the commissioning has been delayed by five months to end-August last year.

REALISATION

Current average realisation of HRC is around ₹51,150 per tonne and that of pig iron is at ₹36,500 per tonne. Realisation continues to be lesser than that of its peers.

"We are at a logistics cost disadvantage of around ₹2,000 per tonne. As the mill stabilises next year, the realisation will improve," Mukherjee said. Ratings agency ICRA said Nagarnar's upstream facilities have ramped up at a faster rate (Q3-FY24 exit capacity utilisation for the blast furnace and coke oven being at 45 per cent and 63 per cent, respectively) than the downstream one.

DEBT SERVICING

The company also has sizeable annual debt servicing requirements (principal and interest) starting soon. Free cash and bank balance stood at ₹700 crore, as on December 31, 2023, on top of the undrawn working capital lines and input tax credit of ₹2,100 crore, which would support the funding requirements till the plant starts generating positive cash flows, ICRA said.