

December 30, 2022

Nezone Tubes Tn Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Term Loan	-	28.00	[ICRA]A+ (Stable), assigned
Long-term – Fund-based Limits – Cash Credit/ WCDL/ OD/ WCL/ PBD	65.00	91.00	[ICRA]A+ (Stable), reaffirmed/ assigned
Short-term – Non Fund-based Limits – LC/ BG/ Derivative/ LER	34.00	68.00	[ICRA]A1, reaffirmed/ assigned
Short-term – Non Fund-based Limits – Bank Guarantee [§]	-	(10.00)	[ICRA]A1, assigned
Long-term/ Short-term – Stand by Line of Credit	6.00	-	-
Long-term/ Short-term – Unallocated Limits	45.00	53.00	[ICRA]A+ (Stable)/ [ICRA]A1, reaffirmed/ assigned
Total	150.00	240.00	

[§] Bank Guarantee is the sub-limit of the letter of credit

* Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has considered the consolidated business risk profile of Nezone Tubes Limited (NTL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), Nezone Tubes Tn Limited (NTTL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), Nezone Tubes (Utkal) Limited (NTUL, rated at [ICRA]A+ (Stable)/ [ICRA]A1) and Nezone Strips Limited (NSL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), referred to as the Nezone Group/ Group, given the close business, financial and managerial linkages among them.

The reaffirmation of the ratings considers the long experience of the promoters and an established position of the Nezone Group in the steel-tube manufacturing business, supported by a strong distribution network, regular capacity addition and optimum utilisation of the same. The ratings also factor in the Group's competitive advantage arising from a diversified product portfolio and its ability to change the product mix, as per market demand. Besides, the Group's raw material sourcing arrangement with reputed suppliers ensures high quality of finished products. ICRA notes that the Group recorded a sizeable inventory gain due to a steady rise in steel prices over the past two years, which along with improved margin on sales had a positive impact on the operating profit. However, in the current fiscal, ICRA expects the Group to incur inventory loss due to a drop in steel prices. Moreover, reduced margin on sales would also have an adverse impact on the OPM of the Group in FY2023 compared to FY2022. Nevertheless, the ratings continue to derive comfort from the comfortable financial risk profile of the Group, reflected by healthy cash accruals, a conservative capital structure and strong debt protection metrics.

The ratings are, however, constrained by limited value addition and price-based competition in the steel-tube industry, which keeps the Group's operating margin under check. Moreover, cyclicity inherent in the steel business is likely to keep margins and cash flows vulnerable to fluctuations in the raw material prices and demand of final products. The ratings are also impacted by the significant receivables and inventory holding, which are likely to keep the Group's working capital intensity of operations at a high level.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Nezone Group will be able to maintain its business position, given its established track record of operation in the steel tube manufacturing business. Besides, the financial risk profile of the Group is likely to remain comfortable, going forward, along with adequate cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Established position of the Nezone Group in the steel-tube manufacturing business – The Nezone Group has been involved in the steel-tube manufacturing business for more than three decades, and has a firm footprint mainly in the eastern, north eastern and southern India. The Group's established brand, Nezone, in the steel-tube industry and the promoters' long experience in the business strengthen its operational profile.

Diversified product profile and ability to change the product mix as per market demand lead to competitive advantages – The Group has a diversified product mix including mild steel black pipe, galvanised pipe, GP strips and precision tubes of various specifications, which are used for multiple purposes. MS black pipes/sections are mainly used for fabrication, structural purpose and scaffolding, whereas galvanised pipes are used in water pipe lines (mainly drinking water and irrigation) and gas pipelines. Over the years, MS black pipe has remained the key revenue driver for the Group. Moreover, the Group's flexibility to change the product mix as per demand from the customers renders competitive advantage to an extent.

Strong distribution network, regular capacity increase and optimum utilisation of the same strengthen the Group's operating profile – The Nezone Group has manufacturing facilities and distribution network spread across various states. The Group has been expanding its geographical presence and distribution network over the last few years, supported by regular capacity expansion and optimum utilisation of the same, positively impacting the business profile. The products are sold through a wide network of distributors and dealers across different regions of the country.

Favourable financial risk profile characterised by a conservative capital structure and strong debt coverage metrics – The capital structure of the Group continues to remain conservative on account of a healthy net worth and low reliance on external debt. The consolidated gearing and TOL/TNW stood at 0.5 times and 0.7 times, respectively as on March 31, 2022. In the current fiscal, the management undertook buyback of equity shares in NTL and NSL, and infused equity share capital of around Rs. 20 crore in NTTL for part funding the ongoing capex. This ultimately resulted in a cash outflow of around Rs. 45 crore by the Group in the current fiscal. Nevertheless, healthy accretion to reserves and reduced working capital borrowings would continue to keep the overall capital structure of the Group at a conservative level. The debt protection metrics have also remained strong over the past years owing to healthy profits as well as cash accruals and low gearing. Despite some deterioration expected in the current fiscal, the same would continue to remain strong, going forward.

Credit challenges

Limited value addition and price-based competition likely to keep operating margin under check – The raw material cost accounted for around 80% of the Group's turnover over the last few years, reflecting a highly raw-material intensive nature of operations. This, along with limited value addition, is likely to keep the operating profitability of the Group under check.

Fragmented nature of the industry leads to intense price-based competition – The steel-tube industry is characterised by the presence of many unorganised players in addition to a few large companies. Intense price-based competition due to the fragmented nature of the industry exerts pressure on margins.

Exposed to volatility in raw material prices – Hot rolled coil (HRC) is the key raw material used for producing MS black pipe. Zinc is required in small quantity for the galvanisation process to convert MS black pipe into galvanised iron (GI) pipe. The Group remains exposed to significant volatility in prices of key raw materials like HRC and zinc as adequate raw material inventory needs to be maintained. The Group also suffered sizeable inventory losses in imported raw materials in the past due to an adverse fluctuation in steel prices and exchange rates, which in turn affected the consolidated margins.

Likely deterioration in the profitability in the current fiscal, driven by declining realisations – The Group recorded a sizeable inventory gain due to a steady rise in steel prices over the past two years, which along with improved margin on sales led to a steady increase in the operating profits. However, in FY2023, ICRA expects the Group to incur inventory loss due to a drop in steel prices. Moreover, reduced margin on sales would also adversely impact the OPM of the Group in FY2023. The Group

reported an OPM of 3.5% in 7M FY2023. However, the same is likely to increase in the full year given the better performance expected for the balance period of FY2023 on the back of relatively stable steel price as well as margin on sales. ICRA expects the net margin of the Group to remain at around 3-4% in the current fiscal. The cash accruals from business and RoCE of the Group are also estimated to deteriorate in FY2023 compared to the previous year.

Significant receivables and inventory holding likely to keep the working capital intensity high – Significant receivables and stocking requirements keep the Group’s working capital intensity of operations at a high level. In FY2021, the net working capital relative to the operating income, on a consolidated basis, stood at 35%. However, the same reduced to 31% in FY2022 due to a decline in the receivables along with the inventory holding. The Group’s working capital intensity of operations is likely to remain high, going forward.

Liquidity position: Adequate

The Group generated positive fund flow from operations in FY2022, however, increased working capital requirement led to a negative cash flow from operations during the year. The Group has also demonstrated need-based funding in the form of unsecured loan from the directors and body corporate. The Group’s cash flow from operations is likely to remain comfortable compared to its debt service obligations in the near-to-medium term. The overall working capital utilisation of the Group stood at a moderate level of around 48% during the last 15 months, ended in October 2022. In view of limited capital expenditure plan, undrawn working capital limits and sustainability of funding support from Group companies, ICRA expects the overall liquidity position of the Nezone Group to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in revenue, profits and cash accruals of the Group on a sustained basis. Specific credit metric that may trigger ratings upgrade include a consolidated RoCE of more than 20% on a sustained basis.

Negative factors – ICRA may downgrade the ratings if adverse fluctuation in steel prices results in a significant deterioration in the Group’s profitability and/or a stretch in the working capital cycle exerts pressure on the liquidity position. Specific credit metric that may trigger a rating downgrade include consolidated interest coverage of less than 6.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Ferrous Metal Entities Rating Approach – Consolidation
Parent/ Group support	Not applicable
Consolidation/ Standalone	For arriving at the ratings, ICRA has considered the consolidated business risk profiles of Nezone Tubes Limited, Nezone Tubes Tn Limited, Nezone Tubes (Utkal) Limited and Nezone Strips Limited (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them.

About the company

Incorporated in 2018 by the promoters of Nezone Group, Nezone Tubes Tn Limited (NTTL) manufactures mild steel (MS) black pipe. The manufacturing facility of the company is located at Ranipet, Tamil Nadu with an installed capacity of 100,000 metric tonnes per annum (MTPA) for manufacturing MS black pipe. In January 2021, NCLT approved the scheme of demerger of the Ranipet unit of Nezone Tubes Limited into NTTL with effect from April 1, 2019. Accordingly, all the assets and liabilities related to the Ranipet unit have been transferred to and vested in NTTL. The company is planning to set up a tube mill with an annual production capacity of 12,000 metric tonnes (MT), a cold rolling unit with an annual production capacity of 18,000 MT for

manufacturing full hard cold rolled (FHCR) strip and a galvanising unit with an annual production capacity of 12,000 MT for manufacturing pre-galva/ GI pipe and GP strip. The proposed facilities are scheduled to become operational in the first quarter of FY2024.

The Nezone Group has been involved in the steel-tube manufacturing business for more than three decades, and has a firm footprint mainly in the eastern, north eastern and southern India. Overall, the Group has tube mills with a total production capacity of 4,01,000 MTPA, cold-rolling unit with a total production capacity of 65,000 MTPA and galvanising capacity of 38,000 MTPA. The entire range of products are sold under the brand, Nezone.

Key financial indicators

	Nezone Tubes Tn Limited – Standalone			Nezone Group – Consolidated		
	FY2021 (Audited)	FY2022 (Audited)	7M FY2023 (Provisional)	FY2021 (Audited)	FY2022 (Audited)	7M FY2023 (Provisional)
Operating income	424.9	404.2	327.6	1,496.4	2,141.9	1,484.2
PAT	16.4	11.4	-7.8	79.7	105.9	23.0
OPBDIT/OI	7.1%	5.9%	-0.1%	8.9%	7.9%	3.5%
PAT/OI	3.9%	2.8%	-2.4%	5.3%	4.9%	1.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.5	-	0.6	0.7	-
Total debt/OPBDIT (times)	2.1	4.7	-	1.5	1.8	-
Interest coverage (times)	5.9	3.7	-	7.8	10.7	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Nezone Tubes Limited, Nezone Tubes Tn Limited, Nezone Tubes (Utkal) Limited, Nezone Strips Limited, ICRA Research, ICRA Estimate

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
				Dec 30, 2022	Jan 6, 2022	Apr 7, 2021	-	-	
1 Term Loan	Long Term	28.00	Nil	[ICRA]A+ (Stable)	-	-	-	-	
2 Cash Credit/ WCDL/ OD/ WCL/ PBD	Long Term	91.00	64.88	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-	
3 Letter of Credit/ Bank Guarantee/ Derivative/ LER	Short Term	68.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-	
4 Bank Guarantee [§]	Short Term	(10.00)	-	[ICRA]A1	-	-	-	-	
5 Stand by Line of Credit	Long Term/ Short Term	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-	
6 Unallocated Limits	Long Term/ Short Term	53.00	NA	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-	

[§] Bank Guarantee is the sub-limit of the letter of credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Limits – Term Loan	Simple
Long-term – Fund-based Limits – Cash Credit	Simple
Short-term – Non Fund-based Limits – LC/ LER	Very Simple
Short-term – Non Fund-based Limits – Interchangeable	Very Simple
Long-term/ Short-term – Unallocated Limits	Not Applicable

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](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Apr 2022	-	Feb 2027	28.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL	-	-	-	36.00	[ICRA]A+ (Stable)
NA	Overdraft/ Working Capital Loan	-	-	-	35.00	[ICRA]A+ (Stable)
NA	Purchase Bill Discounting	-	-	-	20.00	[ICRA]A+ (Stable)
NA	Letter of Credit	-	-	-	62.00	[ICRA]A1
NA	Bank Guarantee	-	-	-	(10.00)	[ICRA]A1
NA	Derivative/ Loan Equivalent Risk [§]	-	-	-	6.00	[ICRA]A1
NA	Unallocated Limits	-	-	-	53.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Nezone Tubes Tn Limited

§ Bank Guarantee is the sub-limit of the letter of credit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Nezone Tubes Limited	-	Full Consolidation
Nezone Tubes (Utkal) Limited	-	Full Consolidation
Nezone Strips Limited	-	Full Consolidation

Source: Annual report of Nezone Tubes Limited, Nezone Tubes Tn Limited, Nezone Tubes (Utkal) Limited, Nezone Strips Limited for 2021-22

ANALYST CONTACTS

Mr. Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Mr. Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.