January 5, 2024 (Revised)

Nezone Tubes Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Working Capital Facilities	60.00	60.00	[ICRA]A+ (Stable); reaffirmed
Short-term – Non Fund-based Limits – Working Capital Facilities	11.00	11.00	[ICRA]A1; reaffirmed
Short-term – Non Fund-based Limits – Interchangeable$	(0.50)	(0.50)	[ICRA]A1; reaffirmed
Long-term/ Short-term – Stand by Line of Credit	4.00	4.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Long-term/ Short-term – Unallocated Limits	25.00	25.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

$ Forward contract/ derivative limit is the sub-limit of overall non-fund based working capital facilities

Rationale

For arriving at the ratings, ICRA has considered the consolidated business risk profiles 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 has recorded inventory losses due to a decline in steel prices in the last fiscal (YoY basis), which had a negative impact on the operating margin in FY2023. However, in the current fiscal, ICRA expects the Group to register an improved operating margin over the previous fiscal, primarily due to stabilisation of the expanded production facilities for relatively higher value-added products in NTTL and NTUL. Further, the ratings consider 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 would continue to keep the Group's operating margin under check. Moreover, cyclicality inherent in the steel business is likely to keep margins and cash flows vulnerable to fluctuations in the raw material prices and realisation 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, long relationship with suppliers and customers 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 various purposes. MS black pipes/sections are mainly used for fabrication, structural purpose and scaffolding, whereas galvanised pipes are used in pipelines (mainly drinking water and irrigation). 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. The consolidated turnover of the Group witnessed a steady growth over the past three years. The Group reported a top line of around Rs. 1,505 crore (without adjusting inter-company transactions) in H1 FY2024. ICRA expects that despite a decline in the steel price on a YoY basis, an increase in the overall volume of sales of various products is likely to result in a marginal growth of around 3% in its top line in FY2024 compared to FY2023.

Strong distribution network, regular capacity addition along with optimum utilisation strengthen the Group's operating profile – The Nezone Group's manufacturing facilities and distribution network are spread across various states. The Group has expanded 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. The Group is in the process of setting up a fully automated high-speed tube mill with an annual production capacity of 1,20,000 MT for manufacturing of rectangular/ square sections in NTUL. The estimated capital outlay would be around Rs. 80 crore, proposed to be funded by term loan of Rs. 40 crore and the balance through promoters' contribution. The facility is scheduled to become operational in Q2 FY2025.

Favourable financial risk profile characterised by a conservative capital structure and strong debt protection 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 0.6 times, respectively as on March 31, 2023. In the current fiscal, the management is planning to undertake buyback of equity shares in NTL and NSL, which is likely to result in a cash outflow of around Rs. 78 crore by the Group in FY2024. In the current fiscal, ICRA expects the Group to register an improved operating margin over the previous fiscal, primarily due to stabilisation of the expanded production facilities in NTTL and NTUL. The net margin of the Group is likely to remain in the range of 3-4% in FY2024. The company's overall debt level is estimated to increase to an extent in FY2024 due to partially debt-funded capital expenditure programme along with increased working capital borrowings. Nevertheless, the capital structure would continue to remain at a conservative level on account of healthy net worth. The debt protection metrics have remained strong over the past years owing to healthy profits as well as cash accruals and low gearing. Although some deterioration is 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 the 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.

High working capital intensity of operations, driven by significant receivables and inventory holding – Sizeable receivables and stocking requirements keep the Group's working capital intensity of operations at a high level. In FY2022, the net working capital relative to the operating income, on a consolidated basis, stood at 31%. However, the same declined to 28% in FY2023, primarily due to a decline in the receivables position. Although, the Group's working capital intensity of operations is likely to witness some gradual improvement due to the stringent credit terms now being offered to its customers, it is still likely to remain at a high level in FY2024.

Liquidity position: Adequate

The Group is likely to generate positive cash flow from operations in the current fiscal. The overall working capital utilisation of the Group stood at a moderate level of around 46% during the last 15 months, ended in September 2023, leaving enough liquidity buffer. The Group has also demonstrated need-based funding in the form of unsecured loan from the directors and body corporates. The Group's cash flow from operations is likely to remain comfortable compared to its debt service obligations in the near-to-medium term. In view of limited capital expenditure plan, undrawn working capital limits and need based funding support from the promoters, 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 ratings downgrade includes 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 Iron & Steel
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- II), given the close business, financial and managerial linkages among them.

About the company

Incorporated in 1981, Nezone Tubes Limited (NTL) manufactures mild steel black pipe and galvanised iron pipe. The company has tube mills with a total production capacity of 85,000 metric tonnes per annum (MTPA) at its plant at Dankuni, West Bengal, along with a galvanising capacity of 20,000 MTPA. The company also had a plant at Ranipet, Tamil Nadu with an installed capacity of 1,00,000 MTPA for manufacturing of MS black pipe. In January 2021, NCLT approved the scheme of demerger of the Ranipet unit of NTL into Nezone Tubes Tn Limited w.e.f. April 01, 2019. Accordingly, all the assets and liabilities related to the Ranipet unit have been transferred to and vested in Nezone Tubes Tn Limited.

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 4,13,000 MTPA, cold-rolling unit with a total production capacity of 83,000 MTPA and galvanising capacity of 50,000 MTPA. The entire range of products are sold under the brand, Nezone.

Key financial indicators (audited)

	Nezone Tubes Limited – Standalone		Nezone Group – Consolidated	
	FY2022	FY2023	FY2022	FY2023
Operating income	418.6	520.3	2,141.9	2,690.3
PAT	20.2	21.5	105.9	88.7
OPBDIT/OI	6.2%	5.7%	7.9%	5.7%
PAT/OI	4.8%	4.1%	4.9%	3.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.7	0.6
Total debt/OPBDIT (times)	1.3	1.3	1.8	2.1
Interest coverage (times)	9.3	13.2	10.7	8.1

Source: Nezone Tubes Limited, Nezone Tubes Tn Limited, Nezone Tubes (Utkal) Limited, Nezone Strips Limited, 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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Jan 5, 2024	Dec 30, 2022	Jan 6, 2022	Apr 7, 2021	-
1	Fund-based Limits – Working Capital Facilities	Long Term	60.00	36.62	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-
2	Fund-based/ Non Fund-based Limits – Stand by Line of Credit#	Long Term/ Short Term	4.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-
3	Non Fund-based Limits – Working Capital Facilities	Short Term	11.00	-	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
4	Non Fund-based Limits – Interchangeable$	Short Term	(0.50)	-	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	-	-
5	Unallocated Limits	Long Term/ Short Term	25.00	NA	**[ICRA]A+ (Stable)/ [ICRA]A1**	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-

$ Forward contract/ derivative limit is the sub-limit of overall non-fund based working capital facilities

 # Stand by Line of Credit can be used as both fund-based and non-fund based working capital facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits – Working Capital Facilities	Simple
Short-term non-fund based limits – Working Capital Facilities	Very Simple
Short-term non-fund based limits – Interchangeable	Very Simple
Long-term/ Short-term fund-based/ non-fund based limits – Stand by Line of Credit	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
-	**Cash Credit/ WCDL**	-	-	-	35.00	[ICRA]A+ (Stable)
-	**Purchase Bill Discounting**	-	-	-	25.00	[ICRA]A+ (Stable)
-	**Letter of Credit**	-	-	-	5.00	[ICRA]A1
-	**Bank Guarantee**	-	-	-	6.00	[ICRA]A1
-	**Forward Contract/ Derivative$**	-	-	-	(0.50)	[ICRA]A1
-	**Stand by Line of Credit#**	-	-	-	4.00	[ICRA]A+ (Stable)/ [ICRA]A1
-	**Unallocated Limits**	-	-	-	25.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Nezone Tubes Limited

$ Forward contract/ derivative limit is the sub-limit of overall non-fund based working capital facilities

 # Stand by Line of Credit can be used as both fund-based and non-fund based working capital facilities

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	NTL's Ownership	Consolidation Approach
Nezone Tubes Tn Limited	-	Full Consolidation
Nezone Tubes (Utkal) Limited	-	Full Consolidation
Nezone Strips Limited	-	Full consolidation

Source: Annual reports of Nezone Tubes Limited, Nezone Tubes Tn Limited, Nezone Tubes (Utkal) Limited, Nezone Strips Limited for 2022-23
Note: ICRA has taken a consolidated view of the above-mentioned entities, referred to as the Nezone Group/ Group while assigning the rating(s)

Corrigendum

Rationale dated January 5, 2024 has been revised with the change as below:

- Nomenclature of one of the applicable rating methodologies has been revised to **Iron & Steel** from **Rating Methodology - Ferrous Metals**

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