

January 20, 2025

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 | 50.00 | [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) | - | - |
| Long-term/ Short-term – Stand by Line of Credit | 4.00 | - | - |
| Long-term/ Short-term – Unallocated Limits | 25.00 | 39.00 | [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 taken a consolidated view 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 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, helping partly mitigate earnings volatility due to swings in demand vs supply of specific product sub-segments. 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. Besides, the Group's raw material sourcing arrangement with reputed suppliers ensures high quality of finished products. Further, 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 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 almost four decades, and has a firm footprint mainly in the eastern, north eastern, western 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.

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, which once operational will further increase the volumes.

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 0.4 times and 0.5 times, respectively as on March 31, 2024. Notwithstanding the Group's capex plans for setting up a greenfield project, which is at a nascent stage, ICRA expects the Group's credit metrics to remain healthy 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 80-85% 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 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 raw materials in the past due to an adverse fluctuation in steel prices, which in turn affected the consolidated margins.

Liquidity position: Adequate

The Group's liquidity position has been assessed as **adequate**, with unutilised fund-based limits of around Rs. 323 crore as on September end 2024 and healthy cash flow from operations of around Rs. 200 crore expected in FY2025. Against these sources of cash, the company has a capex commitment of around Rs.45-50 crores and debt repayment obligations of around Rs.8 crore

in FY2025. ICRA expects the company to be able to comfortably meet its capex commitment and service its debt obligations through internal as well as external sources of cash.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in revenue, profits and cash flows of the Group on a sustained basis thereby strengthening the leverage and coverage metrics.

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 Iron & Steel |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of Nezone Tubes Limited, Nezone Tubes Tn Limited, Nezone Tubes (Utkal) Limited and Nezone Strips Limited. |

About the company

The Nezone Group has been involved in the steel-tube manufacturing business for almost four decades and has a firm footprint mainly in the eastern, north eastern, western and southern India. Overall, the Group has tube mills with a total production capacity of 4,51,000 MTPA, cold-rolling unit with a total production capacity of 1,25,000 MTPA and galvanising capacity of 98,000 MTPA. The entire range of products are sold under the brand, Nezone.

Key financial indicators (audited)

| | Nezone Tubes Limited – Standalone | | Nezone Group – Consolidated | |
|--|-----------------------------------|--------|-----------------------------|---------|
| | FY2023 | FY2024 | FY2023 | FY2024 |
| Operating income | 520.3 | 521.9 | 2,690.3 | 2,877.2 |
| PAT | 21.4 | 8.0 | 88.7 | 80.5 |
| OPBDIT/OI | 5.7% | 2.3% | 5.7% | 5.0% |
| PAT/OI | 4.1% | 1.5% | 3.3% | 2.8% |
| Total outside liabilities/Tangible net worth (times) | 0.4 | 0.2 | 0.6 | 0.5 |
| Total debt/OPBDIT (times) | 1.3 | 0.7 | 2.1 | 1.6 |
| Interest coverage (times) | 13.2 | 6.4 | 8.1 | 8.6 |

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 (FY2025) | | | | Chronology of rating history for the past 3 years | | | | | |
|--|-----------------------|-------------------------|--------------|-----------------------------|---|-----------------------------|--------------|-----------------------------|--------------|-----------------------------|
| | Type | Amount Rated (Rs Crore) | FY2025 | | FY2024 | | FY2023 | | FY2022 | |
| | | | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Fund-based Limits – Working Capital Facilities | Long Term | 50.00 | Jan 20, 2025 | [ICRA]A+ (Stable) | Jan 05, 2024 | [ICRA]A+ (Stable) | Dec 30, 2022 | [ICRA]A+ (Stable) | Apr 07, 2021 | [ICRA]A (Stable) |
| | | | | | | | | | Jan 06, 2022 | [ICRA]A+ (Stable) |
| Fund-based/ Non Fund-based Limits – Stand by Line of Credit[#] | Long Term/ Short Term | - | - | - | Jan 05, 2024 | [ICRA]A+ (Stable)/ [ICRA]A1 | Dec 30, 2022 | [ICRA]A+ (Stable)/ [ICRA]A1 | Apr 07, 2021 | [ICRA]A (Stable)/ [ICRA]A1 |
| | | | | | | | | | Jan 06, 2022 | [ICRA]A+ (Stable)/ [ICRA]A1 |
| Non Fund-based Limits – Working Capital Facilities | Short Term | 11.00 | Jan 20, 2025 | [ICRA]A1 | Jan 05, 2024 | [ICRA]A1 | Dec 30, 2022 | [ICRA]A1 | Apr 07, 2021 | [ICRA]A1 |
| | | | | | | | | | Jan 06, 2022 | [ICRA]A1 |
| Non Fund-based Limits – Interchangeable[§] | Short Term | - | - | - | Jan 05, 2024 | [ICRA]A1 | Dec 30, 2022 | [ICRA]A1 | Jan 06, 2022 | [ICRA]A1 |
| Unallocated Limits | Long Term/ Short Term | 39.00 | Jan 20, 2025 | [ICRA]A+ (Stable)/ [ICRA]A1 | Jan 05, 2024 | [ICRA]A+ (Stable)/[ICRA]A1 | Dec 30, 2022 | [ICRA]A+ (Stable)/ [ICRA]A1 | Apr 07, 2021 | [ICRA]A (Stable)/ [ICRA]A1 |
| | | | | | | | | | Jan 06, 2022 | [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 |
| 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 |
|------|---|------------------|-------------|----------|--------------------------|----------------------------|
| - | Long-term fund-based limits – Working Capital Facilities | - | - | - | 50.00 | [ICRA]A+ (Stable) |
| - | Short-term non-fund based limits – Working Capital Facilities | - | - | - | 11.00 | [ICRA]A1 |
| - | Long-term/ Short -term – Unallocated Limits | - | - | - | 39.00 | [ICRA]A+ (Stable)/[ICRA]A1 |

Source: Nezone Tubes Limited

[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 |

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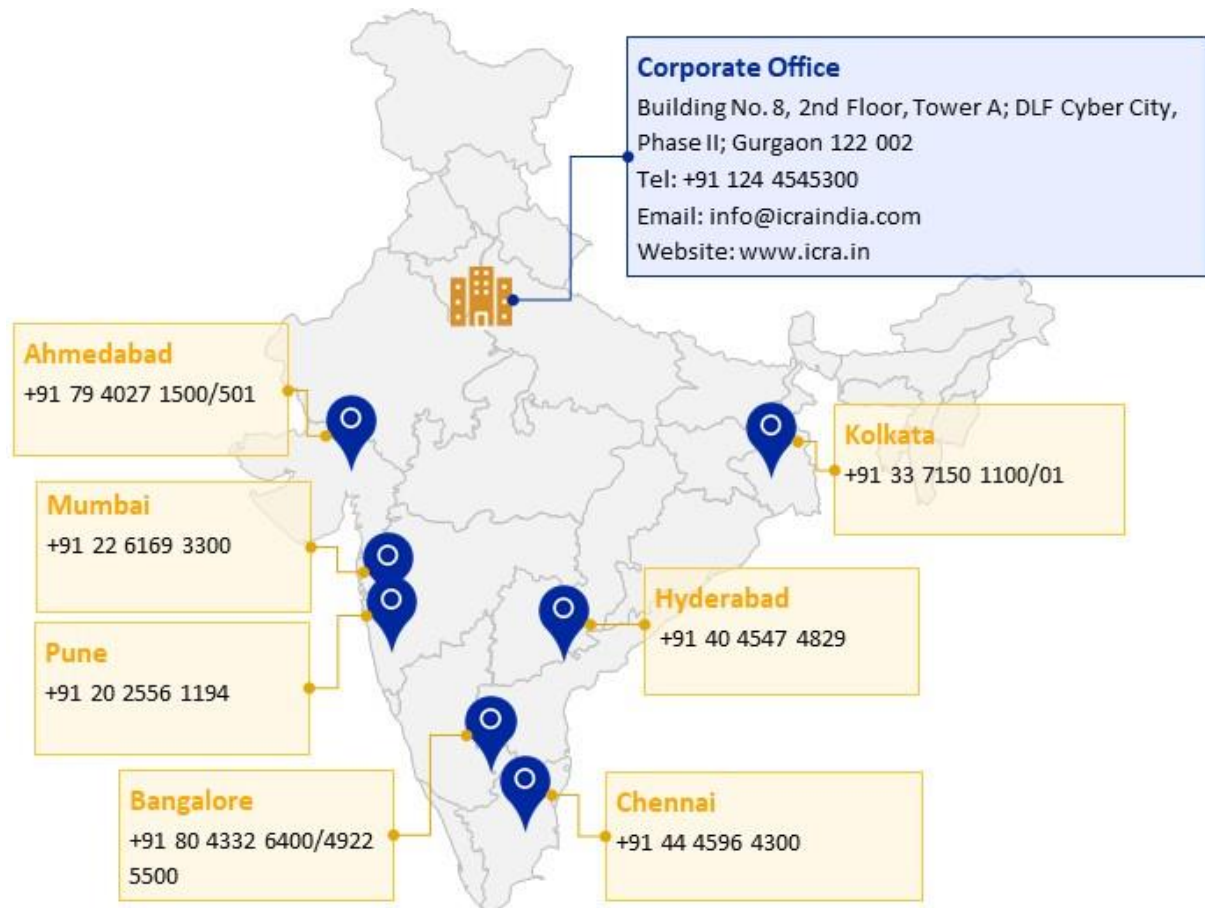
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