

April 09, 2025

Nezone Pipes & Structures: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund-based – Cash credit	80.00	80.00	[ICRA]A- (Stable), reaffirmed
Short-term non-fund based – Letter of credit [^]	(10.00)	(10.00)	[ICRA]A2+, reaffirmed
Long-term/Short-term non-fund based – Bank guarantee	10.00	10.00	[ICRA]A- (Stable)/ [ICRA]A2+, reaffirmed
Total	90.00	90.00	

*Instrument details are provided in Annexure I; [^] Letter of credit is the sub-limit of the Bank Guarantee

Rationale

The reaffirmation of the ratings of Nezone Pipes & Structures (NPS) reflects the longstanding experience of the promoters and the firm's established position in the steel tube manufacturing industry, supported by a strong distribution network and good brand recognition. The ratings also factor in the competitive advantage arising from a diversified product portfolio and the firm's ability to adjust its product mix based on market demand. Additionally, the Group benefits from the raw material sourcing arrangements with reputed suppliers, ensuring high-quality finished products.

The firm's top line has grown significantly from FY2021 to FY2024, driven by higher sales volumes. However, in the near term, ICRA expects the operating profits to moderate due to weak demand for galvanized iron (GI) pipes in the northeastern market following a limited pipeline of fresh Government tenders for the Jal Jeevan Mission, making the revival of GI pipe demand a key monitorable. Nevertheless, the ratings continue to be supported by the firm's comfortable financial risk profile, characterised by healthy profitability, 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. Moreover, the cyclical nature inherent in the steel business is likely to keep the entity's margins and cash flows vulnerable to the fluctuations in raw material prices and demand for the final products. The ratings are also impacted by the significant receivables and stocking requirement, which is likely to keep the working capital intensity of operations at a high level. The ratings also consider the risks associated with the entity's status as a partnership firm, including the risk of capital withdrawal by the partners, as witnessed in the past years.

The Stable outlook on the long-term rating reflects ICRA's opinion that NPS's financial risk profile is likely to remain comfortable, going forward, supported by its prudent capital allocation policy and healthy demand for the mild steel black pipe segment, which is expected to maintain a comfortable buffer for meeting its debt service obligations.

Key rating drivers and their description

Credit strengths

Established position of firm in steel tube manufacturing business – NPS has been involved in the steel tube manufacturing business for nearly a decade and has a strong operating base in the northeastern part of India. The entity's established brand (Nezone) in the steel tube industry, its strong distribution network and the promoters' long experience in the business strengthen its operational profile.

Moderately diversified product profile and ability to change product mix, as per market demand lead to competitive advantage – The firm has a diversified product portfolio, including mild steel (MS) black pipes/square pipes, galvanized pipes, and various fabricated structural items such as tubular poles, beams, scaffolding, and metal crash barriers. MS black pipes are primarily used for fabrication, structural applications and scaffolding, while galvanized pipes cater to drinking water and irrigation pipelines. Till FY2021, MS black pipes were the key revenue driver. From FY2022 to FY2024, GI pipes contributed to the highest share of revenues. However, in 9M FY2025, GI pipe revenues declined significantly due to subdued Government demand in the Jal Jeevan Mission, with sales dropping to ~8,300 metric tonnes (MT) from ~40,000 MT in FY2024. At the same time, MS pipes have witnessed moderate growth, with production increasing from ~28,786 MT in FY2023 to ~37,960 MT in FY2024 and further to ~41,321 MT in 9M FY2025, already surpassing the FY2024 levels. NPS's modest product diversity provides it with flexibility to change the product mix, as per demand from the customers, helping it partly mitigate the impact of slowdown in demand from particular sub-segments.

Sourcing of raw materials from reputed suppliers ensures high quality of finished products – The Nezone Group sources raw materials for its various entities involved in similar businesses in a centralised manner from reputed suppliers. Around 80% of the Group's total hot-rolled coil (HRC) requirement is met from Tata Steel, while 10-15% is imported from Japan/ South Korea/Vietnam and the balance from other renowned domestic suppliers, namely Steel Authority of India Limited, Jindal Steel & Power Ltd and JSW Steel. This provides better control over the quality of the finished goods and renders competitive advantage over the unorganised and smaller players.

Favourable financial risk profile, characterised by conservative capital structure and comfortable debt protection metrics – The capital structure of the firm remained conservative on account of a healthy net worth and limited reliance on external liabilities. The gearing and TOL/TNW stood at 0.3 times and 0.4 times, respectively, as on March 31, 2024. The debt protection metrics have remained comfortable over the past years owing to healthy profits as well as cash accruals and low debt level. In view of the anticipated reduction in turnover and the resultant release of working capital, the overall debt level of the entity is likely to come down in the current fiscal. The coverage indicators (after adjusting for interest on the promoter's capital) of the firm would also continue to be comfortable at ~11 times in FY2026 and FY2027 on the back of adequate profits and cash accruals.

Credit challenges

Near-term earnings to remain modest due to subdued GI pipe demand – The firm's earnings are expected to remain modest in the near term due to a decline in GI pipe sales, which previously contributed 42%-53% of revenues (FY2022–FY2024). The sales dropped to ~8,300 MT in 9M FY2025 from ~40,000 MT in FY2024 as no fresh Government orders were placed. The demand has weakened as most northeastern states have completed GI pipe procurement under the Jal Jeevan Mission (JJM) by FY2024. While the scheme has been extended till 2028, current allocations focus on pending projects rather than new orders. Government demand, if revived, is expected only after September 2025, post the budget approvals. The revival of GI pipe demand and its impact on earnings will remain a key monitorable in the near term.

Limited value addition and price-based competition likely to keep operating margins under check; exposed to volatility in raw material prices – 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 the margins. Raw material cost has accounted for around 80% of the entity's turnover over the last few years, reflecting the highly raw-material intensive operations. This, along with the limited value addition, is likely to keep the operating margins under check.

Significant receivables and inventory holding likely to keep the working capital intensity high – Significant receivables and stocking requirements keep the entity's working capital intensity of operations high. In FY2024, the net working capital relative to the operating income stood at 31%. However, the same rose to 42% in 9M FY2025 due to an increase in the receivable position and inventory levels, along with a decline in advances from the customers, primarily comprising various Government departments. The firm's working capital intensity of operations is likely to remain high, going forward.

Risks associated with entity's status as a partnership firm – The ratings also consider the risks associated with the entity's status as a partnership firm, including the risk of capital withdrawal by the partners, as witnessed in the past years.

Liquidity position: Adequate

The firm is likely to generate positive cash flow from operations in the medium term. The entity has also received need-based funding in the form of unsecured loan from the promoters and body corporates. The overall fund-based working capital utilisation of the firm stood at a moderate level of around 18% during the last 11 months ended February 2025. ICRA expects the overall liquidity position of the firm to remain adequate in the near-to-medium term, in view of the adequate cash flow from operations, undrawn working capital limits, absence of any scheduled long-term debt service obligations and a demonstrated track record of funding from the promoters/ Group entities.

Rating sensitivities

Positive factors – ICRA may upgrade NPS's ratings if there is a significant increase in its revenue, profits and cash accruals, strengthening its debt coverage metrics and net worth on a sustained basis

Negative factors – ICRA may downgrade NPS's ratings if a weakening of the product spread results in a significant deterioration of the entity's profitability and sustained period of weak earnings. A deterioration in the liquidity position may also result in a downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron and Steel
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the entity

About the company

Nezone Pipes & Structures (NPS), established in 2010 as a partnership firm, manufactures mild steel black pipes and galvanised iron pipes. The firm started its operations with two tube mills, having a total production capacity of 60,000 metric tonnes per annum (MTSPA) at its plant at Birnyhat, Meghalaya, along with a galvanising capacity of 24,000 MTPA. In December 2022, the firm commissioned two more tube mills with a production capacity of 60,000 MTPA, and a galvanising unit of 24,000 MTPA. Besides, the firm manufactures various fabricated steel structures namely, pole, beam, scaffolding, metal crash barrier etc. The entire range of products is sold under the brand, Nezone, having a firm footprint in eastern, northeastern and southern India.

The firm is a part of the Nezone Group which has been involved in the steel tube manufacturing business for more than three decades. However, the operations of NPS are independently managed by the promoters.

Key financial indicators (Audited)

Standalone	FY2023	FY2024
Operating income	672.8	698.6
PAT	56.1	40.6
OPBDIT/OI	10.6%	8.9%
PAT/OI	8.3%	5.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.4
Total debt/OPBDIT (times)	1.4	1.0

Interest coverage (times)	7.9	4.5
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Source: Company, 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 (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Apr 09, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	80.00	[ICRA]A- (Stable)	-	-	07-Mar-2024	[ICRA]A- (Stable)	02-Mar-2023	[ICRA]A- (Stable)
Letter of credit[^]	Short term	(10.00)	[ICRA]A2+	-	-	07-Mar-2024	[ICRA]A2+	02-Mar-2023	[ICRA]A2+
Bank guarantee	Long term/ Short term	10.00	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	07-Mar-2024	[ICRA]A- (Stable)/ [ICRA]A2+	02-Mar-2023	[ICRA]A- (Stable)/ [ICRA]A2+

[^] Letter of credit is the sub-limit of the bank guarantee

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Cash credit	Simple
Short-term non-fund based – Letter of credit	Very Simple
Long-term/Short-term non-fund based – Bank guarantee	Very Simple

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	Cash credit	NA	NA	NA	80.00	[ICRA]A- (Stable)
NA	Letter of credit [^]	NA	NA	NA	(10.00)	[ICRA]A2+
NA	Bank guarantee	NA	NA	NA	10.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company; [^] Letter of credit is the sub-limit of the bank guarantee

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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