# Nexo Industries Private Limited

## April 04, 2024

**Ratings**

| Instrument / Facility | Amount (Rs. crore) | Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|
| Long Term Bank Facilities | 96.93 | IVR BBB-; Stable (IVR Triple B Minus with Stable outlook) | Assigned | Simple |
| Short Term Bank Facilities | 21.81 | IVR A3 (IVR A Three) | Assigned | Simple |
| **Total** | **118.74 (Rupees one hundred and eighteen crore and seventy-four lakh only)** | | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The ratings assigned to the bank facilities of Nexo Industries Private Limited (Nexo) derives comfort from its established track record of operation under experienced promoter, geographically diversified business of the company with wide range of products, stable business performance of the company along with satisfactory financial risk profile marked by satisfactory capital structure and adequate debt protection metrics. However, these rating strengths are partially offset by susceptibility of profitability to fluctuation in raw material prices, exposure to intense competition, exposure to forex fluctuation risk and working capital intensive nature of its operation marked by elongated operating cycle.

**Key Rating Sensitivities:**

**Upward Factors**

- Growth in operating revenue and profitability on a sustained basis
- Improvement in debt servicing indicator marked by interest coverage to above 2.5x.
- Improvement in liquidity marked by improvement in operating cycle

**Downward Factors**

- Dip in operating revenue with decline in profitability impacting the gross cash accruals
- Deterioration in capital structure with overall gearing above 1x and deterioration in interest coverage below 1.5x.

- Elongation in operating cycle to more than 250 days

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

**Established track record under experienced promoters**

Nexo has a track record of over five decades in the industrial fasteners manufacturing industry and Mr. Amrik Singh who is the managing director of the company has over three decades of experience in the relevant field which supports the business risk profile of the company, and he is well supported by his son Mr. Amritpal Singh and other qualified and experienced professionals.

**Geographically diversified business with wide range of products**

Nexo serves various OEM customers, and its revenue profile is diversified as it supplies fasteners of varied sizes from 5 grams to 10 kilograms to power, telecom, railways, road (safety guard rails), commercial construction and automobiles sectors. The company has domestic sales in more than 13 states in India like Punjab, Rajasthan, Gujarat, Karnataka, Uttar Pradesh, Bihar, Maharashtra, West Bengal, and export in more than 11 countries which include Germany, Italy, Poland, USA, UK, Netherlands, and Middle East.

**Stable business performance**

The revenue of the company has witnessed an erratic trend in the past fiscal years. The total operating income has improved in FY22 to Rs. 282.04 crore from Rs. 194.69 crore in FY21 on the back of volumetric growth coupled with increase in average sales realisation attributable to rise in export sales (mainly increased sales to Italy, Poland, USA). However, in FY23 the topline of the company moderated to Rs. 244.29 crore with a y-o-y moderation of 13.38%. The decline in turnover in FY23 is mainly due to Russia-Ukraine war leading to negative impact on the export sales. The company has witnessed sustained improvement in its profitability over the past three fiscal years. Notwithstanding the dip in topline in FY23 the EBITDA level and margin has improved on the back of decline in overhead expenses. Moreover, with increase in EBITDA, PAT level and margin has also improved. In 9MFY24, the company has achieved a revenue of Rs.161 crore.

**Satisfactory financial risk profile marked by satisfactory capital structure and adequate debt protection metrics**

The capital structure of the company remained satisfactory as on the past three account closing dates. The debt equity ratio and the overall gearing ratio stood at 0.19x and 0.94x respectively as on March 31,2023 (0.17x and 0.86x respectively as on March 31,2022). Total indebtedness of the company marked by TOL/TNW also stood satisfactory at 1.71x as on March 31, 2023 (1.66x as on March 31,2022). The marginal moderation in the leverage ratios were due to increase in debt level of the company. The debt protection metrices of the company remained moderate over the years. Attributed to elevated debt level, the interest coverage ratio, Total debt to GCA and Total debt to EBITDA of the company has moderated in FY23.

**Key Rating Weaknesses**

**Susceptibility of profitability to fluctuation in raw material prices**

The profitability margins of the company are subject to variations in the cost of raw materials since raw material costs accounts for around 75% of total cost of production. The primary raw material prices are varying in nature since they rely on the conditions of supply and demand, leaving the margins vulnerable to any unfavourable change in their prices. Furthermore, as small fasteners yield higher margins than large fasteners, the margins are also susceptible to changes in the product mix of orders that are completed. Profitability margins are further impacted by the structural segment's comparatively lower margins as compared to the fasteners segment.

**Exposure to intense competition**

The industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition limits the company’s pricing flexibility and bargaining power.

**Exposure to forex fluctuation risk**

Nexo generates revenue from both domestic and international markets and Nexo earned ~65% of its total revenue from exports in FY23. Nexo hedges its forex exposure through forward contracts, but the margins remain vulnerable to any adverse fluctuations in foreign exchange rates whenever there is unhedged exposure.

**Working capital intensive nature of operation**

The operations of the company remained working capital intensive over the years marked by its elongated operating cycle due to its high average inventory period. The average inventory period of the company remained elongated over the years as the company maintains readily available stock for export orders. The company has a policy to hold inventory of finished goods to cater the demand from clients in a short duration. The operating cycle of the company stood elongated at 220 days in FY23.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Criteria for assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Policy of default recognition

Criteria on complexity

**Liquidity – Adequate**

The liquidity profile of Nexo is expected to remain adequate as the company is expected to generate adequate gross cash accruals in the range of Rs.11.30-12.16 crore to serve its debt obligations of Rs. 3.39 crore during FY24-FY26. The current ratio of the company remains comfortable at 1.43x as on March 31, 2023. Further, the company has an adequate gearing headroom marked by its satisfactory overall gearing ratio at 0.94x as on March 3,2023. However, the average fund-based utilization of the company remained high at ~94% during the past 12 months ended in February 2024 indicating limited liquidity cushion for the company.

**About the Company**

Nexo Industries Private Limited (Nexo) was established in the year 1964 as a proprietorship firm named Nexo Industries. In 1998, the proprietorship firm was reconstituted as a private limited company and subsequently, in 2005, the company was converted to public limited. However, in October 2015, the company was again converted to private limited company under the name Nexo Industries Private Limited. Nexo is engaged in manufacturing of industrial fasteners, structures, nuts, and bolts which serves various end-users involved in the field of Electricity, Telecommunication, Railways and Road Safety Guard Rails. Nexo has two divisions – fasteners and structures with installed capacity of 27000 MTPA and 7000 MTPA respectively and its manufacturing plant is in Kohara, Punjab. Nexo generates revenue from both domestic and international markets. Nexo earned ~65% of its total revenue from exports in FY23.

**Financials (Standalone):**

**(Rs. Crore)**

| For the year ended / As on | 31-03-2022 | 31-03-2023 |
|---|---|---|
| | Audited | Audited |
| Total Operating Income | 282.04 | 244.29 |
| EBITDA | 17.61 | 19.49 |
| PAT | 4.22 | 4.53 |
| Total Debt | 89.56 | 101.41 |
| Tangible Net worth | 103.79 | 108.06 |
| EBITDA Margin (%) | 6.24 | 7.98 |
| PAT Margin (%) | 1.48 | 1.83 |
| Overall Gearing Ratio | 0.86 | 0.94 |
| Interest Coverage (x) | 1.94 | 1.80 |

**Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** The ratings of Nexo Industries Private Limited was moved under Issuer Not Cooperating category by Care Edge as per Press Release dated March 26, 2024, due to unavailability of information.

**Any other information: Nil**

**Rating History for last three years:**

| Sr. No. | Name of Instrument/ Facilities | Current Ratings (Year 2023-24) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 |
| 1. | Term Loan | Long Term | 8.93 | IVR BBB-; Stable | - | - | - |
| 2. | Cash Credit | Long Term | 80.00 | IVR BBB-; Stable | - | - | - |
| 3. | Channel Finance | Long Term | 8.00 | IVR BBB-; Stable | - | - | - |
| 4. | Letter of Credit | Short Term | 14.50 | IVR A3 | - | - | - |
| 5. | Bank Guarantee | Short Term | 5.00 | IVR A3 | - | - | - |
| 6. | CEL | Short Term | 2.31 | IVR A3 | - | - | - |

**Name and Contact Details of the Rating Analyst:**

| Name: Nidhi Sukhani<br>Tel: (033) 46022266<br>Email: nsukhani@infomerics.com | Name: Avik Podder<br>Tel: (033) 46022266<br>Email: apodder@infomerics.com |
|---|---|

**About Infomerics:**

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com



**Annexure 1: Details of Facilities**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Term Loan | - | - | FY29 | 8.93 | IVR BBB-; Stable |
| Cash Credit | - | - | - | 80.00 | IVR BBB-; Stable |
| Channel Finance | - | - | - | 8.00 | IVR BBB-; Stable |
| Letter of Credit | - | - | - | 14.50 | IVR A3 |
| Bank Guarantee | - | - | - | 5.00 | IVR A3 |
| CEL | - | - | - | 2.31 | IVR A3 |

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable**.**

**Annexure 3: Facility wise lender details:**
**https://www.infomerics.com/admin/prfiles/len-Nexo-apr24.pdf**

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.