CareEdge RATINGS

Nile Limited (Revised)

July 04,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	60.00	CARE A-; Stable	Assigned
Short-term bank facilities	30.00	CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of Nile Limited (Nile) factors in the long track record of the company and vast experience of promoters in lead recycling business, established sourcing network and customer relationship, revenue visibility led by annual supply agreements with the key customer i.e., Amara Raja Batteries Limited (ARBL) for job works, sale of material and collection of batteries, presence of valid license for importing of used batteries and lead scrap, continuous growth in total operating income over last four years ended FY24 [FY refers to the period April 01 to March 31], expectation of sustenance of reasonable revenue growth on the back of tightening regulations helping organised and end-to-end recyclers and Nile's expansion into Li-ion recycling through its subsidiary, comfortable capital structure and debt coverage indicators led by negligible term debt and sparsely utilised working capital limits, satisfactory operating cycle, high entry barriers for new entrants and adequate liquidity position.

The ratings are however constrained by moderate profitability margins, customer concentration risk with majority of revenue being derived from Amara Raja Batteries Limited (ARBL), nascent stage of operations in its newly incorporated subsidiary i.e., Nile Li-Cycle Private Limited, presence of many organised and unorganised players, exposure to raw material price volatility due to the commoditized nature of product, forex risk and regulatory risk arising from stringent environmental standards.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in scale of operations while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 7%.
- Diversification in terms of customers reducing the client concentration risk

Negative factors

- Decrease in scale of operations by more than 20% and PBILDT margin falling below 5%.
- Any additional borrowings leading to deterioration of overall gearing beyond 0.75x.
- Elongation in collection/inventory period beyond three months

Analytical approach: Consolidated

CARE Rating Limited has analysed Nile's credit profile by considering the consolidated financial statements (comprising Nile and its subsidiaries; referred to as Nile Group) owing to financial and operational linkages between the parent and its subsidiaries. The companies are run by common management. The consolidated financial statements include Nile Limited (the holding company) and its following subsidiaries as on May 31, 2024 (as mentioned in Annexure 6):

- Nile Li-Cycle Private Limited
- Nirmalya Extracts Private Limited

Outlook: Stable

CARE Ratings believes that Nile's credit profile will remain stable with a further scaling up of operations with addition of new clients and completion of capex in subsidiary which is expected to be fully operational from Q4FY25. Leverage and debt coverage indicators are expected to remain stable.

Detailed description of the key rating drivers:

Key strengths

Long track record of company and vast experience of promoters in recycling business: Mr. V. Ramesh, promoter and executive chairman of Nile, has strong technical qualification and about four decades of total experience with more than 10 years of working experience in various capacities in some of the largest technical organizations in the world such as General Electricity Company (USA), The Southern Company (USA), etc. In India, he worked as General Manager of the Deccan Sugars Ltd and Managing Director of Shin-A-Chemicals (India) Ltd. before starting at Nile Limited.
Mr. Sandeep Vuyyuru Ramesh, current Managing Director of Nile Limited joined in June 2009 as General Manager, Non-Ferrous Division, and has been in general/senior management roles at Nile since then.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

With nearly three decades in the similar lines of business, the company has cemented its place in Lead manufacturing with established clients base and suppliers in domestic markets. Mr. Sandeep Vuyyuru Ramesh is ably assisted by a team of professionals to aid in Nile's day-to-day operations.

Continuous growth in TOI over last four years ended FY24: The company's TOI remained on increasing trend from past four years from ₹536.41 crore in FY21 to ₹837.62 crore in FY24 (compounded annual growth rate [CAGR] of 11.79%) aided by growth in sales volume owing to a higher order from ARBL and stable RM prices thus improving the profitability. Company usually enters in an annual contract with ARBL. Company's growth is expected to be supported by tightening regulatory environment aiding organised and end-to-end recyclers and its foray into Li-ion recycling. In FY25, the TOI of Nile is expected to reach ₹970 crore (a 16.43% y-o-y increase) given the additional share of income coming in from Nile Li-cycle Private Limited recycling Lithium – Ion batteries.

Established relationship and revenue visibility led by annual supply agreements with key customer (ARBL): Nile has an annual agreement (renewed every year) with ARBL for job works, sale of material and collection of batteries. The annual job work agreement is based on pricing of Lead Alloys linked to month average price (USD per tonne) at LME plus premium in USD. which comprises smelting & refining cost for recovered pure Lead and smelting & alloying cost for Lead alloys.

Reputed clientele and diversified supplier base: Nile caters to reputed clients in the domestic market such as ARBL, Mangal Industries Limited, etc. The contracts are generally for one year and the Memorandum of Understanding (MOU) is renewed on annual basis. The tenure of contract for export market is usually for 1-2 years hence, Nile is exploring options to export to overseas markets which is expected to diversify its customer base to have a portfolio of short-term and long-term contracts to aid revenue visibility
The top 10 suppliers of Nile contribute around 90-95% of its total procurement. Company imports some portion of its raw material requirement through import from European scrapyards and middle eastern countries and majority of requirement is met domestically, thus operating with a wide supplier base.

Comfortable capital structure and debt coverage indicators: The capital structure of the company marked by debt to equity and overall gearing have remained below unity for the last three years. The Overall gearing improved marginally from 0.08x as on March 31, 2023, to 0.05x as on March 31, 2024. Total debt comprises of term loans availed for expansion of existing plant in 2022 and working capital borrowings which is utilised ~8-10%. Total sanctioned fund based working capital limit of Nile is ₹ 60 crore. The Interest coverage ratio remains healthy. The total debt to gross cash accruals improved marginally from 0.65x as of March 31,2023 to 0.35x as of March 31,2024.

Satisfactory operating cycle: The operating cycle of Nile has witnessed improvement of y-o-y basis, from 98 days in FY21 to 70 days in FY24. This is considering reduction in creditor days and collection period remaining around one month along with reduction in inventory hold up. From FY23 onwards, the company has been collecting the payments from customers almost within 30 days or 35 days in a timely manner and the creditors are being cleared either on the same day or within two days. Apart from the working capital cycle, the collection period of the company also improved from 50 days in FY21 to 42 days in FY24.

Key weaknesses

Moderate profitability margins which are exposed to RM price volatility and forex risk: Profitability margins of the company remain exposed to the commodity prices of non-ferrous metals (lead) which forms 90% of the overall cost structure of the company. Further, company needs to maintain minimum stock of 1.5x of its monthly order and the fluctuation in the RM cost to the extent of stock level can impact the overall gross margin of the company.

Despite limited nature of value addition and the higher competition from other players in the industry with similar setup, the PBILDT margins of the company has been in line with industry benchmark over the years. The PBILDT margin improved in FY24 at 5.50% from 4.44% in FY23 considering better pricing strategies adopted by employing professional consultants to monitor and hedge the generally volatile commodity prices.

Customer concentration risk: The top 10 customers of Nile contributed to around 99% of overall sales of the company of which around 90% of the overall revenue was from ARBL. ARBL has remained the major off taker for Nile since the inception thus showcasing an established relationship between the companies. Nile sells balance 10% of its total sales to other reputed players in the industry.

Nascent stage of operations of its newly incorporated subsidiaries: Nile Limited has identified the potential in recycling of lithium-ion batteries and floated a subsidiary Nile Li-cycle Private Limited (NLPL) which will focus on end to end recycling and product generation from Lithium-ion extraction. The total project cost for set up of NLPL is ₹60 crore out of which ₹40 crore will be funded through term loans from bank and balance ₹20 crore through internal accruals. NLPL has completed trial runs for phase-1 in Q4FY24 and FY25 will be the full year of operation.

NLPL is expecting to derive revenue from exports market primarily to Korea, Japan where majority of cell manufacturers of lithium-ion batteries are in existence. For other metals such as nickel and cobalt that are extracted from the used Li-ion batteries, these find its applications in glass industry, paint industry and the target customers for the same would be domestic.

Other than NLPL, Nile has another subsidiary company namely Nirmalya Extracts Private Limited (NEPL). NEPL is not operational as on date and there is no debt outstanding as on date.

Regulatory risk arising from stringent environmental standards: Companies engaged in lead manufacturing process must adhere to rigorous pollution control norms as the industry is extremely polluting and has hazardous effect on the environment. Any deviation from the prescribed waste handling procedure could result in stringent regulatory action. Thus, Nile ensures all regulatory certifications and inspections are in place. Usually, the CPCB will issue license which is valid for 5 years.

Ministry of Environment, Forest and Climate Change, Government of India published the Battery Waste Management Rules, 2022 on 24th August 2022 to ensure environmentally sound management of waste batteries.
The rules function based on the concept of Extended Producer Responsibility (EPR) where the producers (including importers) of batteries are responsible for collection and recycling/refurbishment of waste batteries and use of recovered materials from wastes into new batteries. EPR mandates that all waste batteries to be collected and sent for recycling/refurbishment, and it prohibits disposal in landfills and incineration.

Nile complies with all the requirements of the new rules, given that it is one of the few companies which provide end to end recycling solutions. The new rule in action, is expected to eliminate unorganised players thus limiting the competitors and improving margins.

Industry prospects: The prospect of the industry is estimated to attain benefit from the growing scrap metal recycling market and the rising demand for lead-acid batteries for energy storage since it provides low-cost energy/kWh, use a simple technology, and require material that are abundantly available. Further, the cost of recycling of lead is less than the mining and processing of lead from ore. The rolling out of Battery Waste Management Rules, 2022, by the Government of India is also expected to aid growth in the battery recycling industry.

Liquidity: Adequate
The liquidity of Nile Limited on consolidated basis remained adequate. The company has generated GCA of Rs. 34.33 Cr during FY24 and is estimated to generate accruals of ₹49.83 crore for FY25 which against a negligible term debt repayment obligation of ₹0.37 crore. The operating cycle improved to 70 days due to improvement in collection period. The average utilisation for past 12-month ended April 24 stood at 1.99%. The utilisation of non-fund-based limits remained lower too at 5.27%.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks:

	Risk factors
Environmental	Lead manufacturing process is hazardous in nature. The company has entered contract of waste disposal with Ramky Enviro Engineers Limited to adhere with the government's standards and safety measures for disposal. For Nile, the last Pollution Control Board inspection was in FY22, and the certificate is applicable till FY27. The company also carries a valid license for importing used battery and the quantity of imports are basically determined at an average imports of past three years and installed capacity of the recycling plant.
Social	Workers in the manufacturing plant with their prolonged exposure to lead fumes can develop health complications. However, Nile provides proper personal equipment and latest pollution control equipment including Oxyfuel burner systems to minimize emissions. workers and staff are periodically tested for LIB (Lead in blood) as well as medical testing and no medical issues are reported.
Governance	Company is listed and minimal related party transactions were observed with group companies. No major audit observations has been present in the past.

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation
Non Ferrous Metals

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Diversified Metals	Diversified Metals

Nile was incorporated in 1987 as manufacturer of Glass Lined Equipment, later in 1999, Nile ventured into lead recycling and set up a plant with 3000 TPA non-ferrous division for the secondary manufacture of lead and lead alloys from used batteries and another lead-bearing scrap. In 1995, it installed a 2MW wind farm in Ramagiri, Andhra Pradesh. The glass-lined equipment division was later transferred to De Dietrich Process Systems India Private Limited on 21 June 2012. Nile has two lead recycling plants, one each in Choutuppal (capacity: 32,000 tonnes per annum) in Telangana and Tirupati (75,000 tonnes per annum) in Andhra Pradesh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	806.33	837.62
PBILDT	35.85	46.22
PAT	22.66	31.60
Overall gearing (times)	0.11	0.00
Interest coverage (times)	12.90	40.33

A: Audited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	60.00	CARE A-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	30.00	CARE A2+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	60.00	CARE A-; Stable				
2	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A2+				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Nile Li-Cycle Private Limited	Full	Wholly owned subsidiary
2	Nirmalya Extracts Private Limited	Full	Wholly owned subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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