May 22, 2023

NTECK Automotive Private Limited: Issuer rating [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]BBB (Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in NTECK Automotive Private Limited's (Nteck) established operational track record as an automotive component supplier and its established relationship with its key customer, Maruti Suzuki India Limited (MSIL), a leading original equipment manufacturer (OEM) in the passenger vehicle (PV) segment. The company also benefits from operational and financial synergies from its strong parentage—Koritu Company Limited (Koritu; holds 92.5% stake in Nteck), an established Japanese automotive component manufacturer. Moreover, steady internal accrual generation and low debt funded capex has resulted in low reliance on debt, translating into a comfortable capital structure and healthy coverage metrics for Nteck.

However, the rating is constrained by Nteck's high product and customer concentration risks, as it manufactures only two products that are entirely sold to MSIL (partly also routed through Suzuki Motor Gujarat Private Limited; SMG). Coupled with limited backward integration of operations and the competitive nature of the industry, this has resulted in moderate scale of operations and limited scope for margin expansion in profitability. However, the risk is mitigated to an extent by Nteck's healthy share of business with MSIL and the healthy relationship of its parent with Suzuki Motor Corporation (SMC). Moreover, while there is a raw material cost pass through with its customer, Nteck's margins remain vulnerable to price volatility in the interim period and its ability to completely pass through other manufacturing overheads. The company's performance also remains susceptible to the cyclicality inherent in the industry and over the long-term, its revenue could become vulnerable to risks arising from the impending electrification of vehicles.

The Stable outlook on Nteck's rating reflects ICRA's opinion that the company will continue to benefit from its established relationship with its key customer and steady demand for its products, supporting its growth and accrual generation.

Key rating drivers and their description

Credit strengths

Nteck benefits from technical and financial synergies emanating from its parentage – Nteck's shareholding is held with Japanese companies, including its parent entity, Koritu, which holds a majority stake of 92.5%, and Hayashi Kogyo Limited, which holds the remaining 7.5%. Koritu is an established Japanese automotive component manufacturer, who supplies to SMC globally. Nteck benefits from the operational support from its parent, in the form of technological capabilities and financial synergies in the form of common lenders as well as corporate guarantees extended for its external borrowings.

Established relationship with leading OEM, MSIL – The company has an established business relationship with its two customers, MSIL (leading OEM in the PV segment) and SMG (100% subsidiary of SMC). While Nteck only supplies two products (shifter fork and shift tower) for transmission systems, its revenue growth over the years has been driven by healthy share of business with these customers. Moreover, Nteck's parent, Koritu, has been associated with the Suzuki Group for more than five decades.

Comfortable capital structure and debt protection metrics – Steady accretion to reserves and limited reliance on external debt has resulted in a comfortable capital structure for the company, as marked by low gearing of 0.1x over the past two years. Further, given that the borrowings are in foreign currency, lower interest cost coupled with increasing operating profits has translated into healthy coverage metrics, as reflected by interest coverage of 92.0x for FY2023[1] (45.6x for FY2022) and Total Debt/OPBITDA of 0.4x as on March 31, 2023 (0.8x as on March 31, 2022). Going forward, its increasing revenue base, steady accrual generation, minimal capex plans and low reliance on debt are expected to support Nteck's debt protection metrics over the near to medium term.

Credit challenges

Moderate scale of operations and profitability – Despite steady scale up in revenues as marked by annual turnover of ~Rs. 195 crore in FY2023 from Rs. 142 crore in FY2018, Nteck's scale of operations has remained moderate relative to the size of the industry. Its profitability has also witnessed some moderation witnessed in recent years (operating margins of 8-9% in the past two years). Although, there is a provision of raw material cost pass through with a lag of a quarter with its customers, Nteck's margins remain vulnerable to price volatility in the interim period and its ability to pass through escalations of other manufacturing overheads.

High product and customer concentration risks – Nteck is exposed to high product concentration risk as its product profile presently only consists of two products. Moreover, customer concentration risk also remains high as Nteck's entire sales are to MSIL (partly also routed through SMG). However, Nteck's strong relationship and healthy share of business with MSIL; and the latter's leading position in the PV industry mitigate the risks to an extent.

Vulnerability of revenues to cyclicality and impending electrification of the automotive industry – The company derives its complete revenues from the automotive industry, mainly from the PV segment, which exposes it to competitive intensity and inherent cyclicality in the automotive industry. Moreover, the move towards electrification of automobiles exposes Nteck to the risk of its product becoming obsolete, which could impact its revenues in the long-term. However, the company plans to diversify its product portfolio to cater to electric vehicles (EVs) in the future, if required.

Liquidity position: Adequate

Nteck's liquidity position is **adequate** supported by steady internal accrual generation, cash and bank balances of Rs. 13 crore as on March 31, 2023, average undrawn bank lines of ~Rs. 15 crore over the past 12 months and no sizeable debt-funded capex plans. Further, the company has minimal debt repayment obligations of Rs. 3.8 crore and Rs. 1.4 crore over FY2024 and FY2025, respectively, which are expected to be comfortably serviced through internal accruals.

Rating sensitivities

Positive factors – Nteck's rating could be upgraded in case of healthy revenue growth and internal accrual generation, and/or diversification of its product profile, while maintaining comfortable coverage metrics and adequate liquidity on a sustained basis.

Negative factors – Nteck's rating could be downgraded if there is a considerable decline in revenue and profitability, and/or sizeable dividend payout or stretch in the working capital cycle resulting in deterioration in liquidity position and debt protection metrics. Specific credit metric for a rating downgrade includes Total Debt/OPBITDA higher than 2.5 times on a sustained basis.

[1] *As per provisional financials*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Auto Component Suppliers]
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2011, Nteck is a tier-1 supplier of automotive parts that find application in car transmission systems, primarily to MSIL. The company is a subsidiary (92.5% stake) of the Japanese automotive components manufacturer, Koritu, while the remaining shareholding is held by another Japanese auto component manufacturer, Hayashi Kogyo Limited. Nteck's manufacturing unit is located at Manesar, Haryana.

Key financial indicators (audited)

Nteck – Standalone	FY2021	FY2022	FY2023*
Operating income	103.0	133.7	194.6
PAT	3.4	3.6	7.5
OPBDITA/OI	10.1%	8.2%	9.1%
PAT/OI	3.3%	2.7%	3.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.5
Total debt/OPBDITA (times)	1.4	0.8	0.4
Interest coverage (times)	38.8	45.6	92.0

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 22, 2023	-	-	-
1	**Issuer rating**	Long-term	-	-	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	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
NA	**Issuer rating**	-	-	-	-	[ICRA]BBB (Stable)

Source: *Company*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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