April 29, 2024

NTF (India) Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits – Term Loan^	57.00	102.00	[ICRA]BBB+ (Stable); reaffirmed/ assigned for enhanced amount
Long-term – Fund-based limits – Cash Credit^	100.00	140.00	[ICRA]BBB+ (Stable); reaffirmed/ assigned for enhanced amount
Short-term – Non-fund based limits	54.00	34.00	[ICRA]A2; reaffirmed
Long-term/ Short-term – Unallocated	25.00	0.00	-
Total	**236.00**	**276.00**	

**Instrument details are provided in Annexure-I; ^includes proposed facilities*

Rationale

The ratings reaffirmation for NTF (India) Private Limited (NTF) factors in the company's healthy revenue growth in FY2024 and expectations of sustenance of the same in the current fiscal, driven by increasing content per vehicle of components supplied, healthy share of business and steady offtake from its key customer, Maruti Suzuki India Limited (MSIL). NTF's operating margins contracted in FY2023 on account of incremental costs incurred for stabilising its recently commissioned manufacturing capacities as well as increasing level of bought-out components used as part of the final product assembly supplied by NTF to its customers. Coupled with debt-funded capex, this further led to moderation in the company's debt protection metrics. However, there has been recovery in operating margins in FY2024 aided by healthy ramp up of capacity utilisation and cost rationalisation initiatives of the company, also resulting in an improvement in the debt protection metrics. The ratings continue to take into account the company's established business position and its promoter's extensive experience of more than three decades in the automotive components industry, along with its strong relationship with MSIL, the leading passenger vehicle (PV) original equipment manufacturer (OEM) in India.

However, the ratings are constrained by NTF's relatively high leverage levels in recent years due to high working capital intensity of its business and debt-funded capex incurred towards setting up incremental capacities. Despite some improvement, the leverage level is estimated to remain high in FY2024 on account of continued debt-funded capex. However, healthy anticipated increase in accrual generation is expected to result in improvement in NTF's leverage level and coverage metrics over the near to medium term. NTF also remains exposed to high customer concentration risk as its top customer, MSIL, accounted for ~80% of its revenue in recent years. However, the same is mitigated to an extent by the length of its relationship and healthy share of business with the OEM. Also given that most of the company's earnings are generated from the automotive sector, it remains susceptible to the competitive intensity and cyclicality inherent in the industry.
The Stable outlook on NTF's long-term rating reflects ICRA's opinion that the company will continue to benefit from its established business position, long-standing relationship with its key customer and stable demand outlook for the PV industry.

Key rating drivers and their description

Credit strengths

Established track record in the automotive component industry – Incorporated in 1996, NTF has established itself as a prominent manufacturer of automotive components in the industry, supported by its strong positioning with MSIL and other key OEMs, diverse product profile, established operational track record and sizeable manufacturing set up. The company has been promoted by the Jain family, who have an extensive experience of more than three decades in the business. NTF is a single-source leading supplier of engine undercover, parcel trays and luggage board with a vast presence across the country.

Customer base includes reputed OEMs – Over the years, NTF has developed a wide customer base of reputed OEMs in the domestic market such as MSIL, Fiat India Automobile Private Limited, MG Motors India Private Limited, Volkswagen India Private Limited, and Toyota Kirloskar Motor Private Limited, among others. However, the company's revenues are largely driven by MSIL. In the export segment, NTF's customer base includes Ashok Leyland UAE, GE Healthcare, Hispacold International and Toyota Saudi Arabia-ALJ Motors. Over the past two fiscals, the company has also added new customers such as Honda Motor Co. Ltd., JBM Auto Ltd. and Hyundai Kia (Hyundai Motor Group), among others. Moreover, the company has maintained a healthy share of business with its key customers, which has supported revenue growth over the years.

Adequate financial risk profile – NTF's financial profile is adequate marked by healthy revenue growth, steady accrual generation, and moderate capital structure and coverage metrics. The company registered healthy revenue growth of 56% YoY to Rs. 578 crore in FY2023 followed by estimated YoY revenue growth of 24% in FY2024, supported by improved demand from MSIL, higher content per vehicle, widening product portfolio, expansion of capacities and addition of customers. NTF's profitability has witnessed some moderation reflected by OPM of ~10% in FY2023 relative to the past levels owing to higher fixed costs related to recently set-up unit in Gujarat and increased sales of bought-out components to MSIL. Coupled with high leverage levels, this has resulted in moderate coverage indicators for the company. However, the company's operating profitability and coverage profile is estimated to improve considerably in FY2024 (estimated OPM of ~11.5%) supported by stablisation of its new unit and healthy accrual generation. Going forward, NTF is likely to report healthy revenue growth and stable earnings profile supported by stable demand, planned capacity expansion and addition of new customers, which coupled with expected reduction in debt levels are expected to further improve its accrual generation and coverage metrics over the near to medium term.

Credit challenges

Working capital intensive nature of operations – NTF's inventory levels have remained high historically owing to the wide variety of products manufactured with development of their associated dies/moulds and multiple manufacturing facilities. Coupled with a receivable cycle of up to two months, this has led to relatively high working capital intensity with NWC/OI[1] of ~30%. NTF funding requirements also remain high, but are comfortably met through credit of up to two months from its vendors and available working capital lines from the bank. Incremental funding requirements of the business from healthy anticipated growth in the current fiscal are expected to be funded through internal accruals and sanctioned working capital lines.

High leverage levels; however, expected to moderate over the medium term – NTF's leverage levels remains high owing to high working capital intensity of the business and relatively higher debt-funded capex incurred towards capacity expansions in recent years. Coupled with moderation of operating profits owing to incremental costs for recently set up capacities and increased bought-out components sales, this resulted in moderate debt protection metrics as reflected by TD/OPBITDA of 4.7x in FY2023. However, the same is likely to improve considerably in FY2024, with estimated TD/OPBITDA of 2.9x supported by healthy accrual generation as a result of healthy ramp up of capacity utilisation and cost rationalisation initiatives by the company. Going forward, NTF's coverage profile is expected to improve further aided by higher accrual generation and no material increase in debt for the near to medium term.

High concentration risk with top customer accounting for ~80% of sales – NTF faces high customer client concentration risk with its top customer, MSIL driving ~80% of its revenue in recent years. The company's business performance is, thus vulnerable to the performance and market share of the OEM. However, given the healthy market share of MSIL in the PV segment and 100% share of business with the customer, the risk is mitigated to a large extent. Additionally, with addition of new customers and increased supplies to electric vehicles, railways and agriculture segment, the reliance on top customer is expected to reduce to some extent over the medium term.

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[1] *Net working capital/ Operating income*

Exposure to cyclicality in the auto sector with PV segment driving large share of revenues – NTF derives majority of its revenue from the automotive sector, mainly the PV segment, thereby exposing it to competitive intensity and inherent cyclicality in the auto industry. In recent years, the company has also diversified into non-PV segments such as agriculture, railways and wind mills; however, the contribution from the same is fairly low as of now.

Liquidity position: Adequate

NTF's liquidity position is adequate supported by steady internal accrual generation and cushion of ~Rs. 20-25 crore in its working capital limits, as of March 2024. The company has debt repayment obligations of Rs. 35-40 crore over FY2025 and FY2026; however, its internal accrual generation is expected to be more than sufficient to service the same. Moreover, the company has recently availed new sanctions of limits from a few banks for meeting its incremental working capital and capex funding requirements, which will support the liquidity position further.

Rating sensitivities

Positive factors – ICRA could upgrade NTF's ratings if the company reports healthy revenue growth and internal accrual generation, resulting in strengthening of its debt protection metrics and liquidity profile. Specific credit metrics that could lead to a rating upgrade include Total Debt/OPBDITA of less than 2.3 times on a sustained basis.

Negative factors – Negative pressure on NTF's ratings could arise if considerable decline in internal accrual generation, significant debt-funded capex or deterioration in working capital cycle, result in weakening of the company's credit metrics and liquidity position. Specific credit metrics that could lead to a rating downgrade include interest cover of less than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology –Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1996, NTF is involved in manufacturing plastic components, as well as exterior and interior auto components for leading automotive OEMs in India. The company has been promoted by the Jain family, who have an extensive experience of more than three decades in the business. NTF's manufacturing units are spread across five states in India, namely, Haryana (Manesar), Maharashtra (Pune), Rajasthan (Neemrana), Gujarat (Sanand and Naviyani) and Karnataka (Bangalore).

Key financial indicators (audited)

NTF – Standalone	FY2022	FY2023
Operating income	370.8	578.2
PAT	12.6	13.6
OPBDIT/OI	13.7%	9.9%
PAT/OI	3.4%	2.4%
Total outside liabilities/Tangible net worth (times)	3.0	3.4
Total debt/OPBDIT (times)	2.2	4.5
Interest coverage (times)	2.1	2.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA:

CRA	Date	Rating Action
Brickwork Ratings	September 26, 2023	BWR BBB-/Stable/A3; ISSUER NOT COOPERATING/ Downgraded
Brickwork Ratings	March 21, 2024	BWR BB+/Stable/A4+; Continues to be in ISSUER NOT COOPERATING category/ Downgraded

Source: Company

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 29, 2024	-	Jan 31, 2023	-
1	**Fund-based – Term Loan^**	Long-term	102.00	52.00	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB+ (Stable)	-
2	**Fund-based – Cash Credit^**	Long-term	140.00	-	**[ICRA]BBB+ (Stable)**	-	[ICRA]BBB+ (Stable)	-
3	**Non-fund based limits**	Short-term	34.00	-	**[ICRA]A2**	-	[ICRA]A2	-
4	**Unallocated**	Long-term/ Short-term	-	-	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-

^includes proposed facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limits – Term Loan	Simple
Long-term – Fund-based limits – Cash Credit	Simple
Short-term – Non-fund based limits	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	**Term Loans^**	FY2020-FY2024	~9.00%	FY2027-FY2029	102.00	[ICRA]BBB+ (Stable)
NA	**Cash Credit^**	-	-	-	140.00	[ICRA]BBB+ (Stable)
NA	**Non-fund based limits**	-	-	-	34.00	[ICRA]A2

Source: Company; ^includes proposed facilities

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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About ICRA Limited:

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