

July 30, 2024

Naxnova Technologies Private Limited (Erstwhile known as Classic Stripes 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 / Term Loans	115.00	443.00	[ICRA]A (Stable); reaffirmed and assigned for enhanced amount
Long Term / Short Term – Fund Based/Non-Fund Based – Working Capital Facilities	22.00	93.00	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed and assigned for enhanced amount
Long Term / Short Term - Unallocated Limits	44.00	0.00	-
Total	181.00	536.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to factor in the established track record of Naxnova Technologies Private Limited (NTPL) in the automotive decal manufacturing segment with an operational record of over three decades. NTPL has a dominant share in the domestic automotive decal market, particularly in the two-wheelers (2W) segment, catering to several leading 2W original equipment manufacturers (OEM). NTPL's exclusive supplier status for Hero MotoCorp Ltd. (HMCL), along with a healthy wallet share with other leading 2W OEMs such as Bajaj Auto Ltd. (BAL), TVS Motors, India Yamaha Motor Private Limited (Yamaha), etc, along with addition of new customers in 2W as well as white good electronics provides sufficient revenue visibility to the company. Moreover, with its increasing presence in the overseas markets, NTPL shows moderate geographical diversification as well. Besides, NTPL's plans to expand in the printed electronics space are expected to materialise in the next 1-1.5 years as the technical and financial synergies from the proposed inorganic acquisitions come into play. The ratings also factor in the robust profitability metrics demonstrated by NTPL over the years, but ICRA notes that in the medium term, post the acquisition, the profitability metrics would moderate on a consolidated basis. This would be on the back of higher finance costs due to the debt-funded acquisition, and integration expenses of the acquired entities.

The ratings are constrained by a relatively large acquisition of 3 entities, with total outflow of ~Rs. 460 crore (including part prepayment of existing debt of Rs. 30 crore) which is primarily funded by debt of Rs. 400 crore. The higher quantum of debt would also constrict the coverage metrics in the near term with net debt to OPBITDA expected to stay in the range of 1.5-1.8 in FY2025 (0.3 in FY2024). In addition, the repayment schedule of the term debt is front ended, which would result in DSCR falling to 1.3-1.5 in FY2025 (compared to 2.1 in FY2024). In addition, NTPL is exposed to integration risks of the acquired entity, given the different geography, customer base, regulatory and employee retention aspects. As per the management, NTPL is working closely with target company's promoter for smooth transitioning. However, ICRA notes that the acquisition adds value to NTPL by supplementing the company's printed electronic product segment, as well as getting new product lines, getting access to over 100 patents, and new global customer base (including leading luxury car OEMs, airline OEMs, and top companies in the medical equipment sector). ICRA notes that the acquired entities are operational with steady revenue and operating profitability base.

The ratings also factor in NTPL's healthy financial risk profile, characterised by healthy operating margins (above 30% on a sustained basis till FY2024) and a comfortable gearing of 0.3 times as on March 31, 2024. ICRA notes that the company's debt protection metrics remained healthy in FY2024, with net debt / OPBITDA of 0.3 times, which is expected to increase sharply in FY2025 on the back of debt-funded inorganic acquisitions.

The ratings also factor in the investments made by NTPL in its Group companies and startups, which are operating in unrelated lines of businesses, and in other non-Group ventures. While NTPL has demerged its investments in real estate to a separate

entity, as it is a non-core segment of its business, ICRA would continue to monitor developments concerning any further financial support, stake sale or investments from NTPL in Group companies / outside ventures.

The outlook for NTPL's long-term rating continues to remain Stable on the back of an established client base, and long track record of the company in having a sustained growth with healthy profitability.

Key rating drivers and their description

Credit strengths

Established track record and proven expertise in automotive decal manufacturing – With its operational track record spanning over three decades, NTPL demonstrates a proven expertise in automotive decal manufacturing. Its established brand presence has ensured a reputed clientele, and also helped in acquiring new customers, leading to sufficient revenue visibility and supporting its growth potential.

Dominant market share in the domestic automotive decal market; moderate geographic diversification with presence in overseas markets – NTPL is a leading manufacturer of automotive decals in the domestic market, with a focus on the 2W space. It faces limited competition in the domestic market, reflected in healthy margins maintained over the past several years. The revenues are also geographically diversified, with 14% of its revenues derived from the overseas markets in FY2024, and the same continues to be on an uptrend. Additionally, the three European acquisitions are expected to enhance NTPL's geographical diversification by allowing them access to their products and overseas clientele.

Comfortable profitability metrics on standalone business but consolidated results expected to moderate post acquisition – Aided by its technical expertise developed over the years and limited competition in the domestic market, NTPL has demonstrated robust profitability metrics over the years, as reflected in the operating margin of more than 30% over the past several years. However, with acquisitions, the margins are expected to moderate and stay in the range of 22-27% in FY2025 on a consolidated basis in near term. Nevertheless, comfortable profitability coupled with revenue expansion are likely to continue to support its earnings and accruals, going forward as well.

Plans to expand in the printed electronics segment to support business prospects – NTPL plans to increase its presence in the printed electronics segment to cater to automotive, medical equipment and white goods products, over the medium term. Further, technological benefits from the acquisitions will increase NTPL's presence in printed electronics and fasten the path to product commercialisation. This is expected to provide the company with revenue growth and diversification benefits, and a supportive margin profile, going forward.

Credit challenges

Debt funded capex stretches coverage ratios in the medium term – NTPL's large debt funded acquisition of European entities with total outflow of ~Rs. 460 crore (including part prepayment of existing debt of Rs. 30 crore) which is primarily funded by debt of Rs. 400 crore. The higher quantum of debt would also constrict the coverage metrics in the near term with net debt by OPBITDA expected in the range of 1.5-1.8 in FY2025 (0.3 in FY2024). In addition, the repayment schedule of the term debt is front ended, which would result in DSCR falling to 1.3-1.5 in FY2025 (compared to 2.1 in FY2024). Hence, the acquisition will stretch the coverage ratios in the medium term, however, higher repayment obligations in the medium term would further improve the coverage metrics, going forward.

Integration risk on the new acquisition – NTPL is in the process of completing the acquisition of three entities, based out of Germany, Belgium and Austria. These are operating entities, with a steady revenue, customer and employee base. Integrating the entities has operational and cultural difficulties, and NTPL's ability to execute the same would remain a key point to monitor.

Exposure to cyclical 2W automotive segment; any segment-specific down turns could impact business performance, however, business from acquisitions may reduce concentration risk in future – With around 80% of NTPL's standalone revenues derived from 2W OEMs, NTPL is exposed to the cyclicity and downturns specific to the domestic 2W automotive

industry. However, the company's efforts to diversify into the printed electronics space, as well as increase presence in overseas markets, are expected to mitigate this risk over the medium term. Additionally, integration of new products, access to new clientele and incremental business from acquisitions are also expected to reduce the concentration risk in the future.

Moderate customer concentration risk – With its top customer contributing 50% to the overall revenues in FY2024, NTPL remains exposed to customer concentration risk. However, the company has recently added a few new customers across various segments, which would help mitigate this risk over the medium term. The expected build-up of clientele in the printed electronics business could further reduce the customer concentration risk in the medium to long-term.

Sizeable investments in group companies and other ventures – NTPL has extended sizeable financial support to the Group companies and subsidiaries engaged in unrelated lines of business, with the overall funding of ~Rs. 59 crore as on March 31, 2024. However, the company is taking steps to reduce its exposure to such unrelated businesses as it has completed demerger of its investments in the real estate segment into a separate entity, to focus on its core business. Nevertheless, ICRA notes that the company has made few other debt-funded investments in non-Group entities in the past, commensurate returns from which remain a key monitorable going forward.

Liquidity position: Adequate

The company's liquidity profile is **adequate**, supported by healthy cash flow generation of Rs. 100-120 crore per annum, which should enable the company to comfortably meet its debt repayment obligations (expected to be around ~Rs. 92 crore per annum) and also fund the routine capital expenditure requirements (Rs. 20-25 crore annually) over the near-to-medium term. The liquidity position is further supported by unencumbered cash and liquid investments (~Rs. 12+ crore as on March 31, 2024) and unutilised bank lines of ~Rs. 54 crore as on March 31, 2024. However, large investment requirements, if any, for expanding in the printed electronics space, are expected to be met from a mix of incremental external borrowings and internal accruals.

Rating sensitivities

Positive factors – NTPL's ratings may be upgraded if there is a significant and sustained improvement in its earnings and debt coverage metrics.

Negative factors – A rating downgrade could be triggered by muted demand from key end-user industries exerting pressure on the company's profitability and coverage indicators. A deterioration in coverage indicators, i.e., Total debt/OPBIDTA above 2.0 times on a sustained basis might also lead to a downward rating. Any impact on the capital structure due to a distressed Group entity financially related with NTPL, or in case of further large debt-funded investments that impact NTPL's credit profile on a sustained basis, may also warrant a downward rating.

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	For arriving at the ratings, ICRA has considered the consolidated financials of NTPL and its three European acquisitions.

Note: NTPL did not share audited financial statements of the acquisitions and hence the financials of the target companies are prepared on a best effort basis

About the company

Naxnova Technologies Pvt Ltd (NTPL) erstwhile known as Classic Stripes Private Limited, established in 1987, is one of the leading manufacturers of automotive decals in India. The company offers end-to-end solutions ranging from design and product development to printing, fabrication, installation and application. It has an installed manufacturing capacity of around 350 million units of decals per annum. It caters to the decal requirements, primarily of two-wheelers, followed by four-wheelers, commercial vehicles, construction equipment, tractors, recreational vehicles, lawn mowers and power-sport vehicles among others. Automotive decals, domed decals, 3D badging and printed electronic products are some of the major products offered by NTPL. At present, the company operates three manufacturing plants in Pelhar (Maharashtra), Sanand (Gujarat), and Haridwar (Uttarakhand). It is the flagship company of the Astarc Group, which has presence across multiple businesses such as real estate, power, venture funding etc.

Key financial indicators

Naxnova Technologies Pvt Ltd	FY2023	FY2024*
Operating income	435.2	477.6
PAT	96.3	104.6
OPBDIT/OI	36.9%	36.5%
PAT/OI	22.1%	21.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.5
Total debt/OPBDIT (times)	0.9	0.6
Interest coverage (times)	11.4	13.2

Source: Company, ICRA Research; * Provisional numbers; 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 (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 30, 2024	Apr 6, 2023	-	Feb 21, 2022
1 Term Loan	Long-term	443.00	[ICRA]A(Stable)	[ICRA]A(Stable)	-	[ICRA]A(Stable)
2 Fund-based / Non Fund-based Working Capital Facilities	Long-term / Short-term	93.00	[ICRA]A(Stable) / [ICRA]A2+	[ICRA]A(Stable)/ [ICRA]A2+	-	-
3 Unallocated Limits	Long-term / Short-term	0.00	-	[ICRA]A(Stable)/ [ICRA]A2+	-	-
4 Cash Credit	Long-term	0.00	-	-	-	[ICRA]A(Stable)
5 Non Fund-based Facilities	Short-term	0.00	-	-	-	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based / Term Loan	Simple
Long Term / Short Term – Fund Based / Non Fund Based – Working Capital Facilities	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based Term loan	FY2016, FY2023 FY2024, & FY2025	NA	FY2029- FY2030	443.0	[ICRA]A (Stable)
NA	Long-term/ Short term - fund based/ Non-fund based working capital facilities	NA	NA	NA	93	[ICRA]A (Stable)/[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership [#]	Consolidation Approach
Quad Industries	-	Full Consolidation
Advanced Thermal Technologies	-	Full Consolidation
Acquisition*	-	Full Consolidation

Note: #: Ownership details of the entities are not available as the transaction is yet to be concluded.

*: Name of one of the acquired entity is not shared with ICRA as the transaction is yet to be concluded.

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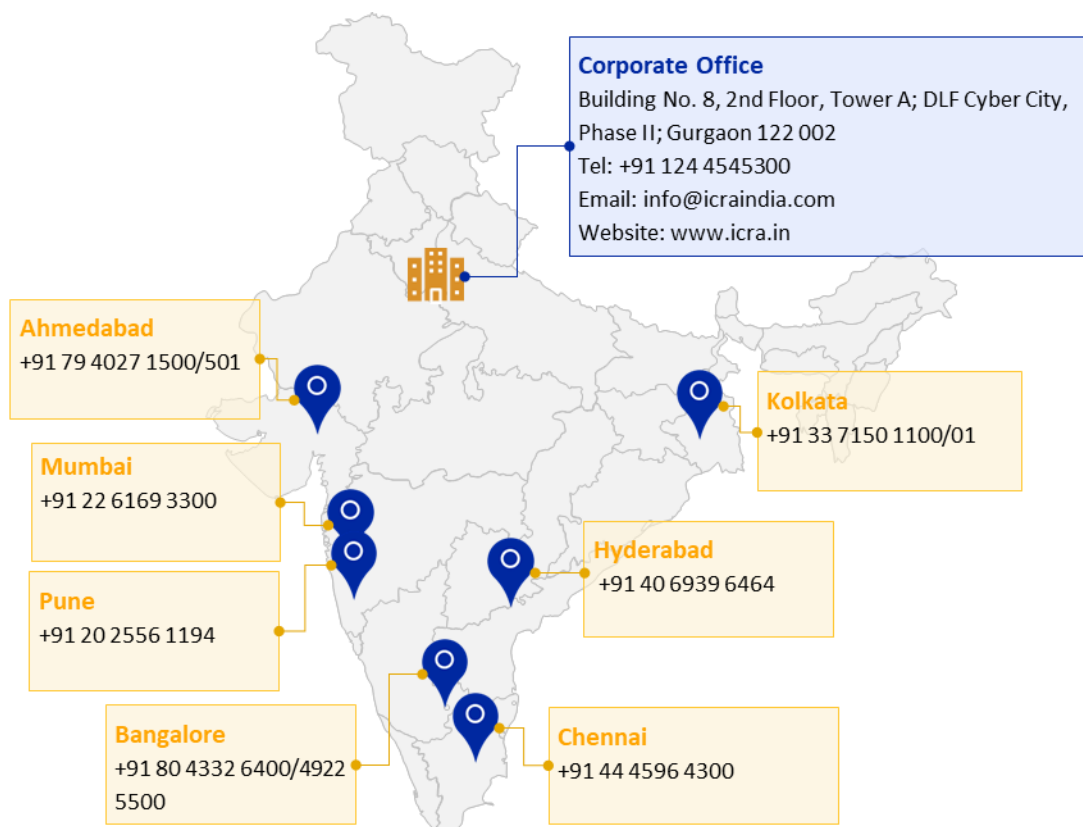


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