October 08, 2024

NTECK Automotive Private Limited: Ratings reaffirmed and removed from 'Issuer Non Cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]BBB (Stable); reaffirmed and removed from Issuer Not Cooperating category
Total	-	-	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has reaffirmed the rating for NTECK Automotive Private Limited (Nteck) and removed the same from 'Issuer Not Cooperating' category, based on adequate information received from the client for carrying out a detailed credit assessment.

The rating action factors in Nteck's established operational 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. Leveraging on the same, Nteck reported healthy growth in its operating income to Rs. 253 crore in FY2024 from Rs. 195 crore in FY2023. Moreover, steady internal accrual generation and low debt-funded capex have continued its low reliance on debt, translating into a comfortable capital structure and healthy coverage metrics for Nteck. The rating also continues to draw comfort from the benefits derived by Nteck 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.

However, the rating continues to remain 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). This, coupled with limited backward integration of operations and the competitive nature of the industry, resulted in moderate scale of operations and limited scope for margin expansion in profitability. However, the risks are 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 holding 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, with 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 established business relationships 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 have led to a comfortable capital structure for the company. Further, given that the borrowings are in foreign currency, lower interest cost coupled with increasing operating profits has translated into sustenance of its healthy credit metrics, as reflected in Total Debt/OPBITDA of 0.1x as of March 31, 2024 (0.4x as of March 31, 2023). 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. 253 crore in FY2024 from Rs. 194 crore in FY2023, Nteck's scale of operations has remained moderate relative to the size of the industry. Its profitability has also moderated 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 consists of two products at present. Moreover, the customer concentration risk 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. Also, Nteck has added one new customer, however its share remains minimal.

Vulnerability of revenues to cyclicality and impending electrification of the automotive industry - The company derives its entire revenues from the automotive industry, mainly from the PV segment, which exposes it to competitive intensity and inherent cyclicality. 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. 19 crore and undrawn bank lines of ~Rs. 30 crore as of March 31, 2024. Further, the company has minimal debt repayment obligations of Rs. 1.3 crore and Rs. 0.7 crore over FY2025 and FY2026, 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 is Total Debt/OPBITDA higher than 2.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Auto Components](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Nteck, formerly known as KHM Drive Systems Private Limited, was established in 2011 as a tier-1 supplier of automotive components, mainly gear parts, to MSIL. The company has two major products, shifter fork and shift tower, which find application in car gear systems and is manufactured by assembly lines and welding process in its sole manufacturing unit in IMT Manesar, Haryana. The company is supported by Japan-based design and machining components manufacturer, Koritu Company Limited (Koritu), which holds the majority stake of 92.5% in the company.

Key financial indicators (audited)

Nteck - Standalone	FY2023	FY2024*
Operating income	194.6	253.0
PAT	8.1	12.2
OPBDIT/OI	9.1%	9.0%
PAT/OI	4.2%	4.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.3
Total debt/OPBDIT (times)	0.4	0.1
Interest coverage (times)	92.3	92.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts 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

	Current (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Oct 8, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Issuer rating	Long Term	-	[ICRA]BBB (Stable)	14-Aug-24	[ICRA]BBB (Stable); ISSUER NOT COOPERATING	22-May-23	[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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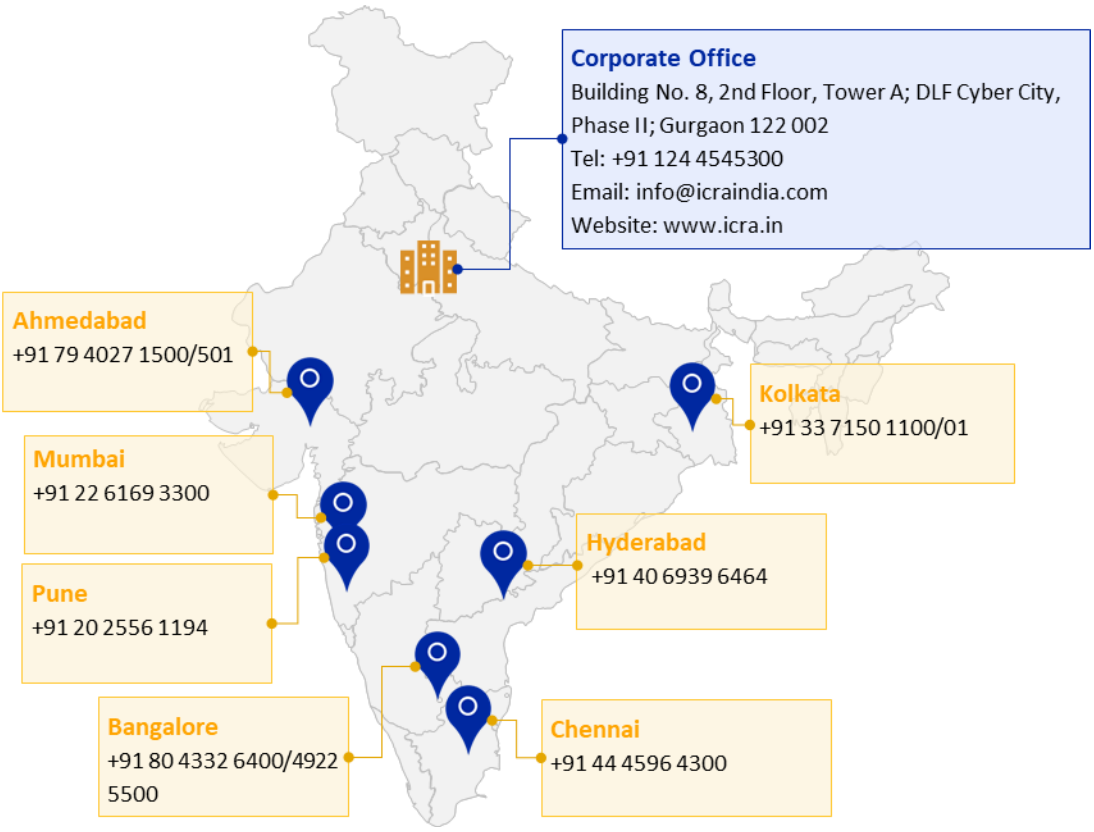

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