

Roots Industries India Limited

March 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	51.99 (Enhanced from 44.35)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.50	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	54.49 (Rs. Fifty-Four Crore and Forty-Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Roots Industries India Limited (RIIL) continue to derive strength from the vast experience of the promoters, well-established image of the "Roots" brand in the electronic horn segment along with dominant share in the replacement market supported by an extensive dealer network and RIIL's exclusive supplier status to reputed international original equipment manufacturers (OEMs). The ratings also factor in RIIL's stable operational performance with improved revenues from HPED division, comfortable financial risk profile & debt coverage indicators.

The ratings are, however, constrained by the small revenue base with considerable dependence on a single product basket, presence of large number of unorganised players in the replacement market, exposure to volatility in raw material prices and elongated receivables period.

Rating Sensitivities

Positive Factors

- Consistent growth in the scale of operations with diversification into multiple product segments
- Sustainable improvement in operating margins upwards of 13%-14% by focusing on higher margin products

Negative Factors

- Decline in profit margins on a consistent basis
- Any large debt-funded capex leading to deterioration in capital structure or increase in leverage ratios above the range of 0.5-0.75x

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of the promoter

RIIL is part of the Roots group, which has a track record of over four decades. Roots group is one of the leading business houses in Coimbatore, with ten companies under its umbrella, manufacturing diverse auto ancillary products which include horns, aluminium castings, plastic components, precision components, cleaning equipment etc. RIIL is led by Mr K Ramasamy, a first-generation entrepreneur and technocrat.

Dominant share in the electric horn replacement market with strong dealer network

RIIL is one of the leading manufacturers and a well-established player in the electric horns market in India, with a wide range of products. The company manufactures about 15 families of horns of differing types (more than 700 variants), sizes and performance. The company has a strong distribution network of over 40 distributors, 3320 dealers and offers after-sales service in around 170 service centres all over India.

Reputed international OEM clients:

The company has reputed international OEMs in its client portfolio, which includes Harley Davidson Motor Company (exclusive supplier for its worldwide operations), Navistar Trucks, Daimler Chrysler, Mitsubishi, Nissan among others for many of whom RIIL is the exclusive supplier, reflecting on its capabilities and quality standards. The top 10 customers (Horns + HPED) contributed to 44.52% of total income in FY21 as against 33.78% in FY20.

Stable operational performance supported by improved contribution from the HPED division

The total operating income of the company witnessed a growth of 19% from Rs.273.90 crore in FY20 to Rs.326.73 crore in FY21 on back of revenue growth in HPED segment. The revenue generated from the High Precision Engineering Division (HPED) has been consistently growing year on year with the company catering to majorly medical equipment manufacturers. With a revenue

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

share of 15% in FY16, the division contributed 37.3% in FY21. Post the outbreak of Covid-19, there had been a significant surge in orders received under this division as RIIL manufactures oxygen regulators and cart assembly for ventilators. Despite the significant de growth in the auto sector and continuous slowdown for the past two years, the company has been able to maintain its stable performance year on year due to its mix of replacement & OEM as well as growing sales from other divisions.

Comfortable Financial risk profile & debt coverage indicators

With conservative debt funded capex in the past, the capital structure remains comfortable with overall gearing of 0.18x (PY: 0.20x) as on March 31, 2021. The debt coverage indicators stood comfortable with total debt/ GCA of 0.79 years as on March 31, 2021, and interest coverage of 17.65x in FY21.

Key Rating Weaknesses

Small revenue base with considerable dependence on a single product basket

Though the company had been operational for nearly 3 decades, the scale of operations stood relatively smaller with total operating income of Rs.326 crore in FY21 (PY: Rs.273 crore). The sales are concentrated towards horns contributing to 57.8% (PY: 72.30%) of total revenue in FY21.

Volatile margins susceptible to fluctuations in raw material prices & foreign exchange risk

The PBILDT margins of the company have exhibited volatility in the past and have remained in the range of 13-15% in the last three years. Raw material prices (mainly consisting of Cold rolled carbon steel (CRCS), Grill and copper wire) have been volatile in the past. As the company caters predominantly to the replacement market, it has some pricing flexibility to pass on the increase in raw material costs unlike sales to OEMs. The company's margins are also exposed to foreign currency fluctuations since it has both exports as well as imports. Foreign exposure is hedged by way of forward contracts and natural hedge and the balance 50% remains open.

Liquidity: Adequate

Liquidity is adequate marked by healthy cash accruals of Rs. 36.44 crore and debt repayment obligations of Rs. 5.17 crore for FY22. As on March 31, 2021, the current ratio of the company stood comfortable to 1.80 times (PY: 2.08x). The average working capital utilization of the company for the twelve months ended January 2022 was 50%. The operating cycle of the company improved to 128 days for FY21 mainly on account of improved collections. The receivables period stood moderately high at 94 days because, the replacement market sales which comprises of company's 70% income, happens through dealers and distributors who gets extended credit period compared to OEM sales. However, the company had not faced any collection issues in its replacement market even during the Covid times. The company had a free cash and bank balance of Rs. 19.80 crore as on December 31, 2021 (PY: Rs.25.76 crore). Going forward, RIIL's liquidity is expected to remain comfortable on the back of healthy cash accruals.

Analytical approach: Standalone.

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

About the Company

RIIL is a Coimbatore-based company engaged in manufacture of electric horns for automobiles. RIIL was incorporated as a private limited company in 1990 to take over the operations of American Auto Service, another group firm started by the group's chairman, Mr K Ramasamy, in 1970. RIIL was subsequently converted to a public limited company in 1994. The company also caters to the requirements of medical equipment manufacturers in the healthcare industry out of its High Precision Engineering Components Division (HPED) and is engaged in the trading of automobile parts and manufacturing of furniture.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22(UA)
Total operating income	273.90	326.73	287.93
PBILDT	38.29	49.07	34.20
PAT	16.32	24.88	16.74
Overall gearing (times)	0.20	0.18	NA
Interest coverage (times)	10.88	17.65	16.52

A-Audited; UA- Unaudited.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	42.00	CARE A; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	1.75	CARE A1
Non-fund-based - ST-Letter of credit		-	-	-	0.75	CARE A1
Fund-based - LT-Term Loan		-	-	Mar 2024	9.99	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	42.00	CARE A; Stable	-	1)CARE A; Stable (26-Mar-21)	1)CARE A; Stable (06-Mar-20)	1)CARE A; Positive (14-Mar-19)
2	Non-fund-based - ST-Bank Guarantee	ST	1.75	CARE A1	-	1)CARE A1 (26-Mar-21)	1)CARE A1 (06-Mar-20)	1)CARE A1 (14-Mar-19)
3	Non-fund-based - ST-Letter of credit	ST	0.75	CARE A1	-	1)CARE A1 (26-Mar-21)	1)CARE A1 (06-Mar-20)	1)CARE A1 (14-Mar-19)
4	Fund-based - ST-EPC/PSC	ST	-	-	-	1)Withdrawn (26-Mar-21)	1)CARE A1 (06-Mar-20)	1)CARE A1 (14-Mar-19)
5	Fund-based - LT-Term Loan	LT	9.99	CARE A; Stable	-	1)CARE A; Stable (26-Mar-21)	1)CARE A; Stable (06-Mar-20)	1)CARE A; Positive (14-Mar-19)

* Long Term / Short Term

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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

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