

Roots Industries India Private Limited (Erstwhile Roots Industries India Limited)

March 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	115.39 (Enhanced from 90.98)	CARE A; Stable	Reaffirmed
Short-term bank facilities	2.50	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of Roots Industries India Private Limited (RIIPL) continue to derive strength from the vast experience of the promoters, well-established image of the "Roots" brand in the electronic horn segment, dominant share in the replacement market supported by an extensive dealer network, and RIIPL's exclusive supplier status to reputed international original equipment manufacturers (OEMs). The ratings take note of the increasing share of the High Precision Engineering components division (HPED) segment, which has contributed to the growth in scale of operations over the last few years and comfortable financial risk profile market by comfortable gearing and debt coverage indicators.

The ratings are, however, constrained by the medium scale of operations, presence of large number of unorganised players in the replacement market, exposure to volatility in raw material prices and elongated operating cycle.

Rating sensitivities: Factors likely to lead to rating actions

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 the profit margins on a consistent basis
- Any large debt-funded capex leading to deterioration in capital structure or increased in leverage ratios above the range of 0.50-0.70x

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects CARE Ratings Limited's (CARE Ratings') belief that the company is likely to sustain its growth in scale of operations with focus on diversification into multiple product segments and maintain comfortable capital structure.

Detailed description of the key rating drivers:

Key strengths

Established track record of the promoters:

RIIPL is part of the Roots group, which has a track record of over four decades. The Roots group is one of the leading business houses in Coimbatore, with 10 companies under its umbrella, manufacturing diverse auto ancillary products including horns, aluminium castings, plastic components, precision components, and cleaning equipment among others. RIIPL is led by K Ramasamy, a first-generation entrepreneur and technocrat. He is supported by Mr. Varun Kandasamy, second-generation entrepreneur who is also among the board of directors of various Roots group of companies. The company also has experienced management team to take care of day-to-day operations.

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

RIIPL 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. RIIPL has established a brand and track record especially in the replacement market. The company has a strong distribution network of over 40 distributors, 31 dealers, 3,320 dealers and offers after-sales service in around 170 service centres all over India, giving RIIPL an advantage over other players.

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

Reputed international OEM clients:

RIIPL has reputed international OEMs in its client portfolio, which includes Harley Davidson Motor Company, Bosch, Navistar Trucks, Circor Aerospace Inc, Daimler Chrysler, BMW, Mitsubishi, Nissan among others for many of whom RIIPL is the exclusive supplier, reflecting on its capabilities and quality standards. The customer base is diversified with top five customers contributing 11.59% of total income in FY23 as against 18.81% in FY22.

Consistent growth in income, however stable cash accruals:

The total operating income of the company witnessed growth of 17% in FY23 to ₹460.87 crore in FY23 from ₹392.85 crore in FY22 on back of improved demand in automobile and HPED segment. The company has been able to maintain its growth in horns segment due to healthy mix of replacement and OEM sales. However, despite the growth in income over the years, the net profits remained relatively stable in the range of ₹24 crore to ₹26 crore while gross cash accruals (GCA) stood in the range of ₹36 crore to ₹39 crore over the past three years ended FY23 on account of higher raw material prices and increased research and development expenses.

Comfortable financial risk profile and debt coverage indicators:

The overall gearing of the company stood comfortable at 0.31x as on March 31, 2023 (PY: 0.33x). In Q4FY22 and FY23, RIIPL had completed capex of around ₹33 crores (funded by term loans of ₹20 crore and rest by accruals) towards shifting the machines of HPED division from rented premises to its own. Nevertheless, the capital structure is expected to remain comfortable in near term with no major debt-funded capex. Debt coverage indicators also stood comfortable with total debt/ GCA of 1.80x (PY: 1.83x) as on March 31, 2023, and interest coverage of 9.16x in FY23.

Key weaknesses**Volatile margins susceptible to fluctuations in raw materials prices and foreign exchange risk:**

Raw material prices (mainly consisting of Cold rolled carbon steel (CRCS), Grill and copper wire) have been volatile in the past. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margins of RIIPL have been volatile in the range of 12.5-15% over last three years ended FY23. The PBILDT margins moderated from 12.55% in FY22 to 11.39% in FY23 due to higher raw material prices and increased spending towards R&D and sales promotion. The PBILDT margin slightly improved to 11.55% in 9mFY24. The company's margins are also exposed to foreign currency fluctuations since it has both exports and imports.

Liquidity: Strong

Liquidity is marked by strong accruals of about ₹40 crore against repayment obligations of ₹9.68 crore in FY24 and liquid investments to the tune of ₹10.81 Crore (PY: ₹22.83 crore) as on March 31, 2023. The average working capital utilization of the company for the twelve months ended January 2024 was comfortable at 62%. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The operating cycle of the company has been high at 132 days on account of higher inventory and receivables. The replacement market sales happen through dealers and distributors who gets extended credit period compared to OEM sales. The current ratio of the company stood comfortable at 2.06x as on March 31, 2023 (PY:1.87x).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipments

Roots Industries India Private Limited (RIIPL, erstwhile Roots Industries India Limited) is a Coimbatore-based company engaged in manufacture of electric horns for automobiles. RIIPL 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, K Ramasamy, in 1970. RIIPL was subsequently converted to a public limited company in 1994. Effective May 15, 2023, the company was again converted into Private limited under current nomenclature. RIIPL has its horn manufacturing facility at Thopampatty, Coimbatore, catering primarily to the replacement market of the automobile industry. 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 (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	392.85	460.87	367.14
PBILD	49.28	52.51	42.39
PAT	23.83	25.67	19.53
Overall gearing (times)	0.33	0.31	NA
Interest coverage (times)	14.60	9.16	9.18

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	90.00	CARE A; Stable
Fund-based - LT-Term loan		-	-	June 2026	25.39	CARE A; Stable
Non-fund-based - ST-Bank guarantee		-	-	-	1.75	CARE A1
Non-fund-based - ST-Letter of credit		-	-	-	0.75	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	90.00	CARE A; Stable	-	1)CARE A; Stable (23-Feb-23)	1)CARE A; Stable (07-Mar-22)	1)CARE A; Stable (26-Mar-21)
2	Non-fund-based - ST-Bank guarantee	ST	1.75	CARE A1	-	1)CARE A1 (23-Feb-23)	1)CARE A1 (07-Mar-22)	1)CARE A1 (26-Mar-21)
3	Non-fund-based - ST-Letter of credit	ST	0.75	CARE A1	-	1)CARE A1 (23-Feb-23)	1)CARE A1 (07-Mar-22)	1)CARE A1 (26-Mar-21)
4	Fund-based - ST-EPC/PSC	ST	-	-	-	-	-	1)Withdrawn (26-Mar-21)
5	Fund-based - LT-Term loan	LT	25.39	CARE A; Stable	-	1)CARE A; Stable (23-Feb-23)	1)CARE A; Stable (07-Mar-22)	1)CARE A; Stable (26-Mar-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Annexure-6: List of all the entities consolidated: Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:

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