

Roots Industries India Limited

February 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	90.98 (Enhanced from 51.99)	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 the bank facilities of Roots Industries India Limited (RIIL) continue to derive strength from the vast experience of the promoters, and well-established image of the "Roots" brand in the electronic horn segment. The ratings also factor in the 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 derive strength from RIIL's stable operational performance, comfortable financial risk profile and debt coverage indicators.

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

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 the 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 increase in leverage ratios above the range of 0.50-0.70x.

Analytical approach: Standalone

Key strengths

Established track record of the promoters

RIIL is a 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, which include horns, aluminium castings, plastic components, precision components, cleaning equipment, etc. RIIL is led by K Ramasamy, a first-generation entrepreneur and technocrat. He is supported by 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 the day-to-day operations.

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

Reputed international OEM clients

RIIL has reputed international OEMs in its client portfolio, which includes Harley Davidson Motor Company (exclusive supplier for its worldwide operations), Navistar Trucks, Circor Aerospace Inc, Daimler Chrysler, BMW, Mitsubishi, Nissan, among others. The top 10 customers contributed to 24.51% of the total income in FY22 as against 34.55% in FY21 (refers to the period April 1 to March 31).

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

Stable operational performance supported by improved revenue from HPED and trading divisions

The total operating income (TOI) of the company witnessed a growth of 20% from ₹326.73 crore in FY21 to ₹392.85 crore in FY22 on the back of contribution from horns and traded accessories. The revenue generated from the HPED division has also been consistently growing year-on-year with the company catering to majorly medical equipment manufacturers. With a revenue share of 15% in FY16, the division has grown to contribute almost 26% in H1FY23.

Comfortable financial risk profile and debt coverage indicators

The overall gearing of the company stood comfortable at 0.33x as on March 31, 2022 (PY: 0.16x). During FY22 and H1FY23, the company incurred capex of ₹33 crore funded by term loan of ₹20 crore and rest by accruals towards shifting the HPED division from rented premises to own premise. Nevertheless, the capital structure is expected to remain comfortable. The debt coverage indicators also stood comfortable with total debt/ gross cash accruals (GCA) of 1.76 (PY: 0.77) as on March 31, 2022, and interest coverage of 14.61x in FY22.

Key weaknesses**Relatively moderate revenue base with considerable dependence on a single product basket**

Though the company had been operational for nearly three decades, the scale of operations stood relatively moderate with the TOI of ₹392.85 crore in FY22 (PY: ₹326.73 crore). The sales are concentrated towards horns contributing to 54.6% (PY: 57.8%) of the total revenue in FY22, albeit the same had declined over the years from 73.8% in FY19.

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

The raw material prices (mainly consisting of cold rolled carbon steel (CRCS), grill and copper wire) have been volatile in the past. The PBILDT margins of RIIL have been volatile in the range of 12.5-15% over last three years ended FY22. The PBILDT margins moderated from 15.02% in FY21 to 12.55% in FY22 and 10.02% in H1FY23 due to higher raw material prices. The company's margins are also exposed to foreign currency fluctuations since it has both exports as well as imports.

Industry outlook and prospects

The automotive ancillary industry is a vital part of the Indian economy. It accounts for about 2.3% of India's GDP. The industry is intertwined with the automobile industry. The success of the auto ancillary business is dependent on the demand for two-wheelers, cars, and commercial vehicles in the economy. This makes the sector cyclical as the automotive sector is largely influenced by the economic cycle. In the current business environment, there has been a steep rise in the prices of input materials like aluminium and steel used in the automotive ancillary sector for the last 18 months. However, the government action of increasing export duty on a variety of finished steel products would help the input cost for automotive ancillaries to go down. The government's initiative to expand domestic manufacturing production through the Product-Linked Incentive (PLI) Scheme has received an investment proposal of ₹45,000 crore from 20 automotive companies up to February 2022. This scheme is expected to create incremental output worth ₹231,500 crore. The capital expenditure on automotive ancillaries is expected to increase with strong demand anticipation, a greater shift toward launching new electric vehicles (EVs).

Liquidity: Strong

The liquidity of RIIL is strong marked by healthy cash accruals of ₹37.93 crore and debt repayment obligations of ₹6 crore for FY23. As on March 31, 2022, the current ratio of the company stood comfortable to 1.87x (PY: 1.82x). RIIL has been sanctioned working capital limits of ₹71 core, and the average working capital utilisation of the company for the 12 months ended January 2023 was 69%. The operating cycle of the company has been high at 118 days on account of higher inventory and receivables as the replacement market sales happen through dealers and distributors who get extended credit period compared to the OEM sales. The company had a free cash and bank balance of ₹22.83 crore as on March 31, 2022 (PY: ₹26.47 crore).

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

RIIL is a Coimbatore-based company engaged in the 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, K Ramasamy, in 1970. RIIL was subsequently converted to a public limited company in 1994. RIIL 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)	FY21 (A)	FY22 (A)	6MFY23(Prov)
Total operating income	326.73	392.85	219.42
PBILDT	49.07	49.31	21.99
PAT	25.69	25.34	9.12
Overall gearing (times)	0.16	0.33	0.38
Interest coverage (times)	17.65	14.61	10.67

A: Audited : Prov; Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the 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		-	-	-	71.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	May 2025	19.98	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	71.00	CARE A; Stable	-	1)CARE A; Stable (07-Mar-22)	1)CARE A; Stable (26-Mar-21)	1)CARE A; Stable (06-Mar-20)
2	Non-fund-based - ST-Bank Guarantee	ST	1.75	CARE A1	-	1)CARE A1 (07-Mar-22)	1)CARE A1 (26-Mar-21)	1)CARE A1 (06-Mar-20)
3	Non-fund-based - ST-Letter of credit	ST	0.75	CARE A1	-	1)CARE A1 (07-Mar-22)	1)CARE A1 (26-Mar-21)	1)CARE A1 (06-Mar-20)
4	Fund-based - ST-EPC/PSC	ST	-	-	-	-	1)Withdrawn (26-Mar-21)	1)CARE A1 (06-Mar-20)
5	Fund-based - LT-Term Loan	LT	19.98	CARE A; Stable	-	1)CARE A; Stable (07-Mar-22)	1)CARE A; Stable (26-Mar-21)	1)CARE A; Stable (06-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the 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](#)

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.

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