February 27, 2023

# Roots Cast Private Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund based- Cash credit | 15.75 | 15.75 | [ICRA]BBB (Stable); reaffirmed |
| Fund based- Term loan | 8.67 | 8.67 | [ICRA]BBB (Stable); reaffirmed |
| Non-fund based facilities | 4.00 | 4.00 | [ICRA] A3+; reaffirmed |
| **Total** | **28.42** | **28.42** | |

**Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of the ratings continues to factor in Roots Cast Private Limited's (RCPL) operational track record, its established position in aluminium die-casting and a diverse product profile. The ratings favourably note the company's established relationship with reputed customers from various sectors such as auto components, white goods, healthcare, railways, etc along with a track record of repeat orders. ICRA notes that RCPL is a part of the established Roots Group, with a demonstrated track record of operational support. The ratings also consider the 42.5% increase in operating income in FY2022 due to higher demand and capacity expansion. Further, the debt coverage indicators were comfortable with an interest coverage of 4.7 times and TD/OPBITDA of 3.3 times in FY2022.

The ratings, however, remain constrained by RCPL's moderate scale of operations, limiting the benefits arising from the economies of scale as well as other operational and financial flexibility. The ratings are further constrained by the company's moderate profitability and its working capital profile, characterised by high creditor level. The ratings consider a moderate net worth position with TOL/TNW at 2.9 times as on March 31, 2022.

The Stable outlook assigned to the company reflects ICRA's expectation that RCPL would continue to maintain its credit profile with an improvement in revenue, profit margins and liquidity position.

## Key rating drivers and their description

### Credit strengths

**Established position in aluminium die-casting industry –** RCPL is an established player in the aluminium die-casting segment and has good relationships with major customers, resulting in repeat orders. The company has a reputed clientele in the export and domestic segments. ICRA notes that RCPL is a part of the established Roots Group, which has extensive experience in auto components and industrial cleaning machines. ICRA also positively considers the operational linkages with stronger group companies.

**Moderately diversified revenue stream –** The company's products are backed by orders from customers from diverse industries such as auto components, hydraulics/pneumatics, white goods, aerospace, healthcare, railways, etc. Further, RCPL's revenue stream is diversified with presence in both the domestic and export market. Hence, its operations are protected to an extent from the cyclicality in any industry or a region. Similarly, RCPL has moderate customer concentration in the export and domestic segments. In FY2022, the company's top five customers contributed to 57% of the overall revenue.

**Healthy improvement in sales and comfortable debt protection metrics –** RCPL's revenue rose 42.5% in FY2022 and is expected to further improve in FY2023 owing to better demand and capacity expansion. The company's margins are expected to improve in FY2023 on account of reduced production of low-margin products and higher scale. The debt levels have increased in FY2022 and in the current fiscal due to the predominantly debt-funded capex towards capacity addition and modernisation. Nevertheless, with the increase in scale and expected improvement in profit margins, the overall capital structure and debt protection metrics are likely to remain comfortable – with an estimated gearing of 0.9 times and interest coverage of 4.1 times for FY2023.

## Credit challenges

**Modest scale of operations** – RCPL's scale of operations remains relatively moderate as it operates in the intensely competitive and fragmented aluminium die-casting industry. Besides the highly competitive and fragmented nature of the industry, RCPL's pricing power is limited by its clientele comprising large MNCs. Moreover, considering its moderate operations, benefits from economies of scale will be limited for the company vis-à-vis other entities with a much larger scale in this segment.

**Moderate return indicators** – The company's operating margins remain moderate (OPM of ~6.6-7.3% in past three fiscals) on account of high labour costs and job work expenses. Nonetheless, ICRA takes comfort from the realisations, which are primarily on a cost-plus basis. This provides stability to the operating margins. Further, RCPL's profitability remains relatively hedged from raw material price fluctuations due to order-backed procurement and price variation clauses in its contracts with most of its customers.

**Elevated working capital intensity** – The company's working capital intensity is elevated due to the high requirement for tooling components for ongoing product development and the manufacturing process (~115 inventory days in FY2022). A significant portion of the inventory holding is funded by creditors, resulting in high TOL/TNW of 2.9 times as on March 31, 2022. An improvement in the inventory turnaround and receivable period will be key for improving its liquidity profile in the near term.

## Liquidity position: Adequate

The company's liquidity profile is adequate with cash flow from operations estimated to be sufficient to service the debt obligations. The average working capital limit utilisation remained high at about 91% of the sanction limits of Rs. 20.75 crore for the last 16 months ended January 2023. Nevertheless, the recent enhancement in working capital limits by Rs. 5 crore provides comfort.

## Rating sensitivities

**Positive factors –** ICRA could upgrade RCPL's ratings upon a sustained increase in scale along with an improvement in the profit margins and liquidity position. A specific metric that may result in an upgrade includes DSCR above 1.6 times on a sustained basis.

**Negative factors –** Pressure on RCPL's ratings could arise if there is a significant decline in the company's revenue or profitability, which will weaken the debt protection metrics. The ratings can also be downgraded if the liquidity profile is stretched. A specific credit metric that may result in a downgrade includes interest cover of less than 3 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on RCPL's standalone financial statements. |

## About the company

RCPL, established in 1984, is involved in activities like tool design, tool manufacturing, die-casting, machining and surface finishing. It is a major player in the pressure die-casting industry, catering to industries requiring pressure-tight and porosity-free castings with critical tolerances and surface finishes. It manufactures aluminium die-casting components for automobile, healthcare and other engineering industries with a plant located in Coimbatore. It is a part of the major industrial group, Roots, and serves reputed customers in India as well as abroad such as LMW, Bosch, Philips, BSH Household Appliances etc.

### Key financial indicators

| | FY2021 (audited) | FY2022 (audited) |
|---|---|---|
| **Operating income (Rs. crore)** | 114.2 | 162.7 |
| **PAT (Rs. crore)** | 2.6 | 4.3 |
| **OPBDIT/OI (%)** | 7.1% | 6.6% |
| **RoCE (%)** | 11.1% | 14.0% |
| **Total outside liabilities/Tangible net worth (times)** | 2.6 | 2.9 |
| **Total debt/OPBDIT (times)** | 3.1 | 3.3 |
| **Interest coverage (times)** | 3.8 | 4.7 |
| **DSCR (times)** | 1.6 | 1.8 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ROCE: PBIT/Avg (Total debt + Tangible net worth + Deferred tax liability - Capital work in progress); DSCR: (PBIT + Mat credit entitlements - Fair value gains through P&L - Non-cash extraordinary gain/loss)/(Interest + Repayments made during the year).*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY 2023) | | | | Rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on February 10,2023 (Rs. crore) | Date & rating in | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | 27-Feb-2023 | 19-Nov-2021 | 6-Aug-2020 | 10-May-2019 |
| 1 | **Cash credit** | Long-term | 15.75 | - | [ICRA]BBB (Stable) | [ICRA]BBB(Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 2 | **Term loan** | Long-term | 8.67 | 8.67 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 3 | **Non-fund based** | Short-term | 4.00 | - | [ICRA] A3+ | [ICRA] A3+ | [ICRA] A3+ | [ICRA] A3+ |
| 4 | **Unallocated** | Long-term and Short-term | - | - | - | - | - | [ICRA]BBB (Stable)/ [ICRA]A3+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Fund-based - Cash credit** | Simple |

| | |
|---|---|
| **Fund based - Term loan** | Simple |
| **Non-fund-based facilities - Bank guarantee** | Very- 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-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Cash credit** | - | - | - | 15.75 | [ICRA]BBB (Stable) |
| NA | **Term loan** | FY2021 | - | FY2026 | 8.67 | [ICRA]BBB (Stable) |
| NA | **Bank guarantee** | - | - | - | 4.00 | [ICRA] A3+ |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure-2: List of entities considered for consolidated analysis- Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

## ICRA Limited

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