September 11, 2023

Roots Multiclean Limited: [ICRA]A(Stable)/[ICRA]A1 reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based cash credit	55.00	71.00	[ICRA]A (Stable); reaffirmed/ assigned
Long-term fund-based term loan	21.00	21.00	[ICRA]A (Stable); reaffirmed
Long-term unallocated	1.75	0.70	[ICRA]A (Stable); reaffirmed
Short-term non-fund based	29.50	45.55	[ICRA]A1; reaffirmed/ assigned
Total	**107.25**	**138.25**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings favourably factors in Roots Multiclean Limited's (RMCL/the company) established brand presence in the industrial cleaning segment and its healthy financial profile. Over the years, RMCL has benefited from the brand name of the Roots Group, its diverse product portfolio and clientele, and its established position as one of the leading players in the industrial cleaning segment in India.

The ratings consider a healthy revenue growth in FY2023 at Rs. 392.4 crore against Rs. 319.8 crore in FY2022; nonetheless the scale remains moderate. The company's financial risk profile remains healthy, reflected in the healthy profitability (OPBDITA/OI of 16.5% in FY2023) and strong capital structure and debt protection metrics. Going forward, ICRA expects the company to log a healthy growth in revenues along with maintaining strong debt coverage indicators.

The ratings continue to be constrained by RMCL's moderate scale of operations (despite a healthy revenue growth in FY2022 and FY2023) and intense competition. Further, the company's operating margin is exposed to the volatility in input price fluctuations, given the company's limited ability to hike prices on an immediate basis. ICRA also notes the high working capital intensity of the operations primarily due to the elevated inventory holding requirements.

The Stable outlook on RMCL's rating reflects ICRA's opinion that the company will continue to benefit from its established position as a mechanised cleaning equipment manufacturer and the favourable demand prospects which is expected to keep the earnings healthy, going forward.

Key rating drivers and their description

Credit strengths

Established brand presence and vast experience in industrial cleaning industry – RMCL was incorporated in 1992 as a part of the Roots Group based in Coimbatore to manufacture mechanised cleaning equipment. Since then, RMCL has leveraged the brand of the Roots Group and has established itself as one of the top players in the industrial cleaning segment in India. The Roots Group of companies has a track record of over four decades in diverse segments such as horns, aluminum castings, plastic components and precision components, in addition to mechanised cleaning equipment.

Diversified customer base across diverse industries – The company caters to a wide variety of customers in the manufacturing and services sectors. No client forms over 5% of the revenue in the domestic market, thereby eliminating customer concentration risk. The customer base in the domestic market is expected to expand further as the industrial cleaning products segment is in a growth phase. Apart from industries, RMCL caters to the facility management services sector wherein corporates outsource their facility management needs. It also caters to government institutions, supported by new Government initiatives such as Clean India. It has been able to cater to the demands of customers effectively because of its after-sales services.

Healthy financial risk profile – RMCL has a firm financial risk profile, reflected in its healthy profitability, comfortable capital structure and strong debt protection metrics. The company's operating profitability improved to 16.5% in FY2023 from 15% in FY2022 with the change in product mix coupled with benefit of scale. The return on capital employed (RoCE) remained strong at 20.5% in fiscal 2023, driven by healthy profitability, and is expected to sustain at over 20% over the medium term. The company's net worth is estimated to be around ~Rs. 237 crore as on March 31, 2023 based on provisional financials. The capital structure continues to be comfortable with a gearing of 0.3 times as on March 31, 2023, driven by consistently healthy cash accruals and moderate reliance on external debt for funding its working capital requirement. Further, the debt protection metrics are strong, reflected in an estimated interest coverage ratio of 10.8 times and total debt/OPBDITA of 1.0 times in FY2023.

Credit challenges

Moderate scale of operations – The moderate scale of RMCL is reflected in its revenues of less than Rs. 500 crore, albeit growing at ~19-23% over the last two years to fiscal 2023. The moderate scale, coupled with intense competition in the industrial cleaning industry, reduces the bargaining power against suppliers and customers. Going forward, ICRA expects RMCL to witness a healthy OI growth because of sustained demand, improved geographical presence, regular addition of new products and the proposed capacity expansion.

High working capital intensity - As the company manufactures a wide variety of products, it needs to maintain an inventory of finished goods and traded spares both at its factories and the branches, which along with the elongated debtors leads to high working capital intensity of operations (NWC/OI of ~40-45% in the last three fiscals). The price fluctuations in raw materials have also prompted the company to hold a higher stock of raw materials.

Profitability exposed to increase in raw material prices - The company's profitability metrics remain exposed to the fluctuation in the prices of key raw materials – steel and aluminum - and the associated lag in passing on the same to the customers. Hence, a timely pass-through of the hikes in input costs to customers remains key for RMCL's performance.

Liquidity position: Adequate

RMCL's liquidity position is likely to remain adequate, with healthy cash flow from operations against low fixed debt repayment obligations and buffer in working capital facilities (undrawn working capital limits of ~Rs. 66.04 crore as of June 2023 at a consolidated level). The average uilisation for the fund-based limits stood at ~28% (standalone) and ~47% (consolidated) during the last 15 months ended June 2023.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a significant improvement in the scale of operations and profit margins. An improved working capital cycle and liquidity position may also trigger an upgrade.

Negative factors – The ratings may be downgraded if there is a substantial decline in the scale of operations and profitability, leading to a deterioration of the key credit metrics. A large debt-funded capex or a stretch in the working capital cycle adversely impacting the liquidity profile and other key credit metrics will also affect the ratings. A total debt/OPBDITA of 2 times or above on a sustained basis at the consolidated level may also warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RMCL with its wholly-owned subsidiary – Roots Multiclean Inc., USA

About the company

RMCL, incorporated in 1992, started manufacturing mechanised cleaning equipment in the early 1990s through a techno-financial collaboration with Hako Werke GmbH, Germany. Initially, the technical alliance and joint venture partnership with Hako Werke had catapulted RMCL's global entry. RMCL later developed its own technological capabilities in product design and now launches its own products in several categories. Several RMCL products are among the leading brands in India in their respective categories. At present, the management has claimed to be the largest manufacturer and exporter of industrial cleaning equipment in India.

Key financial indicators (audited)

RMCL	Consolidated		Standalone	
	FY2022	FY2023*	FY2022	FY2023*
Operating income	319.8	392.4	263.3	328.2
PAT	25.7	37.1	24.9	35.4
OPBDIT/OI	15.0%	16.5%	17.2%	18.6%
PAT/OI	8.0%	9.5%	9.5%	10.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	0.5	0.5
Total debt/OPBDIT (times)	1.1	1.0	0.7	0.5
Interest coverage (times)	13.3	10.8	17.7	14.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore. *provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024) Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Chronology of rating history for the past 3 years: Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 11, 2023	Jun 13, 2022	Apr 05, 2021	-
1	Fund based – Cash credit	Long term	71.00	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	Fund based – Term loan	Long term	21.00	8.6	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
3	Unallocated	Long term	0.70	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
4	Non-fund based	Short term	45.55	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash credit	Simple
Fund based – Term loan	Simple
Unallocated	NA
Non-fund based	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based – Cash credit	NA	NA	NA	71.00	[ICRA]A(Stable)
NA	Long-term fund-based – Term loan	FY 2019	NA	FY 2025	21.00	[ICRA]A(Stable)
NA	Long term -Unallocated	NA	NA	NA	0.70	[ICRA]A(Stable)
NA	Short-term – Non-fund based	NA	NA	NA	45.55	[ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	RMCL Ownership	Consolidation Approach
Roots Multiclean Inc., USA	100.00%	Full Consolidation

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