

May 30, 2024

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-I

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 comfortable debt protection metrics with interest coverage of 3.8 times and TD/OPBITDA of 2.4 times in FY2023.

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 revenues remained flat at ~ Rs.180 crore in FY2024. The ratings are further constrained by the company's moderate profitability and its working capital profile, characterised by high creditor level. The ratings also consider a moderate net worth position with TOL/TNW at 2.0 times as on March 31, 2023. 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 markets. Hence, its operations are protected to an extent from the cyclicity in any industry or a region. Similarly, RCPL has moderate customer concentration in the export and domestic segments. In FY2024, the company's top five customers contributed to around 60% of the overall revenue.

Comfortable debt protection metrics – RCPL's debt levels increased in FY2024 predominantly due to the debt-funded capex towards capacity addition and modernisation. Nevertheless, the increase in scale and expected improvement in profit margins

is likely to ensure that the overall capital structure and debt protection metrics remain comfortable with an estimated gearing of 0.8 times and interest coverage of more than 4 times for FY2024.

Credit challenges

Moderate 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 the economies of scale will be limited for RCPL vis-à-vis other entities with a much larger scale in this segment.

Moderate profitability – The company’s operating margins remain moderate (OPM of ~6.6-7.9% 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 the ongoing product development and the manufacturing process (~70 inventory days in FY2024). While the holding level of raw materials is relatively low for the company, the work-in-progress inventory remains high. This is mainly because of the several processes involved in making the components. RCPL’s creditor days were at around 100 days and the debtor days at around 75 days in FY2024. A significant portion of the inventory holding is funded by creditors, resulting in high TOL/TNW of 2.0 times as on March 31, 2023.

Liquidity position: Adequate

The company’s liquidity profile is adequate with the cash flow from operations estimated to be sufficient to service the debt obligations. The average working capital limit utilisation is around 64% of the sanction limits of Rs. 20.75 crore for the last 12 months ended April 2024.

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 for 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 ratings are 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 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 (audited)

	FY2022	FY2023
Operating income	162.7	180.3
PAT	4.3	6.0
OPBDIT/OI	6.6%	7.4%
PAT/OI	2.6%	3.3%
Total outside liabilities/Tangible net worth (times)	2.9	2.0
Total debt/OPBDIT (times)	3.3	2.4
Interest coverage (times)	4.7	3.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on May 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY 2024	Date & rating in FY 2023	Date & rating in FY2022
				May 30, 2024	-	27-Feb-2023	19-Nov-2021
1 Cash credit	Long-term	15.75	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)
2 Term loan	Long-term	8.67	-	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3 Non-fund based	Short-term	4.00	-	[ICRA] A3+	-	[ICRA] A3+	[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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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 II: List of entities considered for consolidated analysis- Not applicable

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