

December 13, 2024

Roots Multiclean Limited: Long-term rating upgraded to [ICRA]A+(Stable) and short-term rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|--------------------------------------|-------------------------------------|---|
| Long-term fund-based cash credit | 71.00 | 81.00 | [ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) |
| Long-term fund-based term loan | 21.00 | 13.00 | [ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) |
| Long-term unallocated | 0.70 | 0.56 | [ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) |
| Short-term non-fund based | 45.55 | 43.69 | [ICRA]A1; reaffirmed |
| Total | 138.25 | 138.25 | |

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade factors in Roots Multiclean Limited's (RMCL/the company) robust financial risk profile, reflected in the healthy profitability and comfortable capital structure and debt protection metrics along with the increased diversification of products and customers. The ratings also factor in a healthy CAGR of 12% in revenues over the last three years with revenues increasing to ~Rs. 450 crore in FY2024. Going forward, ICRA expects the company to continue to report a healthy growth in revenues along with maintaining strong debt coverage indicators.

The ratings also factor in RMCL's established brand presence in the industrial cleaning segment. Over the years, RMCL has benefited from the brand name of the Roots Group, and its established position and brand presence as one of the leading players in the industrial cleaning segment in India.

The ratings continue to be constrained by the intense competition in the industry. 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 that are expected to keep the earnings healthy, going forward. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, which will help expand the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

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, aluminium 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 company has increased its diversification in FY2024 with the addition of new products and customers. 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 17.3% in FY2024 from 16.5% in FY2023 largely on the back of addition of new products and also due to the benefits of scale. The return on capital employed (RoCE) remained strong at 21.8% in fiscal 2024, driven by healthy profitability, and is expected to sustain at around 19-20% over the medium term. The company's net worth was around Rs. 285 crore as on March 31, 2024. The capital structure continues to be comfortable with a gearing of 0.2 times as on March 31, 2024, 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 interest coverage ratio of 15.8 times and total debt/OPBDITA of 0.8 times in FY2024.

Credit challenges

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 five 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 aluminium – and the associated lag in passing on the hike to the customers. Hence, a timely pass-through of the hikes in input costs to customers remains key for RMCL's performance.

Intense competition - The competition is highly intense in the industrial cleaning industry, reducing the bargaining power against suppliers and customers. However, going forward, ICRA expects RMCL to witness a healthy OI growth because of sustained demand, improved geographical presence and regular addition of new products.

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. 81.08 crore as of August 2024 at a consolidated level). The average utilisation of the fund-based limits stood at ~29% (consolidated) during the last 14 months ended August 2024. Besides, the entity had ~Rs. 27.20 crore in fixed deposits and another ~Rs. 20.55 crore in mutual fund investments as on September 30, 2024.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company demonstrates a significant improvement in its scale of operations while maintaining the profit margins with improved working capital cycle and liquidity position.

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 1.5 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 | |
|--|--------------|--------|------------|--------|
| | FY2023 | FY2024 | FY2023 | FY2024 |
| Operating income | 392.4 | 450.8 | 328.2 | 368.7 |
| PAT | 36.3 | 48.2 | 35.4 | 47.0 |
| OPBDIT/OI | 16.5% | 17.3% | 18.6% | 19.8% |
| PAT/OI | 9.3% | 10.7% | 10.8% | 12.7% |
| Total outside liabilities/Tangible net worth (times) | 0.6 | 0.5 | 0.5 | 0.3 |
| Total debt/OPBDIT (times) | 1.0 | 0.8 | 0.5 | 0.3 |
| Interest coverage (times) | 10.8 | 15.8 | 14.5 | 33.3 |

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 | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|----------------------------------|------------------|--------------------------|-------------------|---|------------------|-----------|------------------|-----------|------------------|
| | | | | FY2024 | | FY2023 | | FY2022 | |
| | Type | Amount rated (Rs. crore) | Dec 13, 2024 | Date | Rating | Date | Rating | Date | Rating |
| Long term-cash credit-fund based | Long term | 81.00 | [ICRA]A+ (Stable) | 11-Sep-23 | [ICRA]A (Stable) | 13-Jun-22 | [ICRA]A (Stable) | 05-Apr-21 | [ICRA]A (Stable) |
| Long term-term loan-fund based | Long term | 13.00 | [ICRA]A+ (Stable) | 11-Sep-23 | [ICRA]A (Stable) | 13-Jun-22 | [ICRA]A (Stable) | 05-Apr-21 | [ICRA]A (Stable) |
| Long term - unallocated | Long term | 0.56 | [ICRA]A+ (Stable) | 11-Sep-23 | [ICRA]A (Stable) | 13-Jun-22 | [ICRA]A (Stable) | 05-Apr-21 | [ICRA]A (Stable) |
| Short term-others-non fund based | Short term | 43.69 | [ICRA]A1 | 11-Sep-23 | [ICRA]A1 | 13-Jun-22 | [ICRA]A1 | 05-Apr-21 | [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 | 81.00 | [ICRA]A+ (Stable) |
| NA | Long-term fund-based – Term loan | Nov 29, 2019 | NA | May 17, 2028 | 13.00 | [ICRA]A+ (Stable) |
| NA | Long term - Unallocated | NA | NA | NA | 0.56 | [ICRA]A+ (Stable) |
| NA | Short-term – Non-fund based | NA | NA | NA | 43.69 | [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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About ICRA Limited:

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Branches



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