

Rolex Rings Limited



Rolex Rings Limited

Issue Opens On
July 28, 2021

Issue Closes On
July 30, 2021

Price Band (INR)
880-900

Issue Size (INR Cr)
731

Rating
SUBSCRIBE for listing gains

Rolex Rings Limited or "RR" is one of the top five forging companies in India in terms of installed capacity and a manufacturer and global supplier of hot rolled forged and machined bearing rings, and automotive components for segments of vehicles including 2W, PVs, CVs, off-highway vehicles, EVs, industrial machinery, wind turbines and railways, amongst other segments. It supplies domestically and internationally to large customers including leading bearing manufacturing companies, tier-I suppliers to global auto companies and some auto OEMs. RR is a major supplier to some of the leading players including SKF India, Schaeffler India, Timken India, NEI and NRB which together account for 81% of the market share of Indian bearing industry.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	81,22,222
Net offer (# shares)	81,22,222
Price band (INR)	880-900
Post issue MCAP (INR Cr.)	2,451

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	July 30, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 4 th Aug 2021
Initiation of Refunds	On or about 5 th Aug 2021
Credit of Equity Shares to Demat accounts	On or about 6 th Aug 2021
Commencement of Trading of Equity shares on NSE	On or about 9 th Aug 2021

Source: IPO Prospectus

Issue	# Shares	INR in Cr	%
QIB	40,61,111	366	50%
NIB	12,18,333	110	15%
Retail	28,42,778	256	35%
Net Offer	81,22,222	731	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose
Funding long-term working capital requirements (INR 45 Cr.)
General corporate purposes [●]

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	59.0%	57.6%
Others	41.01%	42.4%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Cr)	FY19	FY20	FY21
Revenue	904	666	616
EBITDA	208	131	112
EBITDA Margin	23.0%	19.6%	18.2%
PAT	59	53	87
PAT Margin	6.5%	7.9%	14.1%
Net Worth	215	268	357
RONW	27.4%	19.8%	24.4%

Source: IPO Prospectus

Rolex Rings Limited

Company Overview

Rolex Rings Limited or "RR" started as a partnership entity under the name of 'Rolex Industries' in 1977-1978 and thereafter converted into 'Rolex Rings Private Limited' in 2003, which subsequently converted into a public limited company in 2021. Company started its manufacturing operations in 1988 with the first plant set up in Rajkot and then after 2 more facilities added over time. Its manufacturing infrastructure includes high-speed hot formers from Sakamura and Hatebur and vertical forging lines from Manyo, Mistubishi, SMS Meer, Enomoto, Eumoco and conventional forging lines integrated with induction heating furnaces. A large part of RR's existing machining lines consist of spindles from DMG, FUJI, ACE, TSUGAMI, Hyundai, Mazak, Muratec and domestic CNC Turning centres as well. Currently it has 22 forging lines with a combined installed capacity of 1,44,750 MTPA, machining facilities consisting of 528 spindles with a combined installed capacity of 69 mn ppa and other machinery including heat treatment furnaces, cold rolling machines and other infrastructure.

RR is today one of the top five forging companies in India in terms of installed capacity and a manufacturer and global supplier of hot rolled forged and machined bearing rings, and automotive components for segments of vehicles including 2W, PVs, CVs, off-highway vehicles, EVs, industrial machinery, wind turbines and railways, amongst other segments. It supplies domestically and internationally to large customers including leading bearing manufacturing companies, tier-I suppliers to global auto companies and some auto OEMs. RR is a major supplier to some of the leading players including SKF India, Schaeffler India, Timken India, NEI and NRB which together account for 81% of the market share of Indian bearing industry.

Company's product portfolio includes a wide range of bearing rings, parts of gear box and automotive components. The manufacturing capabilities are complemented by its tool design, engineering and product development capabilities. It offers a diverse range of hot forged and machined alloy steel bearing rings weighing from 0.01kg to 163kg, and with inner diameter of 25 mm to outer diameter of 900 mm. This makes RR's products suitable for a wide range of end-user industries such as automotive, railways, industrial infrastructure and renewable energy. RR's revenues from sale of products can be attributed as under:

S. No	Source Of Revenue (INR Cr)	FY 21	FY20	FY19
1	Bearing rings	331	350	535
2	Auto components	237	266	294

RR supplied bearing rings and automotive components to over 60 customers in 17 countries in FY21, primarily located in India, the US, Germany, France, Italy, Czech Republic and Thailand. It has been able to maintain long standing relations with customers and 70% of its 10 largest customers for FY2021 have been with the company for over a decade. Overall, RR's revenues from operations from exports were above 50% for last 3 years. It is able to service large volume orders for its clients using its flexible manufacturing infrastructure, skills and processes to achieve operational efficiency and quality. It is able to service large volume orders for its clients using its flexible manufacturing infrastructure, skills and processes to achieve operational efficiency and quality.

Details	Unit I	Unit II	Unit III
Processes Undertaken	1. Forging 2. Heat treatment 3. Shot blasting	1. Forging 2. Heat treatment 3. Shot blasting 4. Cold rolling 5. Machining 6. Quality control and testing 7. Packing and dispatch	1. Tool and die making 2. Shot blasting 3. Machining 4. Quality control and testing 5. Finished good warehouse 6. Packing and dispatch

RR's manufacturing process requires a large amount of electricity (8.45% of Revenues for FY21), making it dependent on state electricity supply. Company is looking to de-risk dependence on changes in power tariffs and also reduce carbon footprint through investments in renewable energy. It already operates windmills with installed capacity of 8.75 MW. It is also in the process of expanding solar capacity by an installed capacity of 16 MW and has placed orders for equipment with installed capacity of 7.35 MW.

RR entered into an investment agreement with Rivendell PE LLC (formerly NSR-PE Mauritius LLC) in 2007 for an equity infusion of INR 151 Cr. Currently it holds 41.01% of Pre-Issue equity, of which 7.5mn shares (28.18% equity) will be offered for sale through IPO.

RR has defaulted in payment of certain loans in the past amounting to INR487 Cr, and subsequently underwent debt restructuring in 2013. Restructuring terms necessitated facilities to be secured by entire fixed and current assets of the Company, pledge on the promoters shareholding and requirement of pledge creation on any new securities issued to Promoters, Personal Guarantees from Promoters and corporate guarantees issued by certain Promoter Group companies. Current outstanding under the CDR as on March 31, 2021 amounted to INR 33.57 Cr (6.89% of original restructured debt), payable in quarterly instalments. Further, RR also delayed in repayment of loans for certain periods including in FY19.

Rolex Rings Limited

INVESTMENT RATIONALE

Diverse range of product portfolio with a wide user base across industries

RR manufactures a diverse range of hot forged and machined alloy steel bearing rings weighing from as low as 0.01kg to over 163kgs, and with inner diameter of 25mm to outer diameter of 900mm. This wide range helps make the products suitable for a wide range of industries including automotive, railways, industrial and renewables. RR also makes auto components such as wheel hubs, shafts and spindles and gears.

Scaleable manufacturing capabilities with locational advantage

Rolex Rings is one of the top five forging companies in India in terms of installed capacity. Its 3 facilities in Rajkot have an aggregate annual capacity of 144,750 MTPA in forging and 69 mn PPA in machining. Company has invested in quality infrastructure and processes, allowing them the ability to services high volume orders with optimal costing. It has unutilized land area which will help future expansion, while investments in renewable energy are expected to help keep power costs in check. Having the facilities in Gujarat also offers locational advantage, helping it to service various automotive clusters in North, West and South India in addition to catering to the export markets through close proximity to the ports of Kandla, Mundra and Pipavav.

Forging Lines Capacity & Utilisation

Line	No .of Lines	Achievable Capacity (in MTs.)	Capacity Utilisation (%)		
			2018-19	2019-20	2020-21
Conventional	6	11,250	64.77%	41.23%	42.01%
Manyo	6	25,000	60.55%	43.76%	33.91%
Mitshubishi	2	8,750	52.77%	40.67%	37.86%
Sakamura 160 Hot Former High Speed	1	17,500	45.61%	22.40%	32.53%
Sakamura 120 Hot Former High Speed	1	12,500	65.73%	39.79%	48.90%
Hatebur-HM75 Hot Former High Speed	1	18,750	47.42%	29.85%	32.54%
SMS-MEER	1	9,000	26.03%	36.84%	31.87%
Hatebur-HM35 Hot FoIdler High Speed	1	12,500	52.24%	37.54%	35.68%
Sakamura HFW-1000	1	18,750	38.46%	15.46%	26.28%
Enomoto Press	1	6,250	-	6.40%	24.99%
Eumoco	1	2,250	-	-	9.78%
Total	22	1,44,750	50.01%	32.92%	33.48%

Well established customer relationships over a well diversified geography

RR catered to over 60 customers in 17 countries for bearing rings and automotive components, across India, US, Germany, France, Italy, and Czech Republic and Thailand. Company has managed to win and retain clients over the long term, with 70% of top 10 customers working with the company for over a decade.

Experienced Promoters and management team with strong domain expertise

RR benefits from an experienced and hands on promoter responsible for putting best-in-class processes, suitably supported by professional management team & specialized employees. Chairman and MD founded the company in 1978 and has managed and grown the business over the last 40 years. Company's total employee strength is over 1800 including over 400 employees in quality function. RR has been able to win multiple awards and accreditations from its clients and industry associations, helping it achieve wide recognition for its service & reliability.

Rolex Rings Limited

Forward Strategy

Leveraging relationships to increase business from existing customers

RR has strong & well-established relationships with leading names in Tier-1 suppliers & OEMs. Going forward these can be leveraged to achieve increase in share of business through developing more complex, high-margin products. The knowledge about customers requirements and preferences while working with them over a long period of time enables RR to consolidate its relationships and focus on providing quality products at competitive prices.

Customer base expansion

While RR caters to over 60 countries across the globe, there are certain geographies in Europe and India where they are under-penetrated with regards to automotive components sales. Their future plans include efforts to improve market share in such regions. Sourcing new business could be possible to achieve in cases of new operating locations within the global group of existing customers. RR will also look to leverage its strong track record and capabilities to make an entry into entirely untapped markets.

Improvements in operational efficiency on continuous basis

RR is targeting to improve profitability on continuous basis by undertaking multiple initiatives including cost optimization, improvement in product mix by increased proportion of higher-value added machined products and improving capacity utilization. It also plans to work on opportunities that benefit from product improvements, besides putting dedicated R&D resources to optimize production processes. RR is also exploring and evaluating suitable opportunities to outsource non-critical operations in terms of const-benefit analysis to help it focus on delivering the best quality products in most economical and cost-effective manner.

Enhancement of manufacturing infrastructure and product portfolio

Company is working on various initiatives to evaluate potential changes in technology, market trends and changing customer preferences augment existing capabilities in machining and post machining processes. It is currently in the process of expanding cold rolling, machining and heat treatment facilities. Similarly it is constantly evaluating possibilities to diversify its product offerings in forged and machined bearing rings and automotive components. This is towards identifying both areas of cost optimisation as well as increasing the share of value-added and high-margin components.

Management

Manesh Dayashankar Madeka, Chairman and Managing Director

Manesh, together with Rupesh Dayashankar, founded Rolex Industries in 1978 which later grew and became RR. He has over 40 years of work experience in marketing, production and finance.

Bhautik Dayashankar Madeka, WTD

Bhautik holds a bachelor's degree in commerce from Ranchi University. He has over 18 years of work experience in production, planning and control. He is associated with RR since 2002.

Mihir Rupeshkumar Madeka, WTD

Mihir holds a bachelor's degree in engineering from Nagpur University. He has over 18 years of work experience in marketing functions and in the development of new customers and products. He is associated with RR since 2002.

Hiren D Doshi, CFO

Hiren joined RR as VP – Finance in 2009 and was designated as the CFO wef March 2021. He is a certified chartered accountant from ICAI. He has been responsible for the finance function of RR. Earlier he has worked with Atul Auto Limited for over 11 years.

Rolex Rings Limited

Outlook and Valuation:

RR's topline and bottomline for last 2 years has been impacted by Covid, in addition to industry slowdown which has affected other players in the industry as well. Revenues from operations for FY 21 have come in at INR 616 Cr, compared to INR 666 Cr and INR 904 Cr for FY20 and FY19 respectively. EBITDA margin were also lower at 18.12% in FY21 compared to 19.36% and 22.83% respectively for the corresponding periods. However, PAT margins have improved in FY21 to 14% in part due to deferred tax credit of INR 25 Cr. Besides residual debt from CDR package, company also has significant debt facilities to support its working capital needs. Although overall, the D/E ratio has improved from 1.8x in FY19 to 0.7x in FY21.

Company has a diverse product portfolio with a wide user base. It has long standing relationships with leading clients both in India and in exports markets which can be leveraged for increased market share and improved product mix with high-margin value added products. It also has unutilised capacity including large tracts of land which can be used to service higher customer volumes using existing infrastructure. At the same time, RR is also dependent on top 10 clients besides being open to the risk of business loss due to Covid-19. It has high proportion of unutilised capacity, besides the high degree of power and fuel costs. **At the upper band of IPO price of INR 900, it is valued at a P/E multiple of 35** (on recalculated EPS excluding the INR 25 Cr deferred tax credit) which is lower than the industry average of 83. Considering company's long standing relationships and diverse product portfolio in the wake of not so robust financials, concentrated client base and sub optimal capacity utilisation, we recommend a **'Subscribe'** for listing gains.

Peer Comparison:

Company Name	CMP (INR)	Sales (INR Cr)	Mkt Cap * (INR Cr)	EPS (INR)^	P/E (x)*	RoNW (%)
Rolex Rings Limited	(●)	620	2451	25.7	35.0	24.4%
Bharat Forge Ltd	780	6,505	36,332	-2.7	NM#	NM#
Ramkrishna Forgings Ltd	824	1,295	2,636	6.4	128.0	2.3%
MM Forgings Ltd	736	762	1,777	19.4	38.0	9.6%

Source: IPO Prospectus, KRChoksey Research ^ FY21 EPS * Estimated at the upper band price of INR 900

Risks and Concerns:

- **Promoters shareholding pledged to Consortium Lenders:** RR's loan agreements under the debt restructuring plan requires shares of promoters including certain members of promoter group to be pledged with lenders. While some of these have been released from pledge to meet requirements towards minimum shareholding as per regulations, however any excess equity shares will be required to be locked-in and pledged by the promoters.
- **Underutilisation of manufacturing capacities:** RR's capacity utilisation has generally been less than 50% over last many years, including 33.48% in FY2021. Any shortages, slowdown or shutdown could further affect its ability to utilise capacity at optimal levels.
- **High Power and Fuel costs:** RR's manufacturing process requires a substantial amount of electricity, increasing its dependence on state electricity supply. Company's power and fuel expenses amounted to INR52 Cr, INR 54 Cr, and INR 71Cr for Fiscal 2021, 2020, and 2019 respectively, which constituted 8.45%, 8.14%, and 7.91% of its revenues from operations in the respective years.
- **Impact of Covid on operations:** Company registered a dip in topline in both FY2020 and FY2021 due to impact of Covid on its operations. While the exports markets were impacted in FY20 since the detection of Covid-19 in Europe in late December 2019 and early January 2020, FY21 results were hit due to the nationwide lockdown in India in 1st and 2nd Quarter of the financial year.
- **Top 10 customers accounted for a substantial majority of revenues:** For Fiscal 2021, 2020, and 2019, top 10 customers have accounted for 72.62%, 76.94%, and 65.56% of its revenues, of which 5 customers are from India and 5 from outside India. Also, few of them could belong to the same corporate group which has the inherent risk of loss of business in case of adverse reaction by any member of such groups.

Rolex Rings Limited

Financials:

Income Statement (INR Cr)	FY19	FY20	FY21
Total Revenue from Operations	904	666	616
EBITDA	208	131	112
EBITDA Margin (%)	23.0%	19.6%	18.2%
Other Income	7	9	3
Depreciation	25	27	25
EBIT	183	104	87
Interest expense	42	32	12
Exceptional Item	0	0	0
PBT	141	72	75
Tax	82	19	-12
Share of Profit / MI	0	0	0
PAT	59	53	87
EPS (INR)	24.6	22.1	36.0

Cashflow Statement (INR Cr)	FY19	FY20	FY21
Net cash flow from operating activities	194	184	59
Net cash flow used in investing activities	-36	-14	-36
Net cash flow generated from / (used in) in financing activities	-158	-169	-20
Net increase / (decrease) in cash and cash equivalents	-1	1	3
Opening Cash and cash equivalents	1	0	1
Closing Cash and cash equivalents	0	1	5

Rolex Rings Limited

Balance Sheet (INR Cr)	FY19	FY20	FY21
ASSETS			
Fixed Assets	381	373	371
Capital work-in-progress	1	0	1
Other Intangible Assets	1	1	1
Goodwill	0	0	0
Loans & other financial assets - Non Current	16	6	14
Investments	0	0	0
Other Non-Current Assets	15	13	31
Inventories	160	131	171
Trade Receivables	181	128	171
Cash & Cash Equivalents	0	1	5
Bank Balances	5	15	6
Other Current Financial Assets	10	9	7
Other current assets	11	9	19
Total Assets	782	686	797
LIABILITIES			
Equity Share Capital	24	24	24
Reserves	191	244	333
Net Worth	215	268	357
Non-controlling interest	0	0	0
Borrowings - Non Current	91	44	32
Non Current Tax Liabilities	68	75	50
Other non current liabilities	2	3	2
Borrowings - Current	234	194	184
Trade Payables	91	74	118
Other current liabilities – financial	67	26	43
Other current liabilities	1	1	1
Provisions	1	1	1
Current Tax Liabilities	11	0	7
Total Current Liabilities	567	418	440
Total Equity and Liabilities	782	686	797

Rolex Rings Limited

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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