

# Rolex Rings

Auto Ancillary | India

IPO | 27 July 2021

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## Strong Outlook and Healthy Balance-sheet Offer Comfort

### About the Company

Rolex Rings Ltd. (RRL), incorporated in 2003, is one of the Top-5 forging companies in India. The company manufactures hot rolled forged/machine bearing rings and automotive components, which are used across segments i.e. passenger vehicles, 2-wheelers, commercial vehicles, electric vehicles, off-highway vehicles, industrial machinery, wind turbines and railways etc. RRL has a wide range of products such as automotive parts, hot forged and machined alloy steel bearing rings weighing from 0.01kg to >163kg for different industries i.e. automotive, industrial infrastructure, railways and renewable energy etc. The company supplies its products to domestic/international automotive companies and leading bearing manufacturers such as SRF India, Schaeffler India and Timken India etc. As on FY21, RRL supplied bearing rings and automotive components to >60 customers in 17 countries, primarily located in India, the US, Europe (Germany, France, Italy and Czech Republic) and Thailand. The company has been able to maintain longstanding relationship with its customers. Notably, ~70% of RRL's 10 largest customers have been with the company for over a decade. Currently, the company has 3 manufacturing plants in Rajkot with 22 forging lines and an aggregated installed capacity of 1,44,750 MTPA.

### Financials in Brief

RRL derives major a major chunk of revenue from two sources i.e. bearing rings and auto components, which recorded decline in revenue over the last three fiscals. Whilst its revenue and EBITDA clocked negative 17% and 26% CAGR, respectively over FY19-FY21, its net profit clocked a healthy 21% CAGR over the same period. Sharp reduction in finance charges due to continued debt reduction and tax credit supported net profit. Notably, while its EBITDA margin skewed to 17.7% in FY21 from 22.2% in FY19, it remains better than its peers like Bharat Forge and RK Forgings. Further, OCF generation has been steady over the last three years, while surge in working capital cycle and COVID-led disruptions impacted cash flow in FY21.

### Our View: SUBSCRIBE

The IPO is valued at 28.2x of FY21 earnings, which appears to be attractive considering peers' valuations and strong return ratios. Its peers like Bharat Forge and RK Forgings command premium valuations despite generating subpar return ratio compared to RRL. We believe strong outlook for auto ancillary companies especially the forging companies with visible pick-up in demand around the globe should aid RRL to record healthy growth in the ensuing years. Further, possibility of further improvement in balance sheet, industry-leading return ratio and healthy clientele base augur well for the company. **Hence, we recommend SUBSCRIBE to this IPO.**

#### IPO Details

Pice Band	Rs880-900
Face Value (Rs)	10
Issue Open/Closing Date	28th / 30th Jul'21
Fresh Issues (mn)	0.6
OFS (mn)	7.5
<b>Total Issue (mn)</b>	<b>8.1</b>
Minimum Bid Qty. (Nos)	16
<b>Issue Size (Rs bn)</b>	<b>7.3</b>
QIB / HNI / Retail	50% / 15% / 35%
<b>Implied Market Cap (Rs bn)</b>	<b>24.5</b>

#### Object of the Issue

- ▶ Funding long-term working capital requirement
- ▶ General corporate purposes

#### Key Risks

- ▶ High dependence on automobile sector
- ▶ Volatile raw material prices
- ▶ History of loan defaults

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	59.0	57.6
Public	41.0	42.4

#### Key Financials

(Rs bn)	FY19	FY20	FY21
Revenue	9.0	6.7	6.2
EBITDA	2.0	1.2	1.1
EBITDA Margin (%)	22.2	18.3	17.7
PAT	0.59	0.53	0.87
PAT Margin (%)	6.5	7.9	14.1
EPS (Rs)	24.6	22.1	36.0
P/E (x)	41.5	46.3	28.2
EV/EBITDA (x)	14.1	22.2	24.7
EV/Sales (x)	3.1	4.0	4.4
Net Worth	2.15	2.68	3.57
RoE (%)	27.4	19.7	24.4
OCF	1.94	1.84	0.59
OCF Yield (%)	7.91	7.50	2.41
FCF	1.57	1.68	0.20
Gross Debt	3.85	2.59	2.50
Net Debt/Equity (x)	1.77	0.91	0.67
Gross Block	4.27	4.46	4.69
Asset Turnover (x)	2.12	1.49	1.31
WCC (Days)	102	101	133

Source: RHP

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