



IPO Report

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27th July 21

Snapshot

Rolex Rings 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 two-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles, electric vehicles), industrial machinery, wind turbines and railways, amongst other segments.

VALUATION

Company is bringing the issue at price band of Rs 880-900 per share at p/e multiple of 25 on post issue FY21 eps. Company being one of the top five forging companies in India in terms of installed capacity, serves 60 customers across 17 countries that constitutes ~80% of the total market. Company has strong & sticky clientele & with company in process of expanding capacity of its solar projects by an installed capacity of 16 MW, the proposed expansion will help in reducing company's carbon footprint and expanding its profit margins. Hence, looking after all above, we recommend "Subscribe" on issue both for listing gains & long term perspective.

Price Band (Rs./Share)	880-900 per Share
Opening date of the issue	28 th July 2021
Closing Date of the issue	30 th July 2021
No of shares pre issue	23,981,090 Eq Shares
Issue size (Rs. Cr)	Rs 731 Cr
Offer For Sale (No)	75,00,000 Eq Shares
Fresh Issue	Rs 56 Cr
Face Value (Rs/ share)	Rs 10 per share
Bid Lot	16

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 4061110 Shares)
Non-Institutional	15% of the offer (Approx. 1218334 Shares)
Retail	35% of the offer (Approx. 2842778 Shares)
Lead managers	Equirus Capital Pvt Ltd, IDBI Capital Markets & Securities Ltd
	JM Financial Ltd
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

Comprehensive product portfolio

Rolex Rings have offered a diverse range of hot forged and machined alloy steel bearing rings weighing from 0.01 kilograms to over 163 kilograms, and with inner diameter of 25 millimeters to outer diameter of 900 millimeters. This makes company's products suitable for a wide range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy, among others. Company also offer auto components such as wheel hubs, shafts and spindles, gears, etc.

Long standing customer relationships and geographically diversified revenue base

For Fiscal 2021, company supplied bearing rings and automotive components to over 60 customers in 17 countries, primarily located in India, United States of America and in European countries such as Germany, France, Italy, and Czech Republic, and Thailand. Notably, company supply domestically and internationally to some of the leading manufacturers of bearings, Tier-I and Tier-II auto-component suppliers and certain auto OEMs. Company have been able to maintain long standing relations with its customers and 70% of company's 10 largest customers for Fiscal 2021 have been with company for over a decade.

Strong Manufacturing capabilities offer scale, flexibility and locational advantage

Rolex Rings is one of the top five forging companies in India in terms of installed capacity. Company started manufacturing of forging and forged products in 1988 have grown organically by setting up its second and third manufacturing plant. Company have three manufacturing units that are all in Rajkot with an annual achievable capacity of 144,750 MTPA in forging and 69 million parts per annum in machining. Company is one of the key manufacturers of bearing rings in India.



COMPANY BACKGROUND

Rolex Rings 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 two-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles, electric vehicles), industrial machinery, wind turbines and railways, amongst other segments. Company supply domestically and internationally to large marquee customers including some of the leading bearing manufacturing companies, tier-I suppliers to global auto companies and some auto OEMs. As per ICRA Report, SKF India Limited, Schaeffler India Limited Timken India Limited, NEI and NRB collectively account for 81% of the market share of Indian bearing industry. Company is one of the key manufacturers of bearing rings in India and cater to most of the leading bearing companies in India.

Rolex Rings have three manufacturing units in Rajkot. Company's manufacturing infrastructure includes high-speed hot formers from Sakamura (such as Sakamura model HBP-160, Sakamura Model HBP – 120SS and Sakamura Model: HFW-1000-4 Hot Former) and Hatebur (such as Hatebur Hotmatic – HM75XL Hot Former and Hatebur-Hotmatic HM 35 Machine) and vertical forging lines from Manyo (Manyo 600 tons Auto Forging Press), Mistubishi, SMS Meer (such as SMS MEER Ring Rolling line), Enomoto (such as Enomoto Model 1000ZESH and Servomoto Driven Screw Press 16000kN), Eumoco and conventional forging lines integrated with induction heating furnaces. A large part of company's existing machining lines consist of spindles from DMG, FUJI, ACE, TSUGAMI, Hyundai, Mazak, Muratec and domestic CNC Turning centres as well. Company have 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 million parts per annum and other machinery including heat treatment furnaces, cold rolling machines and other infrastructure.

Rolex Rings' product portfolio includes a wide range of bearing rings, parts of gear box and automotive components, among others. Company's manufacturing capabilities are complemented by its tool design, engineering and product development capabilities. Till date, company have offered a diverse range of hot forged and machined alloy steel bearing rings weighing from 0.01 kilograms to over 163 kilograms, and with inner diameter of 25 millimeters to outer diameter of 900 millimeters. This makes company's products suitable for a wide range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy, among others.

Manufacturing Facilities

The following table depicts the various processes undertaken at company's manufacturing facilities:

Unit details	Process Undertaken
Unit I, Rajkot	<ol style="list-style-type: none"> 1. Forging 2. Heat treatment 3. Shot blasting
Unit II, Rajkot	<ol style="list-style-type: none"> 1. Forging 2. Heat treatment 3. Shot blasting 4. Cold rolling 5. Machining 6. Quality control and testing 7. Packing and dispatch
Unit III, Rajkot	<ol style="list-style-type: none"> 1. Tool and die making 2. Shot blasting 3. Machining 4. Quality control and testing 5. Finished good warehouse 6. Packing and dispatch



INVESTMENT RATIONALE

<p><i>Comprehensive product portfolio</i></p>	<p>Company have a comprehensive portfolio of products in the markets in which it operate. Till date, company have offered a diverse range of hot forged and machined alloy steel bearing rings weighing from 0.01 kilograms to over 163 kilograms, and with inner diameter of 25 millimeters to outer diameter of 900 millimeters. This makes company's products suitable for a wide range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy, among others. Company also offer auto components such as wheel hubs, shafts and spindles, gears, etc. Company's strength in its product portfolio is shown by the fact that company supply domestically and internationally in each of its product segments.</p>
<p><i>Manufacturing capabilities which offer scale, flexibility and locational advantage</i></p>	<p>Company's 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 company's existing machining lines consist of spindles from DMG, FUJI, ACE, TSUGAMI, Hyundai, Mazak, Muratec and domestic CNC Turning centres as well. As on date company have 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 million parts per annum and other machinery including heat treatment furnaces, cold rolling machines and other infrastructure. While company out-source some pre-machining operations to take advantage of lower costs offered by vendors, company's infrastructure enables it to complete most of its manufacturing processes in-house which allows company to respond quickly and efficiently to any customer requirements or change in product specifications without the need to depend on any external vendors. This also helps company in closely monitoring product quality, production costs and delivery schedules.</p>
<p><i>Investments in wind and solar energy</i></p>	<p>Rolex Rings' investments in wind and solar energy helps to mitigate risks posed by changes in cost of power and fuel and helps in reducing company's carbon footprint. Company is in process of setting up a 16 MW ground mounted solar power facility at Taluka Muli (Gujarat) which should further de-risk company's business vis-à-vis the cost of power and fuel.</p> <p>For Fiscal 2021, the power generated by company's windmills and existing solar power facilities was approximately 10.1 million units as compared to the overall power units consumed by company of approximately 57.1 million units.</p> <p>As on date company has unutilized land area of 32,071.44 square metres at Rajkot which can be utilized for any further expansion. In addition, company also owns 691,312 square metres of land in Taluka Gondal (Gujarat). In addition to the above, company also owns certain other parcels of land, including for the purposes of setting up a solar plant at Taluka Muli (Gujarat).</p>



GLOBAL FOOTPRINT



OBJECTS OF ISSUE

Company proposes to utilize the Net Proceeds from the Fresh Issue towards funding the following objects:

1. Funding long-term working capital requirements; and
2. General corporate purposes

RISKS

Company’s loan agreements requires its promoters and certain members of its promoter Group to pledge Equity Shares and NCRPS of company with lenders. A breach by company of certain covenants under the financing agreements may entitle these lenders to exercise their rights under the financing agreements and reduce the shareholding of company’s promoters and certain members of the promoter group, which may adversely affect company’s business.

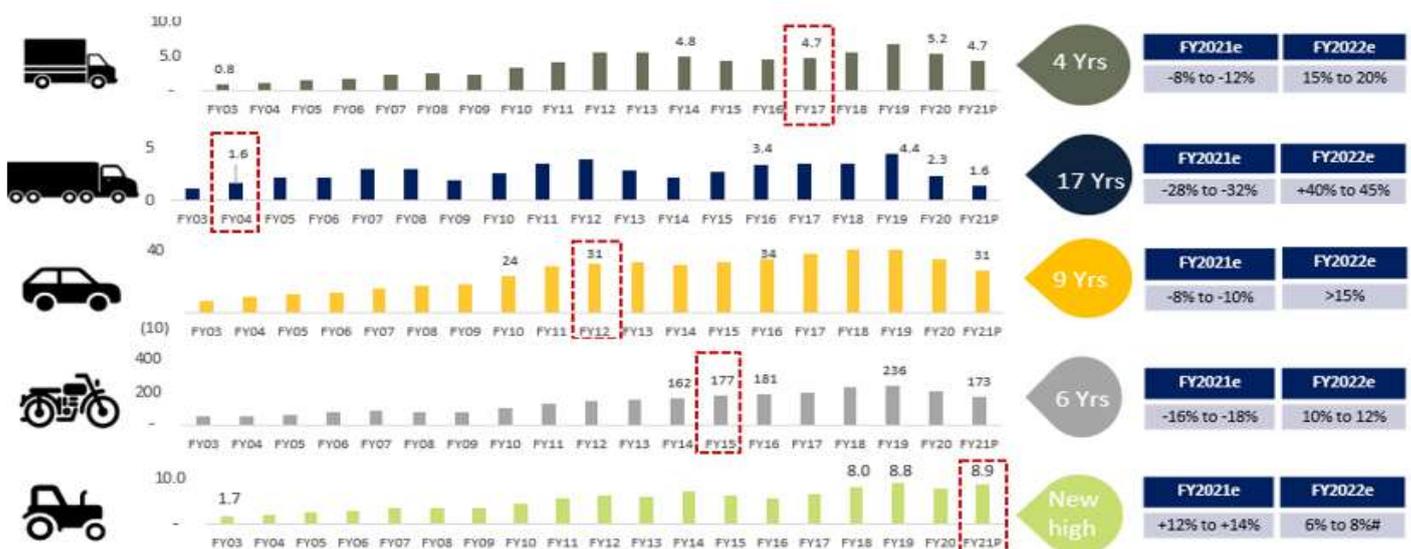
Source:RHP



INDUSTRY OVERVIEW

India Automotive Market - Most Automotive Subsegments will register double digit growth in Fiscal 2022e

The domestic OE demand was already reeling under demand pressure prior to the Covid-19 because of a slowdown in the economic activity, tighter financing cost, transition impact of various regulations (safety/emission/axle-load norms) and weak consumer sentiments. The Covid-19 aggravated the situation, with sharp decline in volume during Q1 FY2021 though the industry witnessed handsome recovery during Q2 FY2021 and Q3 FY2021 which is likely to continue in coming quarters as well. It is expected that all major automotive sub-segments to witness strong double digit growth in Fiscal 2022, albeit on low base of Fiscal 2021.



Auto component Industry expected to grow at a CAGR of 10%-12% during Fiscal 2021- Fiscal 2025

ICRA expects export revenues to grow at a healthy pace, supported by the Government’s ‘Make in India’ initiative, increasing exports by a few domestic OEMs and a healthy growth in the US automotive market. Over the medium to long term, increasing efforts by the OEMs on localisation of raw materials and increasing component value/sophistication per vehicle platform are positives for the industry. Further, revenue growth is expected to accelerate from Fiscal 2022, with robust growth expectation for the 2W, PV and CV industry. With increasing import substitution, thrust of ‘Make in India’ (to boost exports) and an overall improvement in demand, industry is expected to witness a CAGR of 10%-12% during Fiscal 2021- Fiscal 2025, with an upward bias.

Outlook for Bearings Industry

Currently, about 40% of the domestic bearing requirement is catered through imports as volume in India for certain SKUs are economically viable for bearing manufacturers to set up dedicated lines. With an improved off-take, bearings will get increasingly localised, which will help bearing component suppliers in the medium to long term. Hence, the demand for domestic bearing components (rollers, rings) is expected to grow at a faster rate (~10-12% CAGR) than the underlying bearing industry. Moreover, increasing complexity of bearings will further add to realisation for bearing component suppliers. While the operating margin in Fiscal 2021 will be impacted owing to weak Q1, the overall operating margin of the industry is likely to remain rangebound at around 13-15% in the medium term.

Source: RHP



Financials

(Rs. In Mn)

Balance Sheet	FY21	FY20	FY19
EQUITY AND LIABILITIES			
Shareholders' Funds			
Share Capital	239.81	239.81	239.81
Reserves & Surplus	3327.52	2441.24	1913.63
Total (A)	3567.33	2681.05	2153.44
Non-Current Liabilities			
Long Term Borrowings	323.45	442.43	913.40
Other Non Current Liabilities	179.98	180.25	171.71
Deferred Tax Liabilities (Net)	324.06	569.45	506.17
Provisions	31.09	30.89	23.4
Total (B)	858.58	1223.02	1614.68
Current Liabilities			
Short Term Borrowings	1835.72	1939.26	2343.25
Trade Payables	1176.35	738.47	912.99
Other Current Liabilities	523.99	272.74	791.69
Short Term Provisions	7.27	7.19	6.52
Total (C)	3543.33	2957.66	4054.45
Total (A+B+C)	7969.24	6861.73	7822.57
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	3713.93	3730.30	3808.4
Capital WIP	11.52	0	9.52
Rights of use assets	0.5	0.66	0.82
Other Intangible Assets	9.48	11.7	14.14
Financial assets	139.63	58.7	158.3
Income Tax Assets (Net)	19.66	19.5	19.66
Other Non-Current Assets	288.23	111.29	131.41
Total (A)	4182.95	3932.15	4142.25
Current Assets			
Trade Receivables	1708.01	1276.72	1814.96
Cash and Cash equivalents	46.12	12.45	1.38
Other Financial Assets	126.01	211.9	147.25
Short-Term Loans and Advances	0.76	30.87	1.23
Inventories	1710.73	1305.71	1602.01
Other Current Assets	194.66	91.93	113.49
Total (B)	3786.29	2929.58	3680.32
Total (A+B)	7969.24	6861.73	7822.57



(Rs in Mn)

P&L	FY21	FY20	FY19
Total Revenue (A)	6163.32	6659.94	9043.23
Total Expenditure (B)	5074.64	5445.56	7032.35
EBIDTA	1088.68	1214.38	2010.88
EBIDTA Margin	17.66	18.23	22.24
Other Income	34.25	93.30	69.31
Depreciation	254.09	265.24	254.40
EBIT	868.84	1042.44	1825.79
Interest	116.99	321.69	420.19
PBT	751.85	720.75	1405.60
Tax	-117.70	191.42	815.19
PAT	869.55	529.33	590.41
NPM	14.11	7.95	6.53
ROE %	24.38	19.74	27.42
EPS	36.26	22.07	24.62
BV	148.76	111.80	89.80

PEERS ANALYSIS

Following is peer group analysis:

Company	Total Income (Rs Mn)	EPS	RONW	NAV Per Share
Rolex Rings Ltd	6197.57	36.26	24.38	148.76
Bharat Forge	65051.59	(2.71)	--	112.11
Ramkrishna Forgings	12945.22	6.44	2.3%	276.00
MM Forgings	7618.29	19.35	9.6%	201.80

Source: RHP



(Rs in Mn)

Cash Flow Statement	FY21	FY20	FY19
(A) Cash Flow from operating Activities:	592.14	1837.77	1938.05
B) Cash Flow From Investing Activities:	(363.08)	(141.70)	(363.49)
C) Cash Flow From Financing Activities:	(195.39)	(1685.00)	(1580.12)
Net increase/(Decrease) in cash & cash equivalents(A+B+C)	33.67	11.07	(5.56)
Cash equivalents at the beginning of the year	12.45	1.38	6.94
Cash equivalents at the end of the year	46.12	12.45	1.38



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