Rolex Rings Ltd

Price Band ₹880-900

SUBSCRIBE

July 27, 2021

Rolex Rings (RRL), one of the top five forging companies in India, commenced operations in 1988 with their first manufacturing plant in Rajkot. The company manufactures and supplies hot rolled forged bearing rings, automotive components (including EVs) for segments of vehicles including 2-W, PV, CV, industrial machinery, wind turbines & railway among other segments. The client base of RRL consists of leading global bearing manufacturers viz. SKF, Timken, Schaeffler, NEI & NRB Bearings. RRL has three manufacturing units in Rajkot consisting of 22 forging lines with a combined capacity of 144750 MTPA and machining facilities consisting of 528 spindles with combined installed capacity of 69 million parts per annum.

Key supplier in niche industry wherein clients are sticky

RRL serves 60 customers across 17 countries and is one of the key suppliers for leading bearing manufacturers. The company's comprehensive product portfolio catering to auto, industrial, infra & renewable segments and long standing customer relationship gives credence to the quality and sustainability of RRL's products. As the industrial segment picks up led by increased capex spend by public and private sector coupled with a recovery in auto sector, RRL should see strong traction from bearing manufacturers. The bearing clientele of RRL constitutes ~80% of the total market, hence, ensuring strong traction for RRL once the tide turns.

De-risking financial profile, enhancing efficiency

RRL had entered CDR in 2013. Subsequently, fixed and current assets were secured by encumbrance whereas promoter holdings were pledged. Nonetheless, the company has repaid 95% of its debt (FY21 D/E 0.7x) and is expected to exit CDR before FY22. This should offer flexibility in managing borrowings and taking other business-related decisions. Further, the company is making strides to reduce its carbon footprints and by reducing power costs (~8% of sales) led by investments in renewable energy.

Key risk & concerns

- Delay in exit from CDR
- Heavy dependence on auto sector
- High concentration of top 10 customer group (72.6% in FY21)
- Inability to pass on rise in input cost

Priced at P/E of 28.2x (post issue) FY21 on upper band

RRL has been priced at 28.2x FY21EPS on a post issue upper band basis. A sticky clientele, increasing share of business amongst existing customers, improving operational efficiencies led by better utilisation and exit from CDR remain key catalyst for RRL. We recommend **SUBSCRIBE** to the issue.

IPO Details

Offer Details	
Issue Opens	28th July 2021
Issue Closes	30th July 2021
Issue Size (₹ crore)	₹ 2451
Price Band	₹ 880 - ₹ 900
Market Lot	16 shares
Face Value	₹ 10 per share
Issue Details	
OFS	₹ 675 crore
Fresh Issue	₹ 56 crore
Issue Size	**₹ 731 crore**
Post issue Mcap	**₹ 2451 crore**

Shareholding Pattern

Shareholding	Pre-issue	Post-issue
Promoter	59%	58%
Public	41%	42%

Objects of issue

Objects of the issue
Funding long term Working capital requirements

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Adil Khan
adil.khan@icicisecurities.com

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21	CAGR FY19-21
Revenue	784.3	904.3	666.0	616.3	(17.4)
EBIDTA	161.1	201.1	121.4	108.9	(26.4)
EBIDTA margin	20.5%	22.2%	18.2%	17.7%	
Net Profit	72.9	59.0	52.9	87.0	21.4
EPS (₹) (Post issue)	26.8	21.7	19.4	31.9	
PE (x) (Post issue)	33.6	41.5	46.3	28.2	
RoCE (%)	24.3%	33.7%	20.6%	15.2%	
RoE (%)	46.6%	27.4%	19.7%	24.4%	

Source: ICICI Direct Research, RHP

Industry Overview

The forging industry is an essential part of the manufacturing value chain and one of the key drivers for the auto component markets in India. Over the years, Indian forging companies have gained technical knowhow in making critical components as well as improved share of machined content, which has helped margin expansion for some of the larger players. As per the Association of Indian Forging Industry (AIFI), the country's forging industry had an installed capacity of 4.7 million MTPA capacity and a turnover of ₹ 34,000 crore in FY20 (compared to ₹ 45,000 crore in FY19). The automotive sector accounts for 60% of forging production whereas the rest is catered to by the non-automotive segments like oil & gas, locomotive, defence and other applications.

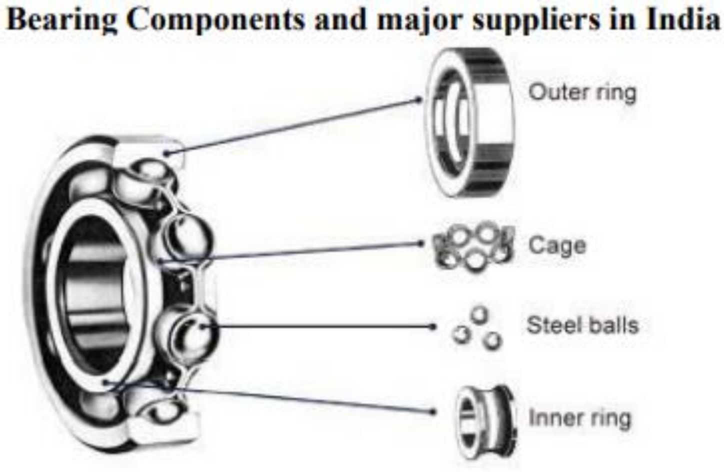
Exhibit 1: Installed capacity of major forging companies in India

Company Name	Installed Capacity (MTPA)
Bharat Forge Limited	4,06,150
Amtek Group	3,00,000
Mahindra CIE Automotive Limited	1,70,000
Ramkrishna Forgings Limited	1,70,000
Rolex Rings Limited	1,44,750
MM Forgings Limited	1,00,000
Echjay Industries Private Limited	70,000
Happy Forge Limited	60,000
Sadhu Forging Limited	40,000
Super Autoforge Private Limited	30,000

Source: RHP, ICRA, ICICI Direct Research

The Indian bearing industry is estimated at ₹ 12000 crore, a miniscule 4% when compared to the global industry size of US$50 billion. The industry is divided into industrial & auto segment bearings, both of which hover in the range of 50-55% depending on macros. With respect to consumption, 60% is manufactured domestically while the rest is catered to via imports.

Exhibit 2: Precision engineering products



Source: RHP, ICRA, ICICI Direct Research

A bearing typical consists of four major components viz. outer ring, cage, steel balls & inner ring. During FY20, India's forging industry had an installed capacity of 4.7 million MTPA and a turnover of ₹ 34000 crore.

Exhibit 3:Bearing parts manufacturers in India

Bearing Parts	Company that Manufacture these Parts
Bearing Ring/Races	Rolex Rings Ltd, Ravi Technoforge India Pvt Ltd, Agrasen Engineerig, Kriti Forgings
Rollers	Vishal Bearings Ltd, NHB Ball and Roller Ltd, Kansara Modler Ltd
Bearing Seals	Seeco Industries Ltd, Ashutosh Rubber Pvt Ltd
Bearing Cages	Harsha Engineers Ltd, Bharadia Engineering Industries

Source: RHP, ICRA, ICICI Direct Research

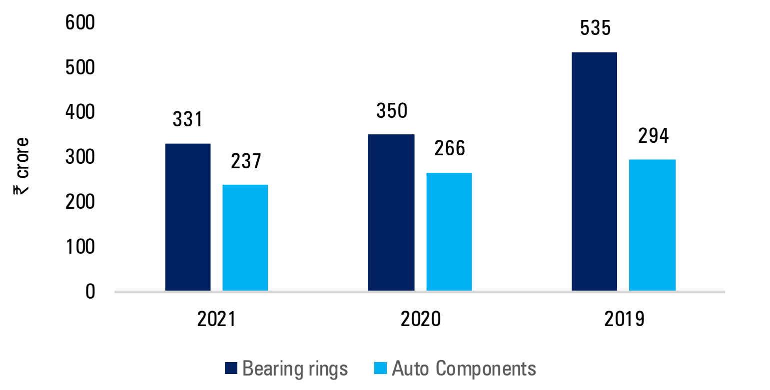
Company Background

Rolex Rings (RRL), one of the top five forging companies in India, commenced operations in 1988 with their first manufacturing plant in Rajkot. The company manufactures and supplies hot rolled forged bearing rings and automotive components (including EVs) for segments of vehicles including 2-W, PV, CV, industrial machinery, wind turbines & railway among other segments. The client base of the company consists of leading global bearing manufacturers namely SKF, Timken, Schaeffler, NEI & NRB Bearings. RRL has three manufacturing units in Rajkot that consists of 22 forging lines with a combined total capacity of 144750 MTPA and machining facilities consisting of 528 spindles with a combined installed capacity of 69 million parts per annum.

The manufacturing facilities of RRL are equipped with machinery from industry leading suppliers such as Sakamura, Mitsubishi, SMS Meer, Hyundai, Mazak etc. The company has also received accolades & certifications from its customers demonstrating quality and commitment.

RRL derived 58% of its revenue from bearing rings, 42% from auto components in FY21. For FY19, FY20 and FY21, the mix of sales between bearing and auto segments was 58-42%, 58-42% & 65-35%, respectively.

Exhibit 4: Sales mix



Source: RHP, Crisil Research, ICICI Direct Research

Comprehensive product portfolio

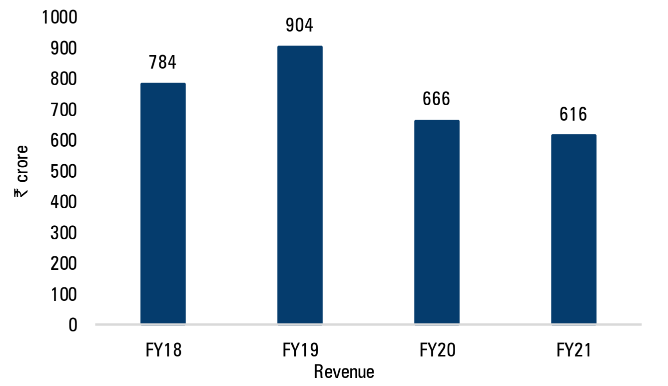
RRL offers a diverse range of hot forged and machined alloys steel bearing rings weighing from 0.01 kg to over 163 kg, with diameter size ranging from 25 mm to 900 mm. The company's products are suitable for a wide-range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy and others.

Strategic location of manufacturing facilities

The company has three units based out of Rajkot Gujarat, which is in close proximity to key ports like Mundra & Pipavav. Factories at Rajkot help the company to access the various automotive clusters in North India, West India & South India. Further, the company has unutilised land area of 32071 square metre at Rajkot that can be used for any further expansion in future.

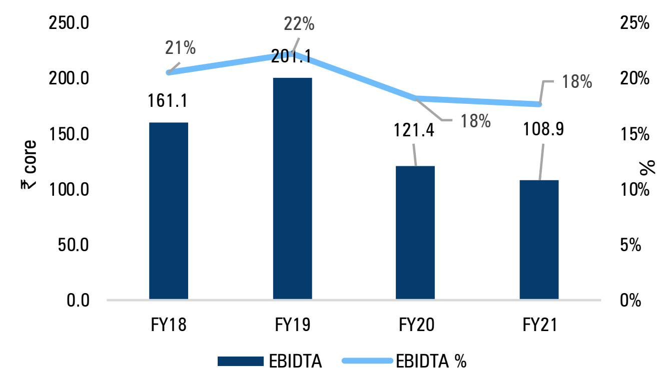
Financials

Exhibit 5: Revenue trend ₹ crore



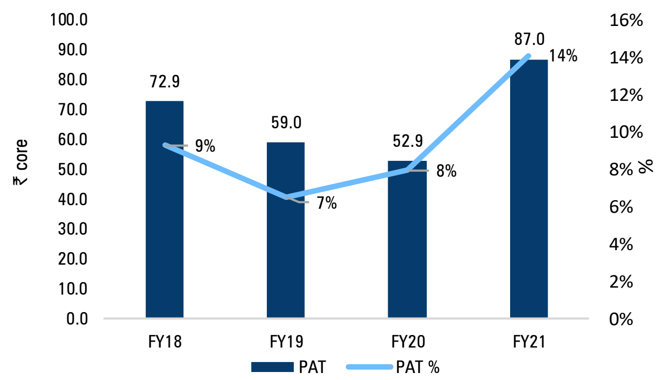
Source: RHP, ICICI Direct Research

Exhibit 6: EBIDTA & EBIDTA margin (%)



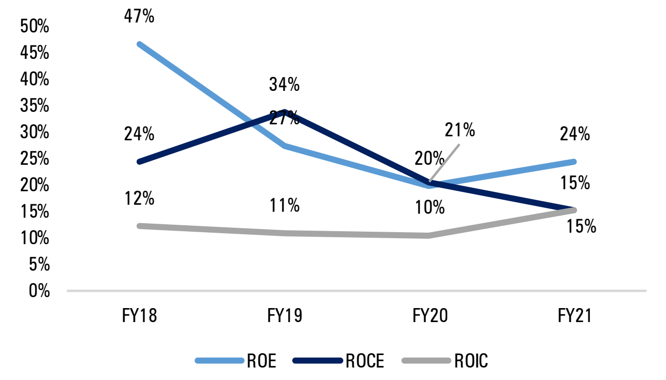
Source: RHP, ICICI Direct Research

Exhibit 7: PAT & PAT margin (%)



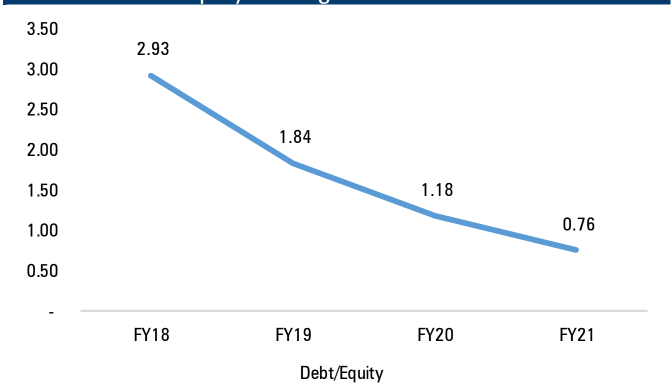
Source: RHP, ICICI Direct Research

Exhibit 8: Return Ratios



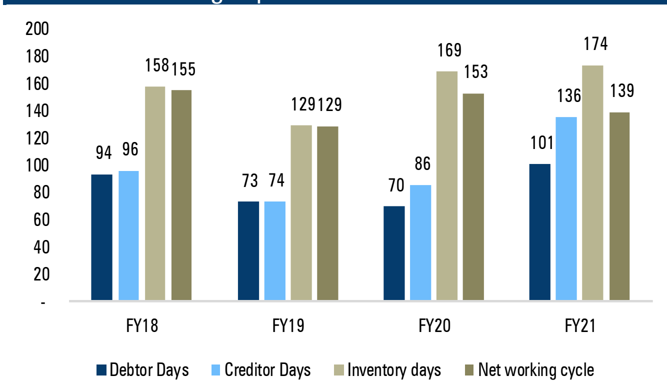
Source: RHP, ICICI Direct Research

Exhibit 9: Debt equity turning comfortable



Source: RHP, ICICI Direct Research

Exhibit 10: Working capital



Source: RHP, ICICI Direct Research

Investment Rationale

Key supplier in niche industry wherein clients are sticky

RRL serves 60 customers across 17 countries and is one of the key suppliers for leading bearing manufacturers. The company's comprehensive product portfolio catering to auto, industrial, infra & renewable segments and long standing customer relationship gives credence to the quality and sustainability of RRL's products. As the industrial segment picks up led by increased capex spend by public and private sector coupled with a recovery in auto sector, RRL should see strong traction from bearing manufacturers. The bearing clientele of RRL constitutes ~80% of the total market. Hence, this ensures strong traction for RRL once the tide turns.

De-risking financial profile, enhancing efficiency

RRL had entered CDR in 2013. Subsequently, fixed and current assets were secured by encumbrance whereas promoter holdings were pledged. Nonetheless, the company has repaid 95% of its debt (FY21 D/E 0.7x) and is expected to exit CDR before FY22. This should offer flexibility in managing borrowings and taking other business-related decisions. Further the reducing debt should help lower interest cost and enhance profitability. Finance cost has reduced from ₹ 50.8 crore in FY18 to ₹ 12 crore in FY21.

Healthy outlook in auto sector

A cyclical downturn in FY20 followed by Covid induced lockdown severely impacted the auto sector. However, FY22 is expected to be a good year across auto segments. CV segment is expected to grow in FY22, supported by the low base, improvement in economic activity and financing environment. Infrastructure activity, one of the key growth levers for the heavier CVs, has seen increased execution in recent months, and is expected to be further augmented by the significant capital outlay of ₹ 5.54 lakh crore announced in the recent Union Budget. Further the PV & 2-W segments have shown strong rebound in volumes post initial lockdown. We expect the recovery to be swift.

Strategic location & room for expansion

The company has three units based out of Rajkot Gujarat, which is in close proximity to key ports such as Mundra & Pipavav. Factories at Rajkot help the company to access the various automotive clusters in North India, West India & South India. Further, the company has unutilised land area of 32071 sq metre at Rajkot, which can be used for any further expansion in future.

Reducing power costs & simultaneously carbon footprints

RRL intends to de-risk its business dependence on changes to power tariff (~power cost 8% of sales) and simultaneously reduce their carbon footprint. The company is making strides in renewable energy and has windmills with an installed capacity of 8.75 MW. Furthermore, the company is in the process of setting up a 16 MW ground mounted solar power facility at Taluka Muli, Gujarat, which should further de-risk their business.

Key Risk

Delay in exit from CDR

RRL had entered CDR in 2013. Subsequently fixed and current assets were secured by encumbrance and whereas promoter holdings were pledged. Any requirements imposed by the CDR group lenders on the company during the subsistence of the CDR package may adversely impact the flexibility available to the management in running the business including through limitations on seeking additional financing, increase in cost of financing, or may lead to additional liabilities. As on March 31, 2021, the percentage of the restructured term debt still due is 6.89% and amounted to ₹ 33.57 crore. The company is expected to exit CDR before FY22.

Heavy dependence on auto sector

The auto component sector contributes to 42% of the company's topline while a large portion of the remaining 58% also indirectly caters to the auto sector via bearing manufacturers. Hence, the company's fate is tied to the Indian as well as global auto sector. Any adverse change in conditions of these markets can severely impact the company's financials.

Pledged shares

The promoter & promoter group held 58.99% shareholding, a significant portion of which has been pledged as security for the loans availed by the company. Further, the entire NCRPS will be pledged with the consortium in accordance with the pledge agreement. The exact number of equity shares to be pledged with consortium lenders will be finalised post determination of the number of equity shares to be issued pursuant to the fresh offer.

Exchange rate fluctuations

During FY21, 56% of the topline was contributed by exports. Hence, any significant change in forex or currency movements can adversely impact the company's financials.

High working capital

The company's business requires a substantial amount of working capital to maintain inventory levels of raw materials. RRL's net working capital requirement was ₹ 241 crore, ₹ 212 crore & 259 crore for FY21, FY20 & FY19, respectively. The company's NWC days was at 139 days for FY21.

Financial summary

Exhibit 7: Profit and loss statement				₹ crore
₹ crore	FY18	FY19	FY20	FY21
Revenue	784.3	904.3	666.0	616.3
Other Income	7.2	6.9	9.3	3.4
Total Income	791.5	911.3	675.3	619.8
% Growth		0.2	(0.3)	(0.1)
COGS	371.6	452.9	313.7	316.6
Inc/Dec in Inventory	(7.3)	(19.0)	15.6	(29.2)
Excise	14.2			
Employee cost	54.6	60.8	52.7	51.9
Depreciation	23.4	25.4	26.5	25.4
Finance cost	50.8	42.0	32.2	11.7
Other expenses	190.2	208.5	162.6	168.2
EBIDTA	161.1	201.1	121.4	108.9
EBIDTA %	20.5%	22.2%	18.2%	17.7%
Total Expense	697.5	770.7	603.2	544.6
PBT	94.1	140.6	72.1	75.2
Exceptional Items				
Tax	21.2	81.5	19.1	(11.8)
PAT	72.9	59.0	52.9	87.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				₹ crore
₹ crore	FY18	FY19	FY20	FY21
PBT	94.1	140.6	72.1	75.2
Add	-			
Depreciation	23.4	25.4	26.5	25.4
Finance costs	50.8	42.0	32.2	11.7
Other	(5.1)	(4.0)	(0.1)	(4.5)
CFO before WC changes	163.2	204.0	130.7	107.8
Changes in WC	(22.4)	24.7	75.3	(42.7)
Cash from operations	140.8	228.7	206.0	65.1
Tax	(4.9)	(34.9)	(22.2)	(5.8)
Net CFO	135.8	193.8	183.8	59.2
Purchase of Assets	(36.1)	(36.7)	(16.1)	(38.7)
Sale of Assets	0.0	0.5	0.4	0.2
Other	3.8	(0.1)	1.5	2.2
Net CFI	(32.2)	(36.3)	(14.2)	(36.3)
Debt repayment	(70.4)	(116.7)	(134.7)	(8.6)
Payt of prin LL	(0.0)	(0.0)	(0.0)	(0.0)
Finance costs	(50.2)	(41.2)	(33.7)	(10.9)
Net CFF	(120.6)	(158.0)	(168.5)	(19.5)
Net inc/dec in cash	-17.0	-0.6	1.1	3.4
Opening cash balance	17.7	0.7	0.1	1.2
Closing cash	**0.7**	**0.1**	**1.2**	**4.6**

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				₹ crore
₹ crore	FY18	FY19	FY20	FY21
Non Current Assets	**397.3**	**414.2**	**393.2**	**418.3**
Fixed Assets	335.1	380.8	373.0	371.4
CWIP	39.6	1.0	-	1.2
Intangibles	0.6	1.4	1.2	0.9
Other Non-current Assets	21.9	31.0	19.0	44.8
Current Assets	**406.2**	**368.0**	**293.0**	**378.6**
Inventory	160.9	160.2	130.6	171.1
Trade Receivables	201.2	181.5	127.7	170.8
Cash & Bank	0.7	0.1	1.2	4.6
Bank Bal other than cash	15.0	4.5	15.2	5.8
Other Current Assets	28.4	21.7	18.3	26.3
Total Assets	**803.5**	**782.3**	**686.2**	**796.9**
Equity	**156.3**	**215.3**	**268.1**	**356.7**
Equity Share Capital	24.0	24.0	24.0	24.0
Other Equity / Reserves	132.3	191.4	244.1	332.8
Non-Current Liabilities	**194.0**	**161.5**	**122.3**	**85.9**
Long term Borrowings	174.7	91.3	44.2	32.3
Others	19.3	70.1	78.1	53.5
Current Liabilities	**453.2**	**405.4**	**295.8**	**354.3**
Borrowings	264.1	234.3	193.9	183.6
Trade Payables	98.2	91.3	73.8	117.6
Provisions	0.7	0.7	0.7	0.7
Other Current Liabilities	90.2	79.2	27.3	52.4
Total Liabilities	**803.5**	**782.3**	**686.2**	**796.9**

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
Year end March	FY18	FY19	FY20	FY21
EPS	30.4	24.6	22.1	36.3
EPS (Post issue upper band)	26.8	21.7	19.4	31.9
BV	65.2	89.8	111.8	148.8
Cash per share	0.3	0.1	0.5	1.9
Book value	65.2	89.8	111.8	148.8
Gross Margin	52.6%	49.9%	52.9%	48.6%
EBIDTA Margin	20.5%	22.2%	18.2%	17.7%
PAT Margin	9.2%	6.5%	7.8%	14.0%
RoE	46.6%	27.4%	19.7%	24.4%
RoCE	24.3%	33.7%	20.6%	15.2%
RoIC	12.3%	10.9%	10.5%	15.3%
PE (Post issue)	33.6	41.5	46.3	28.2
Sales/Equity	5.1	4.2	2.5	1.7
Mcap/Sales	3.1	2.7	3.7	4.0
Debt/Equity	2.9	1.8	1.2	0.8
Current Ratio	0.9	0.9	1.0	1.1
Debtor Days	93.6	73.3	70.0	101.2
Creditor Days	96.4	73.6	85.9	135.6
Inventory days	158.0	129.4	169.1	173.9
No of Shares	2.4	2.4	2.4	2.4

Source: Company, ICICI Direct Research, Calculated, (ROE=PAT/Shareholders fund), (ROCE= EBIT/Cap Emp), (ROIC =PAT/CAP Dep)

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Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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