Rolex Rings Limited (Erstwhile Rolex Rings Private limited)

August 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	57.15 (Reduced from 94.48)	CARE BBB; Positive (Triple B; Outlook: Positive)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	287.49 (Reduced from 289.59)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	**344.64 (₹ Three Hundred Forty-Four Crore and Sixty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Rolex Rings Limited (RRL) is on the back of robust growth in its scale of operations in FY22 (Abridged Audited; FY refers to the period April 1 to March 31) with pickup in demand from end-user industries along with improvement in its operating profitability, return ratios as well as capital structure and strengthening of its debt coverage indicators.

The ratings continue to derive strength from the experience of promoters in the auto-component industry, established track record of operations in manufacturing of bearing rings along with its status as an approved supplier for reputed clientele, adequate liquidity, and stable demand outlook from end user automobile industry.

The ratings of RRL, however, continue to remain constrained by customer concentration risk, susceptibility of profit margins to volatility in raw material prices & foreign exchange rates and presence in competitive auto-component industry with a cyclical end-user automobile industry.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations with TOI of more than Rs.1250 crore and PBILDT margin of more than 20% on sustained basis.
- Maintenance of overall gearing below 0.40x on sustained basis.
- Efficient utilization of working capital leading to improvement in its operating cycle as well as lower reliance on working capital borrowings.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations below Rs.800 crore with operating margin below 18% on sustained basis.
- Elongation of operating cycle above 150 days on sustained basis.
- Any major debt funded capex leads to deterioration in overall gearing above 0.75x.

Outlook: Positive

The revision in outlook from 'Stable' to 'Positive' is on the back of envisaged healthy growth in scale of operations of RRL over the medium term while maintaining its healthy profitability as well as capital structure along with improvement in liquidity profile of the company.

The outlook maybe revised to 'Stable' in case of lower than envisaged growth in scale of operations or substantial decline in profitability or any major increase in debt level thus impacting RRL's capital structure as well as debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Robust growth in scale of operations in FY22 along with improvement in profitability and return ratios

During FY22, RRL's Total operating Income (TOI) registered robust growth of 66% y-o-y and increased to Rs.1,025 crore on the back of pickup in demand from existing customer and addition of new customers resulting in increase in quantum of sales along with improved sales realization across product categories. RRL's operating profit (PBILDT) margin also improved by 522 bps to 23.11% in FY22 on account of increase in sales realization of its products vis-à-vis raw material cost incurred and better absorption of overhead due to increased scale of operation. With improvement in profitability, return ratios also improved with return on capital employed (ROCE) of ~29% in FY22 as against ~14% in FY21.

Consistent improvement in capital structure along with strengthening of debt coverage indicators

RRL's capital structure improved consistently over the last couple of years and overall gearing stood at 0.48 times as on March 31, 2022 (P.Y.: 0.82 times). The improvement was largely on the back of increase net worth base to Rs.544 crore with accretion of profit to reserves and equity infusion of ~Rs.56 crore in FY22. Capital structure is further expected to improve with no major debt plan of company. Debt coverage indicators also further strengthened in FY22 on the back of higher profit with

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

total debt to gross cash accruals (TDGCA) of 1.70x (3.25x in FY21) and PBILDT interest coverage of 11.59x (P.Y.: 9.45x) in FY22.

Experienced promoters with established track record of operations
The promoters of RRL, i.e., the members of the Madeka family, are well-qualified and have vast experience in the auto components industry which is evident from the satisfactory operations of over four decades. RRL is into operations since 1980 and is one of the leading suppliers of forged bearing rings and various automobile components like engine, transmission, chassis, and exhaust system parts depicting established track record of operations in auto-components industry.

Approved supplier for reputed clientele and geographically diversified revenue
RRL caters primarily to the requirement of automobile sector and has a reputed clientele comprising of leading bearing and auto component manufacturers. Due to its long-standing relationship with the customers as an approved vendor for various parts, RRL is able to secure repeat orders from its customers. The company derives around 60% of its revenues from exports as most of its customers are global players with presence across various countries. This geography-wise diversified customer portfolio helps the company to reduce geographical concentration risk of its sales to large extent.

Stable demand outlook from end user automobile industry
Demand outlook of auto-component industry is directly linked to the cyclical automobile industry which has linkages to economic cycles. The industry is showing healthy pickup in demand in the current year on the back of subsiding effect of covid-19 pandemic, easing of chip shortage, new vehicle launches and continued support by the government in the agriculture sector and infrastructure spending. However, concerns regarding supply chain constraints due to the ongoing geopolitical tensions also persist. In addition, the second hike in repo rates by RBI, along with an increase in third party insurance rates from June 2022, might hurt the demand sentiments in the near term.

Key Rating Weaknesses
Customer concentration risk
RRL is exposed to customer concentration risk with top customer groups accounting for ~79% of its total sales in FY22 (~77% in FY21). However, RRL has long-standing relationships with majority of its customers for over a decade. RRL, being a Tier II manufacturer in auto component supply chain, supplies bearing rings and other components to Tier I manufacturers who in turn supply components to original equipment manufacturers (OEMs) primarily from auto industry which limits its bargaining power with its customers who are relatively large players in the industry.

Susceptibility of profit margins to volatility in raw material prices & foreign exchange rates
Steel and its alloys form the key raw material required for manufacturing of bearing rings and auto components. The prices of steel and its alloys, being commodity items, are volatile in nature. Further, RRL does not have any long-term supply agreements with steel suppliers. Consequently, RRL's profitability is exposed to adverse movement in raw material prices. However, the price revision with most of the clients is on a quarterly basis which mitigates its exposure to any adverse fluctuations in raw material prices to large extent.
Also, due to its exports, which contribute around 60% of its TOI, RRL is exposed to unfavourable movement in forex rates. However, RRL has a partial natural hedge by way of imports for its export receivables, while the balance is hedged to a large extent by way of use of working capital borrowings in foreign currency as well as forward contracts.

Presence in competitive auto-component industry and cyclical automobile industry:
The Indian auto component industry is a critical part of the OEM value chain. An organized segment of this industry includes Original equipment manufacturers (OEMs) who are engaged in the manufacture of high-value precision instruments, while the unorganized segment comprises of low-valued products catering to after-market services, resulting in high competition. However, one of the main challenges faced by the indigenous component manufacturers is the low-level of technology adaptation and R&D intensity which gives an edge to organized players.

Liquidity: Adequate
RRL had adequate liquidity marked by moderate utilization of fund-based working capital limits at ~68% for trailing 12-months ended June 2022, nominal scheduled debt repayments as against envisaged cash accrual generation and healthy cash flow from operations.
RRL generated healthy cash flow from operations of ~Rs.35 crore in FY22 despite increase in working capital requirement due to improvement in profitability. However, RRL's operating cycle remained elongated at 124 days in FY22 (134 days in FY21) due to investment required in both, inventory, and receivables. RRL's operations are working capital intensive in nature on account of large inventory holding due to a large product range and credit period required to be offered to its established client base.
RRL had unencumbered cash and bank balance of Rs. 3.75 crore as on March 31, 2022. Also, against expected cash accruals of more than Rs.180 crore in FY23, RRL has nominal scheduled repayments of Rs.5.75 crore indicating substantial cushion in its liquidity.

Analytical approach: Standalone

Applicable Criteria:
[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Auto Ancillary Companies]
[Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the Company
Rajkot based (Gujarat), RRL (Erstwhile; Rolex Rings Private Limited) was established as a partnership firm by Mr. Rupesh D. Madeka in 1980 and later on reconstituted as a public limited company in 2021 and is presently managed by Mr. Manesh D. Madeka and family.
RRL is engaged in manufacturing (forging and machining) of bearing rings and auto-components like engine parts, transmission parts, exhaust system parts, chassis parts, etc. It caters primarily to the requirement of automobile sector and has a reputed clientele comprising global and domestic auto-component manufacturers. The company has two manufacturing units which are located near Rajkot in Gujarat. RRL's debt was restructured under Corporate Debt Restructuring (CDR) mechanism in FY13, and the company closed CDR loans in FY22. In August 2021, RRL got listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) and raised Rs.731 crore through Initial Public Offer (IPO). Out of this, ~Rs.56 crore was infused in the company as equity, while balance was offer for sale and paid to stake selling shareholder 'Rivendell PE LLC".

Brief Financials (Rs. crore)	FY21 (A)	FY22 (Ab)	Q1FY23 (Prov.)
Total operating income	618.06	1,024.62	NA
PBILDT	110.60	236.83	NA
PAT	86.96	131.88	NA
Overall gearing (times)	0.82	0.48	NA
Interest coverage (times)	9.45	11.59	NA

A: Audited, Ab: Abridged Audited; NA: Not Available; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	February, 2026	24.30	CARE BBB; Positive
Fund-based - LT-Cash Credit		-	-	-	32.85	CARE BBB; Positive
Fund-based - ST-Working Capital Limits		-	-	-	192.18	CARE A3+
Non-fund-based-Short Term		-	-	-	95.31	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	24.30	CARE BBB; Positive	-	1)CARE BBB-; Stable (06-Sep-21)	1)CARE BB; Stable (20-Jul-20)	1)CARE BB-; Stable (20-Jun-19)
2	Fund-based - LT-Cash Credit	LT	32.85	CARE BBB; Positive	-	1)CARE BBB-; Stable (06-Sep-21)	1)CARE BB; Stable (20-Jul-20)	1)CARE BB-; Stable (20-Jun-19)
3	Fund-based - ST-Working Capital Limits	ST	192.18	CARE A3+	-	1)CARE A3 (06-Sep-21)	1)CARE A4 (20-Jul-20)	1)CARE A4 (20-Jun-19)
4	Non-fund-based-Short Term	ST	95.31	CARE A3+	-	1)CARE A3 (06-Sep-21)	1)CARE A4 (20-Jul-20)	1)CARE A4 (20-Jun-19)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Working Capital Limits	Simple
4	Non-fund-based-Short Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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