Rolex Rings Limited (Erstwhile Rolex Rings Private Limited)

September 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	94.48 (Enhanced from 88.78)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	289.59	CARE A3 (A Three)	Revised from CARE A4 (A Four)
Total Bank Facilities	**384.07 (Rs. Three Hundred Eighty-Four Crore and Seven Lakh 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) factors in successful listing on stock exchanges, consistent improvement in its capital structure through repayment of its term debt and growth in its scale of operations in Q1FY22 (FY refers to the period April 1 to March 31) with healthy profitability, which has resulted in improvement in its liquidity profile.

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, comfortable debt coverage indicators 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

- Improvement in scale of operations to Rs.950 crore with PBILDT margin and ROCE of more than 18% on sustained basis
- Maintenance of below unity overall gearing
- Efficient utilization of working capital leading to contraction in operating cycle below 110 days on sustained basis

Negative factors

- Decline in scale of operations below Rs.650 crore with operating margin below 16% on sustained basis
- Elongation of operating cycle above 150 days on sustained basis
- Any major debt funded capex leads to deterioration in capital structure of 1.25 times or more.

Detailed description of key rating drivers

Key Rating Strengths

Successful listing of company on stock exchanges

RRL came up with initial public offer (IPO) with issue size of Rs.731 crore (Rs.56 crore fresh issue and balance Rs.675 crore of offer for sale) and was successfully listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) on August 09, 2021. While preference shares issued to promoters were expected to redeem during FY22 post listing, RRL plans to utilise the balance funds for long term working capital requirement of the company.

Consistent improvement in capital structure and comfortable debt coverage indicators

Capital structure of RRL has shown consistent improvement marked by overall gearing of 0.82 times as on March 31, 2021 (P.Y. end: 1.19 times) on account of healthy net worth base led by accretion of profits to reserves and repayment of term loans during FY21. Going forward, with prepayments of term debt under CDR mechanism, overall gearing of RRL is expected to remain comfortable at below unity.

Debt coverage indicators continued to remain comfortable marked by total debt to gross cash accruals (TDGCA) of 3.25 years as on March 31, 2021 (P.Y.: 3.57 years). Interest coverage ratio improved to 9.59 times in FY21 (4.07 times in FY20) due to reduced finance cost in FY21, with reduction in debt and forex gains.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Moderate scale of operations and healthy profitability with improvement in Q1FY22
RRL's scale of operations remained moderate with a TOI of Rs.619.66 crore in FY21 as against Rs.675.33 crore. Marginal decline was on account of decline in both domestic as well as export sales due to slowdown in demand from its key customers during H1FY21 due to outbreak of COVID pandemic. However, demand prospects improved in later half of FY21 and in Q1FY22 RRL registered TOI of Rs.231.11 crore (as against TOI of Rs.73.38 crore in Q1FY21).
PBILDT margin remained healthy at 18.11% in FY21 (19.37% in FY20) with company reporting GCA of Rs.87.55 crore in FY21 (Rs.85.89 crore in FY20). PBILDT margin further improved to 24% in Q1FY22 (UA) with growth in TOI.

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 reputed 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 60-70% 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.

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. With slowdown in global automobile industry and general economy along with outbreak of covid-19 pandemic and resultant supply disruptions and weak consumer sentiments, demand was impacted in last two three years. However, with resumption of normal economic activities, demand has improved in domestic and global markets and is expected to grow at over 15% in FY22.

Liquidity: Adequate
RRL's liquidity remained adequate marked by moderate working capital limits utilization and positive cash flow from operations. Average fund-based utilization for the past 12 month ended July 2021 remained moderate at ~73%. Unencumbered cash and bank balance remained at Rs.4.61 crore as on March 31, 2021 while cash flow from operations remained at Rs.43.05 crore in FY21. However, operating cycle continued to remain elongated at 134 days in FY21 (132 days in FY22) due to high receivables and inventory days. 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.
As against expected cash accruals of Rs.119.33 crore in FY22, there are scheduled repayments of Rs.33.38 crore signifies sufficient liquidity cushion.

Key Rating Weaknesses
Customer concentration risk
RRL is exposed to customer concentration risk with top customer groups accounting for around 77% of its total sales. However, RRL has long-standing relationships with majority of its customers 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. RRPL has limited bargaining power with its customers who are relatively large players in varied industries including auto components and capital goods.

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 sales contracts with most of RRL's clients are revised on a quarterly basis which mitigates its exposure to any adverse fluctuations in raw material prices to a certain extent. Also, due to its exports, which contribute around 60-70% of its TOI, RRL is exposed to unfavorable 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.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Rating Methodology - Auto Ancillary Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

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 2013.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	675.33	619.66
PBILDT	130.82	112.20
PAT	52.94	86.96
Overall gearing (times)	1.19	0.82
Interest coverage (times)	4.07	9.59

A: Audited

For Q1FY22 (UA), RRL reported TOI of Rs.231.11 crore with PBILDT margin of 24% as against TOI of Rs.73.38 crore with PBILDT margin of 4% in Q1FY21 (UA).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

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

Bank lender details: Please refer Annexure – 5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March, 2026	61.63	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	32.85	CARE BBB-; Stable
Fund-based - ST-Working Capital Limits	-	-	-	192.18	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	97.41	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	61.63	CARE BBB-; Stable	-	1)CARE BB; Stable (20-Jul-20)	1)CARE BB-; Stable (20-Jun-19)	1)CARE D (05-Nov-18)
2.	Fund-based - LT-Cash Credit	LT	32.85	CARE BBB-; Stable	-	1)CARE BB; Stable (20-Jul-20)	1)CARE BB-; Stable (20-Jun-19)	1)CARE D (05-Nov-18)
3.	Fund-based - ST-Working Capital Limits	ST	192.18	CARE A3	-	1)CARE A4 (20-Jul-20)	1)CARE A4 (20-Jun-19)	1)CARE D (05-Nov-18)
4.	Non-fund-based - ST-Letter of credit	ST	97.41	CARE A3	-	1)CARE A4 (20-Jul-20)	1)CARE A4 (20-Jun-19)	1)CARE D (05-Nov-18)

Annexure 3: Covenants of rated instrument/facility: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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 - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details
Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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