Rolex Rings Limited

July 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.85	CARE BBB+; Positive	Revised from CARE BBB; Positive
Short Term Bank Facilities	287.49	CARE A2	Revised from CARE A3+
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Rolex Rings Limited (RRL) is on the back of continued volume backed growth in scale of operations in FY23 (Audited; FY refers to the period April 1 to March 31) along with sustained profitability, comfortable capital structure and debt coverage indicators and adequate 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, 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.

Ratings also take cognizance of RRL's obligation towards payment of a Right of Recompense (ROR) liability related to the erstwhile restructuring of its debt obligations. While the amount of ROR is yet to be ascertained, the same is likely to be based on the lender's sacrifice and company's cash flows are expected to suffice its repayment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations and PBILDT margin of more than 23% on sustained basis
- Maintenance of overall gearing below 0.20x on sustained basis alongwith continued low reliance on external borrowings
- Successful resolution of the ROR liability obligation without any major adverse impact on company's financial risk profile

Negative factors

- Decline in scale of operations below Rs.900 crore with operating margin below 18% on sustained basis
- Any major debt funded capex or increase in working capital requirement, leading to deterioration in overall gearing above 0.50x

Analytical approach: Standalone

Outlook: Positive

Positive reflects CARE Rating Limited's (CARE Ratings') expectations that the company shall sustain growth in its scale of operations over the medium term while maintaining its healthy profitability, comfortable capital structure, which shall aid improvement in its liquidity profile.

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.

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

Detailed description of the key rating drivers:

Key strengths

Growth in scale of operations along with healthy profitability and return ratios

RRL continued to register volume-backed growth in its scale of operations during FY23. During FY23, RRL's Total operating Income (TOI) grew by 17% y-o-y to Rs.1,196 crore with 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 and forex gains.
RRL's operating profit (PBILDT margin) remained healthy at 23.23% in FY23 (P.Y.:23.11% in FY22) on account of increase in sales realization of its products and better absorption of overhead due to increased scale of operation. With improvement in profitability, return ratios remained healthy with return on capital employed (ROCE) of around 29% in FY23, similar to the level of FY22.

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 0.11 times as on March 31, 2023 (P.Y.: 0.48 times). During FY23, RRL prepaid its term loans. Also, the networth of RRL also improved to Rs.742.39 crore during FY23. Capital structure is further expected to improve with no major debt plan of company.
Debt coverage indicators also improved in FY23 with higher profit and cash accruals marked by total debt to gross cash accruals (TDGCA) of 0.66 years (1.70 years in FY22) and PBILDT interest coverage of 28.26x (P.Y.: 11.59x) in FY23.

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 albeit high customer concentration

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 revenue 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 outbreak of geo-political tensions initiated recessionary trends in major export markets which impacted demand from players, both in international and domestic market and resulted in moderate industry growth. Medium to long-term demand outlook remains stable on account of overall thrust of government on automobile and infrastructure segments.

Key weaknesses

Customer concentration risk

RRL is exposed to customer concentration risk with top customer groups accounting for ~82% of its total sales in FY23 (~88% in FY22). 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.

Vulnerability of profit margins to adverse fluctuation in price of 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% 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. RRL imported ~26% of its total raw material consumption during FY23 (17% in FY22).

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 ~33% for trailing 12-months ended May 2023, no scheduled debt repayments as against envisaged cash accrual generation and healthy cash flow from operations.
RRL generated cash flow from operations of over Rs.200 crore in FY23, which facilitated reduction in working capital debt. However, RRL's operating cycle remained elongated at 133 days in FY23 (124 days in FY22) 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.21.66 crore as on March 31, 2023. Furthermore, company's cash flows are likely to suffice the ROR liability repayment obligation related to the erstwhile restructuring of the company's debt. The amount of ROR is yet to be finalised, however is likely to be based on the lenders' sacrifice of around Rs.50.60 crore.

Environmental, social and governance (ESG) risks:

Risk Factors	Compliance and action done by the company
Environmental	RRL has implemented Environment, Health, Safety and Quality policies. RRL also uses solar power and windmill as renewable source of energy.
Social	RRL has expended Rs.2.31 crore in CSR activities during FY23
Governance	More than 50% of RRL's board comprises of independent directors. The company reportedly has a defined code of conduct, whistleblower policy, ESG commitment policy, Code of internal procedures & Conduct for insider trading

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	618.06	1,024.62	1,196.07
PBILDT	110.60	236.83	277.84
PAT	86.96	131.88	198.09
Overall gearing (times)	0.82	0.48	0.19
Interest coverage (times)	9.45	11.59	28.26

A: Audited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	32.85	CARE BBB+; Positive
Fund-based - LT-Term Loan*		-	-	February, 2026*	0.00	Withdrawn
Fund-based - ST-Working Capital Limits		-	-	-	192.18	CARE A2
Non-fund-based-Short Term		-	-	-	95.31	CARE A2

**Above mentioned term loans have been entirely paid off as on date.*

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Positive (04-Aug-22)	1)CARE BBB-; Stable (06-Sep-21)	1)CARE BB; Stable (20-Jul-20)
2	Fund-based - LT-Cash Credit	LT	32.85	CARE BBB+; Positive	-	1)CARE BBB; Positive (04-Aug-22)	1)CARE BBB-; Stable (06-Sep-21)	1)CARE BB; Stable (20-Jul-20)
3	Fund-based - ST-Working Capital Limits	ST	192.18	CARE A2	-	1)CARE A3+ (04-Aug-22)	1)CARE A3 (06-Sep-21)	1)CARE A4 (20-Jul-20)

4	Non-fund-based-Short Term	ST	95.31	CARE A2	-	1)CARE A3+ (04-Aug-22)	1)CARE A3 (06-Sep-21)	1)CARE A4 (20-Jul-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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-Short Term	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: +91-079-4026 5611 E-mail: kalpesh.patel@careedge.in Nikita Akhilesh Goyal Assistant Director **CARE Ratings Limited** Phone: +91-079-4026 5616 E-mail: nikita.goyal@careedge.in Jay Kamdar Lead Analyst **CARE Ratings Limited** E-mail: jay.kamdar@careedge.in

About us:

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