Rolex Rings Limited

July 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.99 (Reduced from 32.85)	CARE A-; Stable	Revised from CARE BBB+; Positive
Short Term Bank Facilities	212.17 (Reduced from 287.49)	CARE A2+	Revised from CARE A2

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) take into account sustenance in its scale of operations backed by volume growth despite global economic upheaval in FY24 (refers to the period April 1 to March 31) while maintaining its healthy profitability. The rating also takes into cognizance comfortable capital structure & healthy debt coverage indicators along with further, improvement in the liquidity profile in FY24.

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.

The ratings, however, continue to remain constrained on account of susceptibility of profitability to volatile raw material prices and foreign exchange rate. The ratings are also constrained by its presence in a highly competitive industry with demand linked to cyclical end-user industries (including automobile, engineering and capital goods and heavy machinery) along with high customer concentration risk.

The ratings also consider RRL's obligation towards payment of a Right of Recompense (ROR) liability related to the erstwhile restructuring of its debt obligations. While a portion of the ROR has been accounted in FY24, with the remaining amount still to be determined based on the lender's sacrifice. However, the company's cash flows are expected to suffice its repayment requirement.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in scale of operations with maintenance of healthy PBILDT margin; along with improvement in return on capital employed (ROCE) to more than 25% on a sustained basis.
- Successful resolution of ROR liability without affecting the liquidity profile of the company.

Negative factors

- Decline in scale of operations below ₹.1000 crore with operating margin below 15% 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: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of sustenance of RRL's scale of operations despite muted demand scenario in the global market in medium term on account of its association with reputed clientele along with extensive experience of the promoters aiding in securing orders

Detailed description of the key rating drivers:

Key strengths

Sustained growth in scale of operations and healthy profitability

RRL's total operating income (TOI) remained largely stable at ₹.1232.30 crore (PY: ₹. 1196.07 crore) despite of global inflationary pressure and moderate demand schedules in the European and US market (resulting in lower manufacturing activity at consumers end). However, in Q4FY24, the end user demand of automobile and bearings revived in US and European market which has led the company securing contracts worth ₹.200 to ₹.250 crore from these regions.

The PBILDT margin remained healthy at 22.05% (PY: 23.23%) in FY24.

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

During FY24, RRL has allocated ₹.32 crore towards its ROR liability under its 'Corporate Debt Restructuring' plan, which is reflected as an extraordinary item in the profit and loss statement. The final amount for ROR is still pending determination and is expected to be finalised by FY25. This provision has largely contributed to decline in the PAT margin by 388 bps, to 12.67% in FY24 (PY: 16.56%). Consequently, the gross cash accruals of RRL also moderated to ₹. 183.49 crore in FY24 (PY: ₹ 208.71 crore).

Comfortable financial risk profile
RRL's capital structure stood highly comfortable marked by strong net worth base as well as internal accruals for funding its working capital requirements and zero exposure to long term debt.
As on March 31, 2024, RRL had an overall gearing of 0.08x (0.19x as on March 31, 2023) and net worth of ₹.897.68 crore (PY: ₹ 742.39 crore).
Debt coverage indicators continue to remain healthy in FY24, marked by PBILDT interest coverage of 100.56 times (PY: 28.26 times) and nil debt to equity ratio as on March 31, 2024. The total outside liabilities to net worth continues to remain healthy at 0.20 times (PY: 0.30 times).
CARE Ratings Limited, expects the working capital utilisation to reduce in the medium term, supported by healthy cash flow from operations.

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 56% of its revenue from exports as most of its customers are global players with presence across various countries primarily from USA and Europe.

Key weaknesses
Customer concentration risk
RRL is exposed to customer concentration risk with top customer groups accounting for ~80% of its total sales in FY24 (~82% in FY23). 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 raw material prices and 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 contributed around 56% of its TOI (PY: 59%) in FY24, RRL is exposed to forex rates fluctuation risk. However, RRL has a partial natural hedge by way of imports for its export receivables, while the balance is hedged largely by way of use of working capital borrowings in foreign currency as well as forward contracts. RRL imported ~11% of its total raw material consumed during FY24 (26% in FY23) and reported foreign exchange gain of ₹.9.54 crore during FY24.

Presence in a competitive industry with demand linked to the cyclicality in various end-user industries; albeit stable demand outlook
RRL has presence in a highly competitive industry, fortunes of which are largely dependent on the end-use industries such as Automobile comprising engineering & capital goods and railways. The demand outlook of auto component industry is directly linked to the cyclical automobile industry which has linkages to economic cycles. The Indian automotive components industry stood at US$ 70 billion in FY24, registering around 32% y-o-y growth. Large part of the growth was from domestic market, owing to recessionary trends in western economies such as USA and Europe, the key markets. This impacted the demand from the customers, both in international and domestic markets. This apart, aftermarket sales also remained healthy (at around US$ 20 billion). CARE Ratings notes that with some revival witnessed in order inflow in Q4FY24 along with overall thrust of government on automobile and infrastructure segments, the demand outlook remains stable in the near to medium term.

Liquidity: Adequate
RRL's liquidity remained adequate marked by low working capital utilization, nil scheduled debt repayments, healthy cash flow from operations and sufficient liquidity in the form of free cash and bank balance. The company has maintained free cash and bank balance (including liquid investments) of ₹.123.20 crore as on March 31,2024 (PY: ₹ 21.66 crore).
The average fund-based utilization of working capital limits for the past 12 months ended March 2024 remained very low at 8% which is facilitated by healthy cash flow from operations of ₹ 264.60 crore in FY24 (PY: ₹ 209.35 crore).
RRL's operations are working capital intensive on account of large inventory holding due to a large product range and credit period required to be offered to its established client base. However, with efficient management of receivables and inventory days, RRL's operating cycle improved to 124 days in FY24 (PY: 133 days).
Furthermore, the company has accounted ₹32 crores towards the 'ROR' liability related to the erstwhile restructuring of the company's debt in FY24 and the balance is expected be done in FY25 (the amount is yet to be finalised). However, considering adequate cash flows, unutilized working capital limits and free cash & bank balance, the company shall be able to repay this amount without affecting its liquidity profile.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks:

Parameters	Compliance and action taken by the company
Environmental	▪ Adopted clean technology for eliminating waste and minimizing pollution. ▪ Regular health and safety audits to identify any gaps related to occupational health and safety hazards. ▪ Conduct energy audits to identify high energy usage areas and find ways to implement energy efficient technologies or process to reduce overall energy consumption. ▪ Adopt energy management systems to improve energy efficiency process.
Social	▪ RRL has made contribution in promoting awareness of cyber security through affirmative actions such as seminars, posters etc. ▪ RRL has a sewage treatment plant installed to ensure industrial wastewater is treated before it is released into the environment. ▪ Furthermore, has implemented water conservation ways to reduce the freshwater consumption. ▪ Also, regularly monitor and report the water usage performance for implementing efficient methods of water management. ▪ Implemented efficient emission monitoring systems to track and identify any hazardous/ toxic pollutants released directly into the air.
Governance	▪ RRL continue to implement robust systems and practices to ensure ethical behaviour, transparency, and accountability in corporate decision-making. ▪ RRL engages into regular monitoring, independent audits, and board oversight to operate sustainably and help mitigate any risk.

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

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 ₹.731 crore through Initial Public Offer (IPO). Out of this, ~₹.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, 2023 (A)	March 31, 2024 (A)
Total operating income	1,196.07	1,231.30
PBILDT	277.84	271.51
PAT	198.09	156.04
Overall gearing (times)	0.19	0.08
Interest coverage (times)	28.26	100.56

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.99	CARE A-; Stable
Fund-based - ST-Working Capital Limits		-	-	-	114.98	CARE A2+
Non-fund-based-Short Term		-	-	-	97.19	CARE A2+

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Jul-23)	1)CARE BBB; Positive (04-Aug-22)	1)CARE BBB-; Stable (06-Sep-21)
2	Fund-based - LT-Cash Credit	LT	25.99	CARE A-; Stable	-	1)CARE BBB+; Positive (07-Jul-23)	1)CARE BBB; Positive (04-Aug-22)	1)CARE BBB-; Stable (06-Sep-21)
3	Fund-based - ST-Working Capital Limits	ST	114.98	CARE A2+	-	1)CARE A2 (07-Jul-23)	1)CARE A3+ (04-Aug-22)	1)CARE A3 (06-Sep-21)
4	Non-fund-based-Short Term	ST	97.19	CARE A2+	-	1)CARE A2 (07-Jul-23)	1)CARE A3+ (04-Aug-22)	1)CARE A3 (06-Sep-21)

LT: Long term; ST: Short term; LT/ST: 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 - ST-Working Capital Limits	Simple
3	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated: Not Applicable

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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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