Rolex Rings Private Limited

April 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	13.48	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	Assigned
Short Term Bank Facilities	11.52	**CARE A4 (A Four)**	Assigned
Total Facilities	**25.00 (Rupees Twenty Five Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rolex Rings Pvt. Ltd. (RRPL) are constrained on account of its low networth base leading to extremely weak debt coverage indicators, working capital intensive nature of its operations and its stressed liquidity. The ratings are further constrained due to exposure of RRPL's profitability to volatility in raw material prices and foreign exchange rates.

The ratings, however, derive strength from the experience of promoters and RRPL's established operations, its reputed clientele as well as the improvement in profitability over the last few years.

Further improvement in profitability along with rationalization of debt levels would be the key rating sensitivities.

Key Rating Weaknesses

Erosion in networth base owing to operating losses in past: RRPL's overall gearing remained weak on account of the regular debt funded capex undertaken over the years. Its networth also eroded due to heavy losses incurred by it and it turned negative in FY13 leading to restructuring of the outstanding debt. With improvement in operating performance during FY16 and H1FY17, RRPL's coverage indicators improved as its networth turned positive as on September 30, 2016 and a total debt/GCA of 13.81 years during FY16.

Profitability vulnerable to volatility in steel prices: Steel, in bar from, forms the primary raw material for manufacturing of bearing rings/cages as well as for other auto components. RRPL procures raw material from various suppliers and keeps adequate inventory to provide finished goods as per client requirements and delivery schedule. This exposes RRPL to any adverse movement in steel prices, as finished good prices are revised only on a quarterly basis. Further, RRPL imports around half of its steel requirement, primarily from China and Japan. Hence, any adverse movement in price during the transit period could also translate into lower profitability for RRPL, given its limited ability to pass on increase in price to its customers.

Working capital intensive nature of operations and stressed liquidity: RRPL's operations are working capital intensive in nature with investment required in both inventory (due to its sizeable range of products and client requirement) and in receivables. As a result, the working capital cycle of the company remains elongated at around 90-100 days. The utilization of the fund based and non-fund based limits of the company remained almost full for the 12 month period ended February 2017. Further, with high repayment obligations in the medium term the liquidity is also expected to remain stressed.

Exposure to volatility in forex rates; albeit natural hedge to a certain extent: RRPL exports around 60-65% of its finished products, which exposes it to volatility in forex rates. This is partly mitigated by way of natural hedge by way of imports,

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

which constitute around 45-50% of its raw material requirements along with hedging of receivables through forward contracts.

Key Rating Strengths

Experienced promoters and established operations: RRPL's promoters, the Madeka family have a wide experience in the bearing industry. The members of the promoter family are also engaged in managing RRPL's daily operations. RRPL manufactures bearing rings/cages used for various types of bearings including ball bearings, tapered, cylindrical, spherical and railway bearings. It also manufactures various other components like gear blanks and chassis parts. The utilization of RRPL's manufacturing facilities also remained moderate at around 60% during FY16.

Reputed clientele comprising of leading auto component manufacturers: RRPL has established relationship with leading bearing and auto component manufacturers including Timken Group, Schaeffler Group (FAG Bearings), SKF, General Motors, NTN SNR Roulements, Getrag and Carraro Group. RRPL has an established relationship with them. Further, RRPL derives around 60-65% of its revenues from export sales.

Improvement in profitability during the last few years: RRPL's total operating income increased by 7% y-o-y during FY16 to Rs.600.07 crore and further to Rs.338.95 crore in H1FY17, with increase in sales volumes. Further, RRPL's PBILDT margin improved significantly over the last few years. This improvement in operating profitability was mainly on account of increased in sale of auto components which has better profitability vis-a-vis bearing rings/cages.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial Ratios: Non-Financial Sector

About the Company
Rajkot, Gujarat based Rolex Rings Pvt. Ltd. (RRPL) was established in 1980 as a partnership concern by Mr. Rupesh Madeka and was converted into a private limited company in 2003. RRPL is engaged in manufacturing of bearing rings/cages and other components for automotive sector with an installed capacity of 85,000 metric tonnes per annum (MTPA) of automobile components at its two plants, both located at Rajkot. The company is presently being managed by Mr. Manesh Madeka and his family members. The Madeka family holds 54.46% equity in the company, while the balance is 45.51% is held by New Silk Route, a Mauritius based private equity firm.

Based on the audited financials, RRPL registered a total operating income of Rs.600.07 crore with a PAT of Rs.24.61 crore in FY16 (refers to the period from April 1 to March 31) compared with a total operating income of Rs.559.20 crore with a PAT of Rs.13.08 crore in FY15. Further, as per unaudited results for H1FY17, the company reported a total operating income of Rs.338.95 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 31, 2022	12.40	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	1.08	CARE B+; Stable
Fund-based - ST-Post Shipment Credit	-	-	-	2.35	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	9.17	CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	12.40	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	1.08	CARE B+; Stable	-	-	-	-
3.	Fund-based - ST-Post Shipment Credit	ST	2.35	CARE A4	-	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	9.17	CARE A4	-	-	-	-

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