Rolex Rings Private Limited

May 16, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	316.56 (enhanced from Rs.13.48 crore)	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	Reaffirmed
Short Term Bank Facilities	290.74 (enhanced from Rs.11.52 crore)	**CARE A4 (A Four)**	Reaffirmed
Total Facilities	**607.30 (Rupees Six Hundred Seven Crore and Thirty Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Rolex Rings Pvt. Ltd. (RRPL) continue to remain 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 further continue to remain constrained due to exposure of RRPL's profitability to volatility in raw material prices and foreign exchange rates.

The ratings, however, continue to take into account the experience of RRPL's promoters in bearings industry and its 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.

Detailed description of the key rating drivers

Key Rating Weaknesses

Positive but low networth base: 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's operating profitability 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, which constitute around 45-50% of its raw material requirements along with hedging of receivables through forward contracts.

Key Rating Strengths

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

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.*

Analyst Contact:
Name: Naresh M. Golani
Tel: 079 – 4026 5618
Mobile: 98251 39613
Email: naresh.golani@careratings.com

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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, 2025	283.71	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	32.85	CARE B+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	196.83	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	93.91	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	283.71	CARE B+; Stable	1)CARE B+; Stable (18-Apr-17)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	32.85	CARE B+; Stable	1)CARE B+; Stable (18-Apr-17)	-	-	-
3.	Fund-based - ST-Working Capital Limits	ST	196.83	CARE A4	1)CARE A4 (18-Apr-17)	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	93.91	CARE A4	1)CARE A4 (18-Apr-17)	-	-	-

CONTACT

Head Office Mumbai

Mr. Mehul Pandya
Cell: +91-98242 56265
E-mail: mehul.pandya@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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