Rolex Rings Private Limited

June 20, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities (Term Loans)	137.05 (reduced from Rs.198.55 crore)	**CARE BB-; Stable (Double B Minus; Outlook; Stable)**	**Revised from CARE D (Single D)**
Long Term Bank Facilities (Fund Based Limits)	32.85	**CARE BB-; Stable (Double B Minus; Outlook; Stable)**	**Revised from CARE D (Single D)**
Short Term Bank Facilities (Fund Based Limits)	192.18 (reduced from Rs.196.83 crore)	**CARE A4 (A Four)**	**Revised from CARE D (Single D)**
Short Term Bank Facilities (Non-Fund Based Limits)	97.41 (enhanced from Rs.93.91 crore)	**CARE A4 (A Four)**	**Revised from CARE D (Single D)**
Total Bank Facilities	**459.49 (Rupees Four Hundred Fifty Nine Crore and Forty Nine Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings for the bank facilities of Rolex Rings Pvt. Ltd. (RRPL) takes into account its regular debt servicing over the last six months with improvement in liquidity on the back of stable working capital requirements and healthy generation of cash accruals.

The ratings for RRPL, however, continue to remain constrained on account of its working capital intensive nature of operations, exposure of profitability to volatility in raw material prices and forex rates and customer concentration risk. The ratings also continue to remain constrained on account of RRPL's weak leverage despite improvement over the last three years.

The ratings, however, continue to draw strength from the experience of the promoters in the auto components industry, long-standing track record of RRPL's operations in manufacturing of bearing rings as well as its status as an approved supplier for a reputed clientele. The ratings also take into account the growth in RRPL's scale of operations and its healthy operating profitability.

RRPL's ability to sustain and increase its scale of operations while maintaining its healthy profitability along with improvement in its capital structure and effective management of its working capital requirements are the key rating sensitivities. Any large sized debt funded capex or acquisition would also be important from the credit perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

Profitability vulnerable to adverse fluctuation in price of raw materials and forex rates: Steel and its alloys form the key raw materials required for manufacturing of bearing races and auto components. The prices of steel and its alloys, being commodity items, are volatile in nature. Further, RRPL does not have any long term supply agreement with steel suppliers for its regular requirement. Due to these factors, RRPL's profitability is exposed to adverse movement in raw material prices. However, quarterly revision of contracted rates with clients mitigates this risk to a certain extent. Further, due to its exports, which contribute around 60% of its revenue, RRPL is exposed to unfavourable movement in forex rates. While this forex risk on its export receivables is partially hedged by way of imports (Rs.109 crore of imports in FY19; compared with Rs.531 crore of exports), the balance is hedged to some degree through use of forward contracts as well as working capital borrowings in foreign currency.

Working capital intensive nature of operations: RRPL's operations are working capital intensive in nature on account of investment required in maintaining inventory (due to a large product range and some import of raw materials) as well as receivables (60-90 days credit period offered to customers; longer for exports). This is partly mitigated by way of credit availed from suppliers and the balance is funded through bank borrowings availed by the company. In FY19, RRPL's working capital cycle shortened by 12 days to 115 days.

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

Customer concentration risk: RRPL is exposed to customer concentration risk, as around 70% of its total sales was contributed by its top 10 customers. RRPL supplies its components and products to other manufacturers who in turn supply them for final use to original equipment manufacturers (OEMs) in various industries. RRPL has limited bargaining power vis-à-vis these customers, who are larger players in varied industries including auto components, industrial machinery and capital goods.

Weak leverage albeit with improvement over the last three years: RRPL's net worth was negative till FY16, on account of losses incurred in the past. However, RRPL's networth turned positive in FY17 and improved significantly then onwards with accretion of profits generated from operations and reached Rs.265.42 crore as on March 31, 2019. This also translated in improvement in capital structure, but its overall gearing still remained weak at 1.63x as on March 31, 2019.

Stretched Liquidity: RRPL's liquidity remained stretched underlined by a long operating cycle of 115 days and almost full utilization of fund based working capital limits for the last 12 months ended March 2019. RRPL's free cash balance also remained negligible as on end of FY19. However, RRPL's cash flow from operations remained healthy at Rs.193 crore, in excess of its GCA of Rs.142 crore for the year, underlining improvement in its liquidity. These cash flows were utilized to repay its long term debt (Rs.91 crore repaid in FY19; including some pre-payment) and for reduction in its working capital borrowings by Rs.26 crore. It has sizeable repayments over the next 2-3 years, which are expected to be met through its cash accruals.

Key Rating Strengths

Experienced promoters and established track record of operations: The promoters of RRPL, i.e. the members of the Madeka family, are well-qualified and have a vast experience in the auto ancillary industry which is evident from the satisfactory operations of more than ten years. The promoters look after the overall operations of the company and play an active role in managing daily operations. Further, RRPL is one of the leading suppliers of forged races/rings used in various types of bearings and also manufactures various automobile components including transmission, engine, chassis and exhaust system parts. Exports contributed 63% of its revenue in FY19 (67% in FY18), while the balance was by way of supply to domestic auto ancillary manufacturers. Further, out of its exports, more than 50% revenue was by way of supply of key parts to various large suppliers of integrated automobile components.

Established relationship with reputed clientele: RRPL caters primarily to the requirement of automobile sector and has a reputed clientele comprising of established bearing and auto component manufacturers including Timken Group, Schaeffler Group, General Motors, NTN SNR Roulments and Allison Transmission LLC. Due to its long standing relationship with the customers as an approved vendor for various parts, RRPL is able to secure repeat orders from its customers. Further, RRPL's customer portfolio has a healthy mix of domestic and international players in the auto components industry and it 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 reduce geographical concentration risk to some extent.

Growth in scale of operations and healthy operating profitability: RRPL reported a healthy volume backed growth of 18% y-o-y in its total operating income (TOI) with growth in both domestic sales as well as exports, while realizations remained largely stable. RRPL's operating profitability also remained healthy marked by a PBILDT margin of 23.08% in FY19. Improvement in PBILDT margin as well as lower interest costs (with repayment of term loans and reduction in working capital bank borrowings) translated into better PAT margin.

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
Rating Methodology – Auto Ancillary Companies

About the Company

Rolex Rings Private Limited (RRPL) was established as a partnership firm by Mr. Rupesh D. Madeka in 1980 and later on reconstituted as a private limited company in 2003 and is presently managed by various members of the Madeka family led by Mr. Manesh D. Madeka. RRPL is engaged in manufacturing of automotive components (bearing rings/races, gears, exhaust system parts, chassis parts and engine parts). 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, both located near Rajkot in Gujarat, with a combined installed capacity of 140 million units for manufacturing of various automobile parts as on March 31, 2019. The promoter family held 54.49% stake in the company as on March 31, 2019, while 45.51% stake was held by Mauritius based New Silk Route, a private equity investor.

Brief financials of RRPL are tabulated below:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	777	918
PBILDT	163	212
PAT	74	117
Overall Gearing (times)	3.68	1.63
Interest coverage (times)	3.26	5.36

A-Audited, Prov.-Provisional

Status of non-cooperation with previous CRA: ICRA has continued to place the ratings of RRPL in 'Issuer not Co-operating' category vide its press release dated October 30, 2018 on account of continued non-co-operation by RRPL with ICRA's effort to undertake a review of the outstanding ratings.

Any other information: Not Applicable

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

Annexure-1: Details of 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	-	-	June 30, 2022	137.05	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	32.85	CARE BB-; Stable
Fund-based - ST-Working Capital Limits	-	-	-	192.18	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	97.41	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	137.05	CARE BB-; Stable	-	1)CARE D (05-Nov-18)	1)CARE D (25-Jul-17) 2)CARE B+; Stable (16-May-17) 3)CARE B+; Stable (18-Apr-17)	-
2.	Fund-based - LT-Cash Credit	LT	32.85	CARE BB-; Stable	-	1)CARE D (05-Nov-18)	1)CARE D (25-Jul-17) 2)CARE B+; Stable (16-May-17) 3)CARE B+; Stable (18-Apr-17)	-
3.	Fund-based - ST-Working Capital Limits	ST	192.18	CARE A4	-	1)CARE D (05-Nov-18)	1)CARE D (25-Jul-17) 2)CARE A4 (16-May-17) 3)CARE A4 (18-Apr-17)	-
4.	Non-fund-based - ST-Letter of credit	ST	97.41	CARE A4	-	1)CARE D (05-Nov-18)	1)CARE D (25-Jul-17) 2)CARE A4 (16-May-17) 3)CARE A4 (18-Apr-17)	-

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:

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