Rolex Rings Private Limited

July 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	88.78 (reduced from 169.90)	**CARE BB; Stable (Double B; Outlook: Stable)**	**Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)**
Short-term Bank Facilities	289.59	**CARE A4 (A Four)**	**Reaffirmed**
Total Facilities	**378.37 (Rupees Three Hundred Seventy Eight Crore and Thirty Seven Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Rolex Rings Private Limited (RRPL) takes into account consistent improvement in its capital structure through rationalization of its term debt.

The ratings of RRPL, however, continue to remain constrained by exposure of its profitability to volatility in raw material prices & foreign exchange rates, customer concentration risk and working capital intensive nature of operations leading to stretched liquidity. The ratings are further constrained by slowdown in the automobile industry leading to decline in RRPL's scale of operations and operating profitability in FY20.

The ratings, however, continue to draw strength from the experience of RRPL's promoters in the auto component industry, long-standing track record of RRPL's operations in manufacturing of bearing rings as well as its status as an approved supplier for reputed clientele along-with its stable debt coverage indicators.

Key Rating Sensitivities

Positive factors

- Maintaining FY20 scale of operations and PBILDT margin
- Effective management of its working capital requirements leading to contraction in operating cycle to less than 110 days on sustained basis

Negative Factors

- Decline in scale of operations with TOI below Rs.500 crore along with PBILDT margin below 16% on a sustained basis
- Major debt funded capex leading to deterioration in its overall gearing to more than 1.50x on a sustained basis
- Elongation in operating cycle beyond 130 days on a sustained basis
- Moderation in its liquidity on account of delay in receipt of receivables or piling up of inventory due to adverse impact of COVID-19 on key customers

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in scale of operations and operating profitability; albeit they remain at moderate level

RRPL's total operating income (TOI) declined by 26% y-o-y to Rs.673.07 crore in FY20 on account of decline in both domestic as well as export sales due to slowdown in demand for its key customers. Decline in scale of operations also led to decline in operating profitability due to lower absorption of fixed cost, underlined by y-o-y reduction of 415 bps in its PBILDT margin in FY20. However, RRPL reported healthy PAT and Gross Cash Accruals of Rs.62.33 crore and Rs.88.84 crore respectively during FY20.

Profitability vulnerable to adverse fluctuation in raw materials prices and forex rates

Steel and its alloys form the key raw materials required for manufacturing of bearing rings 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

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

agreement with steel suppliers for its regular requirement. Consequently, RRPL's profitability is exposed to adverse movement in raw material prices. Due to its exports, which contribute around 65% of its sales, RRPL is exposed to unfavourable movement in forex rates. However, RRPL has a partial natural hedge by way of import payables (imports of Rs.109 crore vis-à-vis exports of Rs.408 crore in FY20) for its export receivables, while the balance exposure is hedged to a certain extent by use of working capital borrowings in foreign currency as well as forward contracts. Moreover, quarterly revision of contracted rates with clients mitigates risk associated with major fluctuation in raw material prices and forex rates to a large extent.

Customer concentration risk

RRPL is exposed to customer concentration risk with top 10 customers accounting for around 77% of its total sales. RRPL, 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. RRPL has limited bargaining power with its customers who are relatively large players in varied industries including auto components and capital goods.

Slowdown in end user automobile industry

The automobile industry is inherently vulnerable to the economic cycles and is sensitive to the interest rates and fuel prices. Overall auto sales, registered a y-o-y decline of 14.80% in FY20 vis-à-vis a y-o-y growth of 6.40% in FY19, declined by 41.60% y-o-y in March 2020 led by pandemic Covid-19 amidst weak consumer sentiments along with rising insurance and ownership costs due to new BS VI norms, liquidity crisis in the NBFC sector, volatile fuel prices. Overall auto exports, witnessed a marginal y-o-y growth of 3.90% in FY20 vis-à-vis double-digit y-o-y growth of 14.10% in FY19, declined by 24.50% y-o-y in March 2020 on the back of slowdown in global economies led by the pandemic Covid-19. Even if the pandemic is curtailed, the consumer sentiments are expected to be unfavorable and demand is expected to remain muted during H1FY21 led by volatile economic conditions. RRPL, being ancillary to automobile industry, faces significant risks associated with the dynamics of the auto industry. Further, lockdown announced by Government of India from March 25, 2020 halted the operations of company. However, with resumption of operations in May 2020 RRPL achieved sales of Rs.53 crore in Q1FY20.

Liquidity: Stretched

RRPL's liquidity remained stretched marked by a long operating cycle of 131 days and utilization of fund based working capital limits at ~87% for the last 12 months ended April 2020. Also, its current ratio stood weak at 0.85 times as on March 31, 2020. However, even amidst the outbreak of corona virus and its adverse impact on the automobile industry, RRPL could timely realize its debtors due in Q1FY21 lending support to its liquidity. Consequently, RRPL has not availed the moratorium from any of its lenders as a COVID-19 relief measure permitted by the Reserve Bank of India. RRPL's cash flow from operations remained healthy at Rs.168 crore in FY20 which were utilized to repay its term loan obligations in FY20 along with partial pre-payment of term loan obligations of FY21. Moreover, its cash accruals over the next two years are expected to be sufficient vis-à-vis its debt repayment obligations of Rs.20.79 crore and Rs.35.14 crore in FY21 and FY22 respectively.

Key Rating Strengths

Experienced promoters and long standing 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. RRPL is one of the leading suppliers of bearing rings used in various types of bearings and also manufactures various automobile components for transmission, engine, chassis and exhaust system parts.

Approved supplier for 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, NTN SNR Roulments and Allison Transmission. 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 65% of its sales 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 to large extent.

Improvement in capital structure and stable debt coverage indicators
Capital structure of RRPL has shown consistent improved marked by overall gearing improving from 3.68 times as on March 31, 2018 to 2.04 times as on March 31, 2019 to 1.12 times as on March 31, 2020. Improvement in capital structure was mainly on account of accretion of profit to net-worth as well as reduction in total debt due to repayment of term loans including partial pre-repayment of term loan installments due in FY21 and reduction in working capital bank borrowings aided by healthy generation of cash flow from operations. Debt coverage indicators remained largely stable, marked by TD/GCA and TD/PBILDT of 3.43x (3.16x as on March 31, 2019) and 2.43x (2.07x as on March 31, 2019) as on March 31, 2020 respectively.

Analytical Approach: Standalone
Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy of Default Recognition
Rating Methodology - Manufacturing Companies
Rating Methodology - Auto Ancillary Companies
Financial Ratios – Non-Financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
CARE’s Policy on Curing period

About the Company
Rolex Rings Private Limited 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 Mr. Manesh D. Madeka and other family members. RRPL is engaged in manufacturing of automotive components (including bearing rings, engine parts, transmission parts, exhaust system parts and chassis 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 which are located near Rajkot in Gujarat. The promoter family held 54.49% stake in the company as on March 31, 2020, while 45.51% stake is held by New Silk Route, Mauritius, a private equity investor.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	910.83	673.07
PBILDT	207.52	125.40
PAT	61.65	62.33
Overall Gearing (times)	2.04	1.12
Interest coverage (times)	5.03	5.34

A-Audited, Prov.-Provisional

Status of non-cooperation with previous CRA: Not Applicable
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	-	-	March 31, 2022	55.93	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	55.93	CARE BB; Stable	-	1)CARE BB-; Stable (20-Jun-19)	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 BB-; Stable (20-Jun-19)	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 A4 (20-Jun-19)	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 A4 (20-Jun-19)	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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