

## Rolex Rings Ltd.

Rolex Rings Ltd. is one of the five largest forgings companies in India in terms of installed capacity and is a key supplier of bearing rings catering to leading bearing manufacturers in India. It has a comprehensive product portfolio and supplies bearing rings and automotive components for vehicles, industrial machinery, wind turbines and railways, etc. It has 22 forging lines with total installed capacity of 1,44,750 MTPA and 528 spindles with capacity of 69 Mn parts PA. Rolex Rings has a longstanding relationship with its clients, a comprehensive product portfolio having wide application, and has presence across geographies with ~56% of revenues from outside India. The company is expected to exit CDR in March 2022.

**Positives:** (a) Comprehensive product portfolio that limits dependency on single product, aids in attracting new customers and increase wallet share. (b) Manufacturing capabilities which offer scale, flexibility, and locational advantage. (c) Long standing customer relationships and geographically diversified revenue base (d) Significant improvement in financial profile over the last three years.

**Investment concerns:** (a) The company in past had defaulted in payment of certain loan facilities and restructured term debt amounted to ₹487 crores (b) Enforcement of pledge by the lenders will reduce the shareholding of Promoters (c) Top 10 customers accounted for a substantial majority (~70%) of revenues over the past few years. (d) Continuing impact of the COVID-19 could have a significant effect on operations & financial condition.

**Outlook & Valuation:** Rolex Rings was progressing well before the auto slowdown and Covid impacted its business in FY20 and FY21. The company is almost out of CDR and had shown good operational performance prior to FY20 with good cash generation helping it reduce debt levels. It orders from customers are high volume orders and are not very critical in nature as far as application is concerned. Given that the MAT credit of ~₹25 crores has boosted the bottom line in FY21, we believe that valuations are capturing all positives. Moreover, we believe that promoters picking up ~25 LK shares at Rs 10 per share prior to issue via right issue of OCRPS and subsequent conversion is detrimental to other shareholders. Hence, we assign "Neutral" to the issue.

### Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020	FY2021
<b>Net Sales</b>	<b>770</b>	<b>904</b>	<b>666</b>	<b>616</b>
% chg	-	-	-26.4	-7.5
<b>Reported Net Profit</b>	<b>87</b>	<b>59</b>	<b>53</b>	<b>87</b>
% chg	-	-	-10.3	64.2
EBITDA (%)	20.9	22.2	18.2	17.7
<b>EPS (₹)</b>	<b>30.4</b>	<b>21.7</b>	<b>19.4</b>	<b>31.9</b>
P/E (x)	29.6	41.5	46.3	28.2
P/BV (x)	15.7	11.4	9.1	6.9
ROE (%)	106.0	31.8	21.9	27.8
ROCE (%)	33.9	12.2	13.6	17.7
EV/EBITDA	18.3	14.1	22.2	24.7
EV/Sales	3.7	3.1	4.0	4.4

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

## NEUTRAL

Issue Open: July 28, 2021

Issue Close: July 30, 2021

Fresh issue: ₹56 cr

Post Eq. Paid up Capital: ₹24.6cr

Issue size (amount): ₹731 cr

Price Band: ₹880-900

Lot Size: 16 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹2,398 cr - \*\* ₹2,451 cr

Promoters holding Pre-Issue: 58.99%

Promoters holding Post-Issue: 57.64%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	57.6%
Others	42.4%

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## Company background

Incorporated in 2003, Rolex Rings Ltd is one of the top five forging companies in India (Source: ICRA Report) and a manufacturer and global supplier of hot rolled forged and machined bearing rings, and automotive components for segments of vehicles including passenger vehicles, commercial vehicles, two-wheeler vehicles and off-highway vehicles and electric vehicles. They are one of the key manufacturers of bearing rings in India (Source: ICRA Report) and cater to most of the leading bearing companies in India. They supply domestically and internationally to large marquee customers including some of the leading bearing manufacturing companies, tier-I suppliers to global auto companies and auto OEMs. They have supplied bearing rings and automotive components to over 60 customers in 17 countries and ~70% of 10 largest customers have been associated with the company for a decade.

## Issue details

The issue comprises of offer for sale of up to ₹731 crore and Fresh issue of ₹56 Cr in the price band of ₹880-₹900.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	1,56,96,667	59.0	1,56,96,667	57.6
Public	1,09,14,423	41.0	1,15,36,645	42.4
<b>Total</b>	<b>2,66,11,090</b>	<b>100.0</b>	<b>2,72,33,312</b>	<b>100.0</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- ₹45 Cr towards long-term working capital requirements of the company
- General corporate purposes.

## Key Management Personnel

**Manesh Dayashankar Madeka** is the Chairman and Managing Director. He together with Rupesh Dayashankar Madeka started the business under the partnership firm by the name of Rolex Industries in 1978.

**Bhautik Dayashankar Madeka** is the Whole Time Director. He has over 18 years of work experience in production, planning and control. He joined the company on December 31, 2002 when it was still a partnership firm.

**Vivek Sett** is the Nominee Director. He was previously associated with Ispat Industries as its director (commercial) and Tata Realty & Infrastructure, Tata Teleservices Ltd and Hughes Telecom (India) Ltd as their chief financial officer. He is currently a Partner at New Silk Route Advisors.

**Hiren Dilipbhai Doshi** is the Chief Financial Officer of the company. Prior to joining the company, he worked with Atul Auto Ltd for over 11 years.

**Hardik Dhimantbhai Gandhi** is the Company Secretary and Compliance Officer. He has over 5 years of experience in legal and secretarial compliance.

**Exhibit 1: Consolidated Profit & Loss Statement**

Y/E March (₹ Cr)	FY2018	FY2019	FY2020	FY2021
<b>Total operating income</b>	<b>770</b>	<b>904</b>	<b>666</b>	<b>616</b>
% chg	-	-	-26.4	-7.5
<b>Total Expenditure</b>	<b>609</b>	<b>703</b>	<b>545</b>	<b>507</b>
Cost of materials consumed	372	453	314	317
Purchases of stock-in-trade	-	-	-	-
Changes In Inventories	(7)	(19)	16	(29)
Employee benefits expense	55	61	53	52
Other expenses	190	208	163	168
<b>EBITDA</b>	<b>161</b>	<b>201</b>	<b>121</b>	<b>109</b>
% chg	-	24.9	-39.6	-10.4
(% of Net Sales)	20.9	22.2	18.2	17.7
Depreciation & Amortization	23	25	27	25
<b>EBIT</b>	<b>152</b>	<b>176</b>	<b>95</b>	<b>83</b>
% chg	-	-	-46.0	-12.1
(% of Net Sales)	19.4	19.4	14.3	13.5
Finance costs	51	42	32	12
Other income	7	7	9	3
(% of Sales)	0.9	0.8	1.4	0.6
<b>Recurring PBT</b>	<b>101</b>	<b>134</b>	<b>63</b>	<b>72</b>
% chg	-	-	-53.0	14.4
Exceptional item	-	-	-	-
Tax	21	82	19	(12)
<b>PAT (reported)</b>	<b>87</b>	<b>59</b>	<b>53</b>	<b>87</b>
% chg	-	-	-10.3	64.2
(% of Net Sales)	11.1	6.5	7.9	14.1
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>30.4</b>	<b>21.7</b>	<b>19.4</b>	<b>31.9</b>

Source: Company, Angel Research

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ Cr)	FY2018	FY2019	FY2020	FY2021
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	24	24	24	24
Other equity	132	191	244	333
<b>Shareholders' Funds</b>	<b>156</b>	<b>215</b>	<b>268</b>	<b>357</b>
<b>Total Loans</b>	<b>505</b>	<b>385</b>	<b>259</b>	<b>250</b>
Other liabilities	19	70	78	53
<b>Total Liabilities</b>	<b>681</b>	<b>671</b>	<b>605</b>	<b>660</b>
<b>APPLICATION OF FUNDS</b>				
Property, Plant and Equipment	335	381	373	371
Right-of-use assets	0.1	0	0	0
Capital work-in-progress	40	1	-	1
Intangible assets	1	1	1	1
Non-Current Investments	-	-	-	-
<b>Current Assets</b>	<b>406</b>	<b>368</b>	<b>293</b>	<b>379</b>
Inventories	161	160	131	171
Investments	-	-	-	-
Trade receivables	201	181	128	171
Cash and Cash equivalents	16	5	16	10
Loans & Other Financial Assets	14	10	9	7
Other current assets	15	11	9	19
<b>Current Liability</b>	<b>123</b>	<b>112</b>	<b>81</b>	<b>137</b>
<b>Net Current Assets</b>	<b>283</b>	<b>256</b>	<b>212</b>	<b>241</b>
Other Non-Current Asset	22	31	19	45
<b>Total Assets</b>	<b>681</b>	<b>671</b>	<b>605</b>	<b>660</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash flows**

Y/E March (₹cr)	FY2018	FY2019	FY2020	FY2021
<b>Operating profit</b>	<b>94</b>	<b>141</b>	<b>72</b>	<b>75</b>
Net changes in working capital	(22)	25	75	(43)
Cash generated from operations	141	229	206	65
Direct taxes paid (net of refunds)	(5)	(35)	(22)	(6)
<b>Net cash flow from operating activities</b>	<b>136</b>	<b>194</b>	<b>184</b>	<b>59</b>
Purchase of Assets	(36)	(37)	(16)	(39)
Interest received	1	1	2	1
Others	3	(0)	(0)	2
<b>Cash Flow from Investing</b>	<b>(32)</b>	<b>(36)</b>	<b>(14)</b>	<b>(36)</b>
Repayment (long term borrowings)	(56)	(91)	(87)	(2)
Repayment (short term borrowings)	(14)	(26)	(48)	(10)
Proceeds from issue/repayment debentures	-	-	-	-
Interest paid	(50)	(41)	(34)	(11)
Interest on Lease liabilities	-	-	-	-
Others	(0)	0	(0)	3
<b>Cash Flow from Financing</b>	<b>(121)</b>	<b>(158)</b>	<b>(169)</b>	<b>(20)</b>
Inc./(Dec.) in Cash	(17)	(1)	1	3
<b>Opening Cash balances</b>	<b>18</b>	<b>1</b>	<b>0</b>	<b>-</b>
<b>Closing Cash balances</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>3</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2018	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	29.6	41.5	46.3	28.2
P/CEPS	23.1	29.0	30.8	21.8
P/BV	15.7	11.4	9.1	6.9
EV/Sales	3.7	3.1	4.0	4.4
EV/EBITDA	18.3	14.1	22.2	24.7
<b>Per Share Data (Rs)</b>				
EPS (Basic)	30.4	21.7	19.4	31.9
EPS (fully diluted)	30.4	21.7	19.4	31.9
Cash EPS	39	31	29	41
Book Value	57	79	98	131
<b>Returns (%)</b>				
ROE	106.0	31.8	21.9	27.8
ROCE	33.9	12.2	13.6	17.7
<b>Turnover ratios (x)</b>				
Receivables (days)	94	73	70	101
Inventory (days)	96	83	88	123
Payables (days)	59	47	49	85
Working capital cycle (days)	131	109	108	140

Source: Company, Angel Research

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