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Issue Details

Listing	BSE & NSE
Open Date	28 th July 2021
Close Date	30 th July 2021
Price Band	INR 880-900
Market Lot	16 shares
Minimum Lot	1 Lot

Rolex Rings Ltd (RRL), established in 2003, is in the business of manufacturing of bearings and auto components. It has over 60 customers in 17 countries across automobiles(2W/PV/CV/EV), bearings, wind turbines and railways, among other segments. It has the fifth largest forging capacity of 1,44,750 MTPA and exports 56% of its total turnover.

RRL is one of the largest manufacturers of bearing rings in India (inner and outer) with a wide range of offerings (from 25 to 900 mm in diameters and 0.01 kgs to 163+ kgs in weight). It manufactures ~150 different auto components and this segment comprises 40-42% of its total turnover.

Issue Structure

Offer for sale	92%
Fresh Issue	8%
Issue Size	INR 731 cr
Total no of shares	8,122,222
QIB share (%)	≥ 50%
Non Inst share (%)	≤ 15%
Retail share (%)	≤ 35%

With three manufacturing units in Rajkot, the company has 22 forging lines, machining facilities consisting of 528 spindles (combined installed capacity of 69 million parts p.a.), and other machinery including heat treatment furnaces, cold rolling machines and other infrastructure. Its equipment is sourced from the best global manufacturers- DMG, FUJI, ACE, TSUGAMI, HYUNDAI, MAZAK and MURATEE. The location of its manufacturing facilities at Rajkot helps it in accessing various automotive clusters in North India, West India and South India, as well as cater to the export markets through the ports of Kandla, Mundra and Pipavav.

Shareholding Pattern

	Pre (%)	Post (%)
Promoters	59.0	57.6
Institutional	41.0	27.5
Public	0.0	14.9

Apart from raw materials, power is one of the key constituents of the cost element. In order to optimize power costs, RRL is increasing the contribution from renewable energy sources and is planning to add another 16 MW of solar energy to its existing renewable portfolio of 8.75MW wind at Bhogat and 1.58 MW solar at Lamba. This should help improve operating margins significantly.

Impacted by the pandemic, RRL's operating performance declined sharply. Over the period FY19-21, the capacity utilization dropped to 34% from 50% leading to a 17.4% / 26.4% CAGR decline in the Revenue / EBITDA to INR 616.3 / 108.9 crs. The Auto Components business de-grew at a CAGR of -10.2% to INR 237.3 cr, while the bearing business de-grew at a CAGR of -21.3% to INR 331 cr.

Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoIC (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY20	666.0	121.4	52.9	18.2	7.9	19.4	98.4	19.7	16.0	46.3	9.1	22.0
FY21	616.3	108.9	87.0	17.7	14.1	31.9	131.0	24.4	12.3	28.2	6.9	24.4
FY22E	1,030.9	218.9	138.0	21.2	13.4	50.7	202.2	25.1	20.1	17.8	4.5	12.2
FY23E	1,288.7	310.4	218.5	24.1	17.0	80.2	282.4	28.4	26.4	11.2	3.2	8.2
FY24E	1,472.8	320.9	213.7	21.8	14.5	78.5	360.9	21.7	22.9	11.5	2.5	7.5



EBITDA margins slumped by 1090 bps to 17.7% due to higher freight charges and lower revenue.

However, over the same period PAT grew at a CAGR of 21.4% (to INR 87 cr) on utilization of MAT credit entitlement. PAT margins surged by 758bps to 14.1%. The net debt to equity declined from 1.8X in FY19 to 0.7X in FY21, while the gross debt was lowered to INR 249 cr in FY21 from INR 385 cr in FY19. The decline in revenue and lower operating margins impacted the return ratios too. RoE and RoIC, declined to 24.4% (-304bps) and 12.3% (-1328bps) respectively.

The management is looking to raise INR 731 cr through a maiden public offering (INR 675 cr through OFS and INR 56 cr through a fresh issue). The net proceeds from the fresh issue will be utilized for long term working capital requirements and the balance will go towards other corporate expenses.

We are optimistic about the global efforts to deal with the pandemic and the surging liquidity coupled with the acceleration of the EV trend and China+1 policies will help RRL return to the growth trajectory. Accordingly, we forecast that utilizations will improve to 80% by FY24. Consequently, Revenue / EBITDA / PAT are expected to grow at a CAGR 33.7% / 43.4% / 35.9% to INR 1,473 / 321 / 214 crs by FY24 respectively. EBITDA and net margins are expected to improve by 413bps (to 21.8%) and 40bps (to 14.5%) due to the operating leverage from the higher capacity utilizations and savings from commencement of renewable's energy contribution. This will lead to a sharp improvement in RoIC to 22.9% (+1063bps). However, RoE is expected to marginally decline to 21.7% (-263bps).

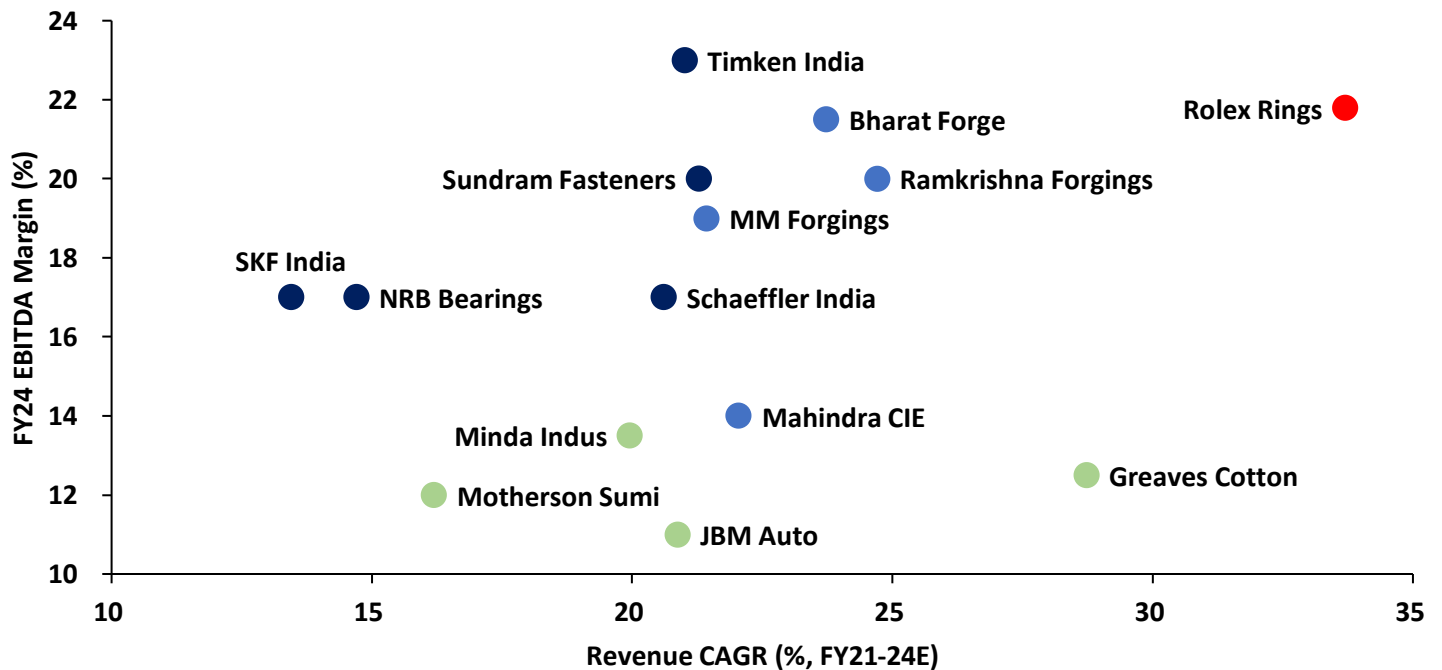
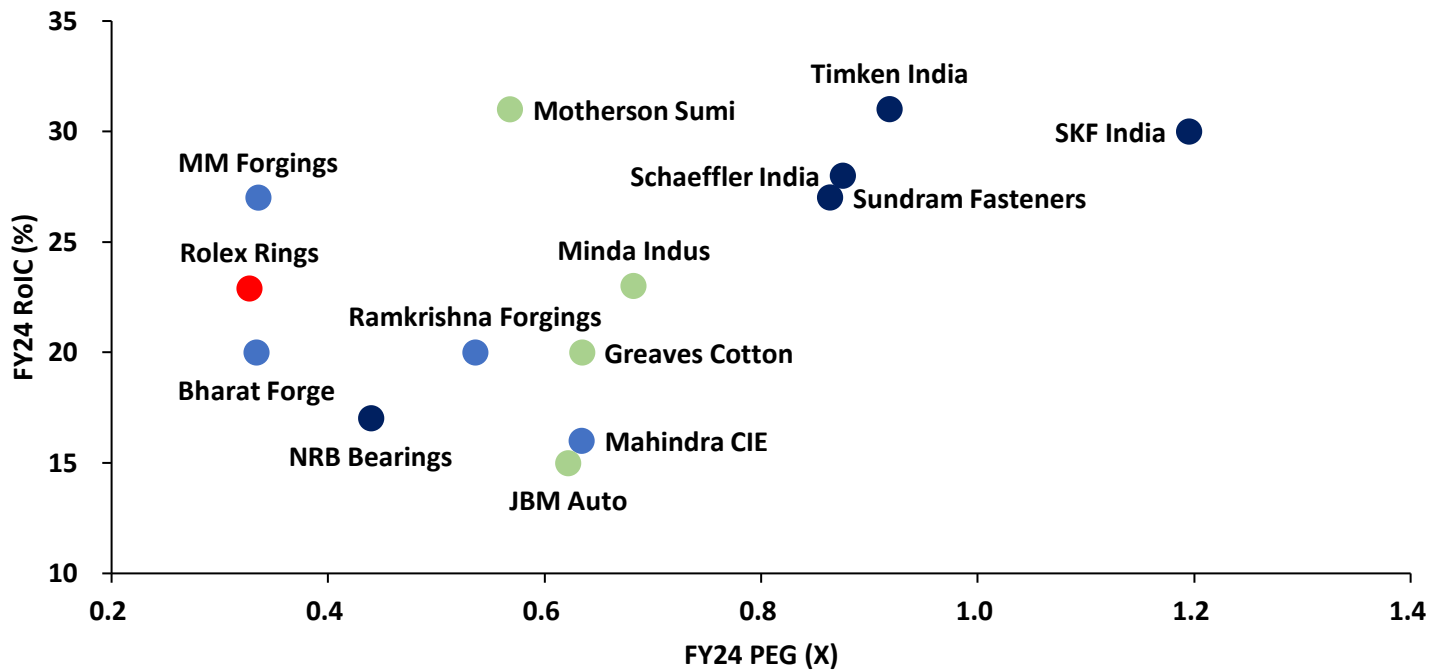
Valuation

We initiate coverage with a SUBSCRIBE for long term investing. Our target price of INR 1,177 (15X FY24 earnings) represents a potential upside of 31% from the offer price of INR 900 over a period of 18-24 months.

Better than expected recovery in the global economy, a rebound of the domestic automotive industry and the management's guidance on higher capacity utilization in the coming years bolster our confidence in improving revenue growth and profitability.



RRL's recovery in capacity utilization and strong margin profile deserves re-rating



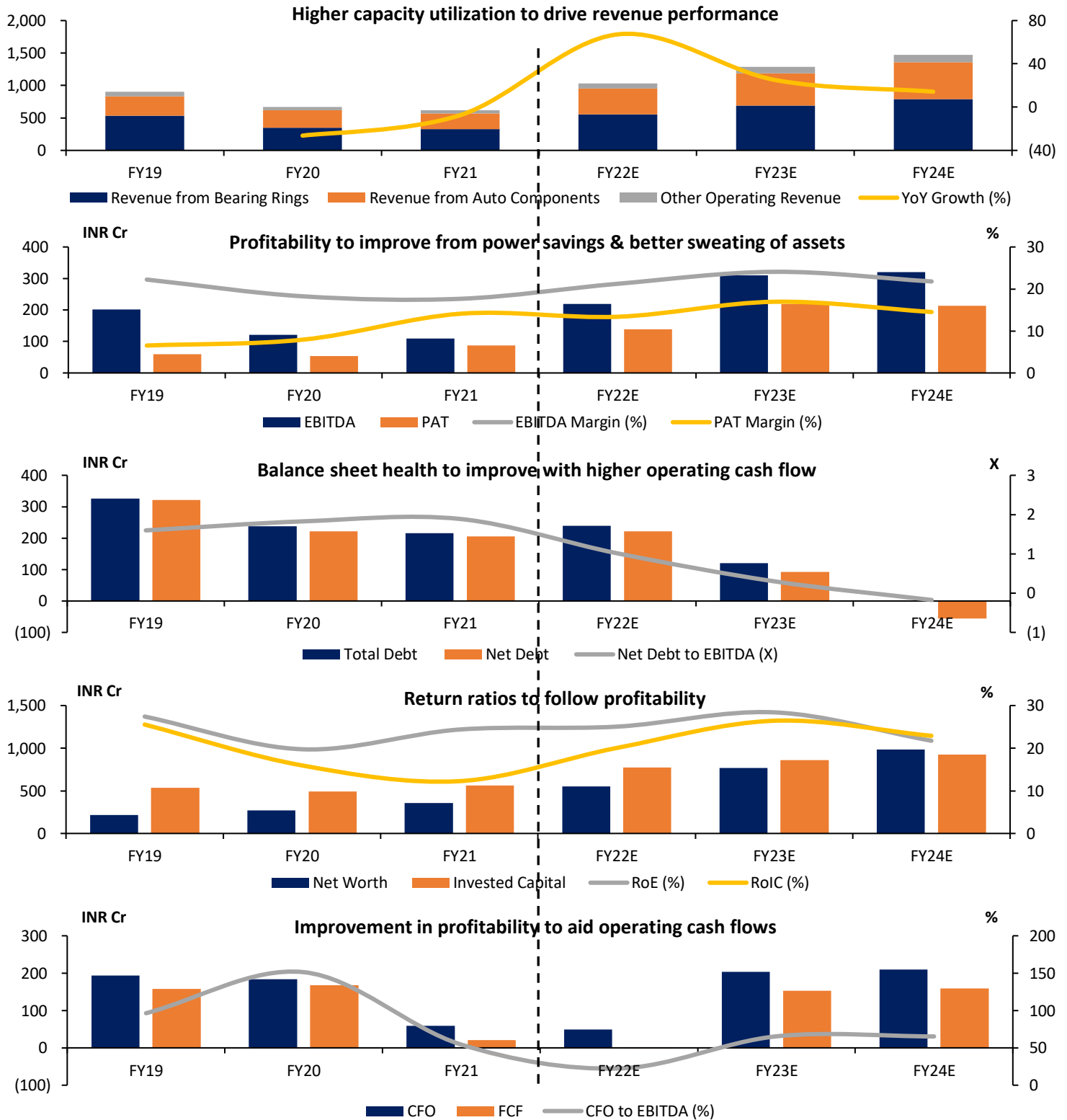
Source: Bloomberg & Ventura Research

● Forging Companies ● EV/green tech suppliers ● Bearing Companies

Peer Comparison

Particulars	Revenue	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BVPS ₹	RoE (%)	RoIC (%)	P/E	P/B	EV/EBITDA
Rolex Rings Ltd (CMP: Rs.900 Mkt Cap: Rs.2451 cr)												
FY19	904	201	59	22.2	6.5	21.7	79.1	27.4	25.5	41.5	11.4	13.8
FY20	666	121	53	18.2	7.9	19.4	98.4	19.7	16.0	46.3	9.1	22.0
FY21	616	109	87	17.7	14.1	31.9	131.0	24.4	12.3	28.2	6.9	24.4
FY22	1,031	219	138	21.2	13.4	50.7	202.2	25.1	20.1	17.8	4.5	12.2
FY23	1,289	310	218	24.1	17.0	80.2	282.4	28.4	26.4	11.2	3.2	8.2
Bharat Forge Ltd. (CMP: Rs.789.4 Mkt Cap: Rs.36751 cr)												
FY19	10,146	2,056	1,032	20.3	10.2	22.2	115.5	19.2	18.3	35.6	6.8	19.3
FY20	8,056	1,115	350	13.8	4.3	7.5	115.5	6.5	7.0	105.1	6.8	35.5
FY21	6,274	760	181	12.1	2.9	3.9	113.1	3.4	2.9	202.9	7.0	50.8
FY22	8,504	1,620	789	19.1	9.3	16.9	129.0	13.1	13.0	46.6	6.1	23.7
FY23	10,403	2,207	1,237	21.2	11.9	26.6	149.5	17.8	20.1	29.7	5.3	17.1
Ramkrishna Forgings Ltd. (CMP: Rs.793.6 Mkt Cap: Rs.2540 cr)												
FY19	1,931	383	118	19.8	6.1	36.9	267.6	13.8	15.7	21.5	3.0	8.8
FY20	1,216	212	9	17.4	0.8	3.0	267.6	1.1	5.0	267.2	3.0	16.6
FY21	1,088	193	(0)	17.7	(0.0)	(0.1)	269.0	(0.0)	4.1	NA	3.0	18.3
FY22	1,912	368	113	19.3	5.9	35.2	311.6	11.3	15.4	22.5	2.5	9.6
FY23	2,238	445	163	19.9	7.3	51.1	360.8	14.2	18.3	15.5	2.2	7.9
MM Forgings Ltd. (CMP: Rs.716.1 Mkt Cap: Rs.1729 cr)												
FY19	918	180	79	19.6	8.6	32.7	177.0	18.5	13.7	21.9	4.0	12.2
FY20	753	132	42	17.6	5.5	17.3	177.0	9.8	9.4	41.4	4.0	15.5
FY21	675	105	44	15.5	6.5	18.3	203.0	9.0	12.1	39.1	3.5	19.5
FY22	978	168	74	17.2	7.5	30.6	226.8	13.5	21.8	23.4	3.2	10.6
FY23	1,184	219	121	18.5	10.2	50.0	262.7	19.0	26.7	14.3	2.7	8.1
SKF India Ltd. (CMP: Rs.2774 Mkt Cap: Rs.13714 cr)												
FY19	3,035	486	325	16.0	10.7	65.7	343.5	19.1	38.5	42.2	8.1	27.1
FY20	2,842	349	289	12.3	10.2	58.5	343.5	17.0	26.3	47.4	8.1	37.0
FY21	2,501	375	294	15.0	11.7	59.4	408.8	14.5	25.2	46.7	6.8	34.8
FY22	3,100	502	361	16.2	11.6	73.0	368.9	19.8	29.8	38.0	7.5	25.7
FY23	3,542	591	430	16.7	12.1	87.0	439.6	19.8	29.8	31.9	6.3	21.6
Schaeffler India Ltd. (CMP: Rs.6568.6 Mkt Cap: Rs.20534 cr)												
FY19	4,361	634	368	14.5	8.4	117.6	947.6	12.4	22.3	55.9	6.9	31.1
FY20	3,762	536	291	14.3	7.7	93.1	947.6	9.8	17.5	70.6	6.9	36.1
FY21	5,185	855	532	16.5	10.3	170.1	1,134.8	15.0	29.0	38.6	5.8	22.5
FY22	5,884	999	622	17.0	10.6	199.1	1,282.6	15.5	29.7	33.0	5.1	19.1
FY23	6,554	1,124	702	17.1	10.7	224.5	1,456.2	15.4	27.4	29.3	4.5	17.0
NRB Bearings Ltd. (CMP: Rs.141.8 Mkt Cap: Rs.1374 cr)												
FY19	965	185	108	19.2	11.2	11.2	48.5	23.0	21.7	12.7	2.9	8.6
FY20	776	86	32	11.1	4.1	3.3	48.5	6.8	7.6	42.8	2.9	18.7
FY21	728	103	42	14.1	5.7	4.3	50.1	8.6	9.9	33.0	2.8	15.6
FY22	907	145	79	16.0	8.7	8.1	57.8	14.0	15.3	17.5	2.5	11.0
FY23	1,012	167	95	16.5	9.4	9.8	65.2	15.0	16.3	14.5	2.2	9.6
Timken India Ltd. (CMP: Rs.1547.6 Mkt Cap: Rs.11640 cr)												
FY19	1,664	289	150	17.3	9.0	19.9	178.3	11.2	17.9	77.7	8.7	39.7
FY20	1,618	363	246	22.5	15.2	32.7	178.3	18.4	24.4	47.3	8.7	30.9
FY21	1,367	252	143	18.4	10.5	19.0	167.0	11.4	16.4	81.5	9.3	45.7
FY22	1,734	347	214	20.0	12.3	28.4	201.6	14.1	20.6	54.5	7.7	32.8
FY23	2,242	511	334	22.8	14.9	44.5	236.4	18.8	31.0	34.8	6.5	22.0
Mahindra CIE Automotive Ltd. (CMP: Rs.246.3 Mkt Cap: Rs.9334 cr)												
FY19	7,908	969	354	12.2	4.5	9.3	122.3	7.6	11.1	26.4	2.0	10.9
FY20	6,050	502	106	8.3	1.8	2.8	122.3	2.3	3.2	87.9	2.0	21.0
FY21	8,179	1,080	468	13.2	5.7	12.4	138.2	8.9	11.9	19.9	1.8	9.4
FY22	8,835	1,238	635	14.0	7.2	16.7	152.2	11.0	14.0	14.7	1.6	7.7
FY23	9,818	1,353	705	13.8	7.2	18.6	173.0	10.7	15.2	13.2	1.4	6.6

Source: Bloomberg & Ventura Research



Source: Company Reports and Ventura Research

**Details of Manufacturing Units at Rajkot**

Unit Details	Process Undertaken
Unit I	Forging Heat Treatment Shot Blasting
Unit II	Forging Heat Treatment Shot Blasting Cold Rolling Machining Quality Control & Testing Packaging & Dispatch
Unit III	Tool & Die Making Shot Blasting Machining Quality Control & Testing Finished Goods Warehouse Packaging & Dispatch

*Source: Company Reports***Stable revenues on the back of a global footprint***Source: Company Reports*

**Management Team**

Key Persons	Designation	Details
Mr Manesh Dayashankar Madeka	Chairman & MD	He together with Rupesh Dayashankar Madeka started the business under the partnership firm by the name of Rolex Industries in 1978. He has over 40 years of work experience in marketing, production and finance.
Mr Bhautik Dayashankar Madeka	Whole Time Director	He holds a bachelor's degree in commerce from Ranchi University, Ranchi. He has over 18 years of work experience in production, planning and control. He joined Rolex Rings on December 31, 2002 when it was still a partnership firm.
Mr Mihir Rupeshkumar Madeka	Whole Time Director	He holds a bachelor's degree in engineering from Nagpur University. He has over 18 years of work experience in marketing functions and in the development of new customers and products. He joined Rolex Rings on December 31, 2002 when it was still a partnership firm.
Mr Hiren Dilipbhai Doshi	CFO	He joined our Company as Vice President – Finance with effect from February 1, 2009 and was designated as the CFO with effect from March 12, 2021. He is a certified chartered accountant of the Institute of Chartered Accountants of India. He has been responsible for the finance function of Rolex Rings. Prior to joining Rolex Rings, he worked with Atul Auto Ltd for over 11 years
Mr Bharat Jiten Madeka	President - Operations & Human Resources	He has a diploma in engineering (mechanical) from N.M. Gopani Polytechnic Institute, Ranpur. He joined Rolex Rings in the year 2007 and has had over 13 years of experience in tool designing and forging lines
Mr Hemal Paresh Madeka	President – Supply chain & Quality Assurance	He holds a bachelor's degree in engineering (mechanical) from Nagpur University. He joined Rolex Rings while it was still a partnership firm on December 31, 2002 and has over 18 years of experience with Rolex Rings. He is responsible for the supply chain and quality assurance function of Rolex Rings
Mr Pinakin Dayashankar Madeka	Head of Forgings	He joined Rolex Rings while it was still a partnership firm in 1989. He has over 31 years of work experience with our Company. He is responsible for the forging functions of our Company.

Source: Company Reports



Issue Structure and Offer Details

The proposed issue size of RRL's IPO is INR 731 cr, out of which INR 56 cr is through a fresh issue, while INR 675 cr is an offer for sale. The price band for the issue is in the range of INR 880-900 and the bid lot is 16 shares and multiples thereof.

Issue Structure		
Category	No. of shares offered	No of shares Offered
QIB	At least 4,061,111	At least 50% of public issue
Non-Institutional Bidders	Not more than 1,218,333	Not more than 15% of public issue
Retail	Not more than 2,842,778	Not more than 35% of public issue

* No of shares based on higher price band of INR 900

Source: Company Reports & SEBI

Shareholding Pattern		
Category	Pre-issue	Post-issue
Promoters	58.99%	57.64%
Institutions	41.01%	27.45%
Public	0.0%	14.91%

Source: Company Reports and SEBI

KEY RISK CONCERNS

- The pickup in capacity utilization is not as anticipated in case of a global slowdown. In this case operating metrics could belie our assumptions and estimates.
- Availability of raw materials and fluctuation in the prices of raw materials required for products may adversely affect business - The bearing rings and auto-component products, a major component of raw material is carbon steel, alloy steel and stainless steel. As a result, they continue to remain susceptible to the risks arising out of raw material price fluctuations which could result in declining operating margins.
- Substantial working capital requirements - Their business requires a substantial amount of working capital, primarily to maintain optimum inventory levels of raw materials, components which are work-in-progress and finished goods as well as to offer credit to our customers as is customary in the bearing industry.
- No long term commitment agreements with customers - No commitment long-term supply agreements with most of their customers and instead rely on short term purchase orders to govern the volume and other terms of their sales of products, from the customers.

Financial & Projections

Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E	Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E
Income Statement						Per Share Data (Rs) & Yield (%)					
Revenue	666.0	616.3	1,030.9	1,288.7	1,472.8	Adjusted EPS	19.4	31.9	50.7	80.2	78.5
YoY Growth (%)	(26.4)	(7.5)	67.3	25.0	14.3	Adjusted Cash EPS	29.2	41.3	62.1	92.8	92.1
Raw Material Cost	329.3	287.4	476.3	592.8	674.5	Adjusted BVPS	98.4	131.0	202.2	282.4	360.9
YoY Growth (%)	(24.1)	(12.7)	65.7	24.5	13.8	CFO per share	67.5	21.7	18.0	74.6	76.9
Employee Cost	52.7	51.9	65.6	85.8	111.2	CFO Yield	7.5	2.4	2.0	8.3	8.5
YoY Growth (%)	(13.4)	(1.5)	26.5	30.8	29.6	FCF per share	61.7	7.6	(0.3)	56.2	58.5
Power & Fuel Cost	54.2	52.1	82.5	67.0	100.8	FCF Yield	6.9	0.8	(0.0)	6.2	6.5
YoY Growth (%)	(24.2)	(3.9)	58.4	(18.8)	50.5	Solvency Ratio (X)					
Other Expenses	108.4	116.1	187.6	232.7	265.3	Total Debt to Equity	0.9	0.6	0.4	0.2	0.0
YoY Growth (%)	(20.9)	7.1	61.6	24.0	14.0	Net Debt to Equity	0.8	0.6	0.4	0.1	(0.1)
EBITDA	121.4	108.9	218.9	310.4	320.9	Net Debt to EBITDA	1.8	1.9	1.0	0.3	(0.2)
YoY Growth (%)	(39.6)	(10.4)	101.1	41.8	3.4	Return Ratios (%)					
Margin (%)	18.2	17.7	21.2	24.1	21.8	Return on Equity	19.7	24.4	25.1	28.4	21.7
Depreciation	26.5	25.4	31.1	34.1	37.1	Return on Capital Employed	15.4	12.0	19.6	25.6	21.6
Depreciation to Gross Block (%)	6.0	5.4	6.0	6.0	6.0	Return on Invested Capital	16.0	12.3	20.1	26.4	22.9
EBIT	94.9	83.5	187.8	276.3	283.8	Working Capital Ratios					
YoY Growth (%)	(46.0)	(12.1)	125.0	47.1	2.7	Inventory Days	72	101	90	80	75
Margin (%)	14.3	13.5	18.2	21.4	19.3	Receivable Days	70	101	80	70	70
Other Income	9.3	3.4	4.7	6.6	8.0	Payable Days	40	70	50	40	40
Finance Cost	32.2	11.7	25.3	18.0	6.0	Net Working Capital Days	101	133	120	110	105
PBT	72.1	75.2	167.2	264.8	285.7	Net Working Capital to Sales (%)					
YoY Growth (%)	(48.7)	4.3	122.4	58.4	7.9	Valuation (X)					
Margin (%)	10.8	12.2	16.2	20.6	19.4	P/E Ratio	46.3	28.2	17.8	11.2	11.5
Reported Tax	19.1	(11.8)	29.3	46.3	72.0	P/BV Ratio	9.1	6.9	4.5	3.2	2.5
Tax Rate	26.6	(15.7)	17.5	17.5	25.2	EV/EBITDA	22.0	24.4	12.2	8.2	7.5
PAT	52.9	87.0	138.0	218.5	213.7	EV/Sales	4.0	4.3	2.6	2.0	1.6
YoY Growth (%)	(10.3)	64.2	58.7	58.4	(2.2)	Cash Flow Statement					
Margin (%)	7.9	14.1	13.4	17.0	14.5	Profit Before Tax	72.1	75.2	167.2	264.8	285.7
Balance Sheet						Adjustments	64.8	12.1	25.8	34.0	31.0
Share Capital	24.0	24.0	27.2	27.2	27.2	Change in Working Capital	66.0	(39.8)	(114.7)	(49.4)	(35.3)
Total Reserves	244.1	332.8	523.5	741.9	955.7	Less: Tax Paid	(19.1)	11.8	(29.3)	(46.3)	(72.0)
Shareholders' Fund	268.1	356.7	550.7	769.2	982.9	Cash Flow from Operations	183.8	59.2	49.1	203.1	209.4
LT Borrowings	44.2	32.3	0.0	0.0	0.0	Net Capital Expenditure	(15.7)	(38.5)	(50.0)	(50.0)	(50.0)
LT Lease Liabilities	0.1	0.1	0.0	0.0	0.0	Change in Investments	1.5	2.2	(13.0)	(8.7)	(6.2)
LT Income Tax Liabilities	17.9	17.9	17.9	17.9	17.9	Cash Flow from Investing	(14.2)	(36.3)	(63.0)	(58.7)	(56.2)
Deferred Tax Liabilities	56.9	32.4	32.4	32.4	32.4	Change in Borrowings	(134.7)	(11.3)	(9.3)	(117.5)	(118.2)
LT Provisions	3.1	3.1	3.9	5.1	6.7	Less: Finance Cost	(32.2)	(11.7)	(25.3)	(18.0)	(6.0)
Total Liabilities	390.4	442.6	605.0	824.7	1,039.9	Proceeds from Equity	0.0	0.0	56.0	0.0	0.0
Gross Block	445.7	469.0	519.0	569.0	619.0	Divided Paid (incl Tax)	0.0	0.0	0.0	0.0	0.0
Less: Accumulated Depreciation	72.6	97.7	128.8	162.9	200.1	Proceeds from issue of Pref Shares	0.0	2.6	0.0	0.0	0.0
Net Block	373.0	371.4	390.3	406.1	419.0	Payment of lease liabilities	(0.0)	(0.0)	0.0	0.0	0.0
Capital WIP	0.0	1.2	0.0	0.0	0.0	Cash Flow from Financing	(168.5)	(19.5)	21.4	(135.5)	(124.2)
Right of use assets	0.1	0.1	0.0	0.0	0.0	Net Cash Flow	1.1	3.4	7.5	8.9	29.0
Intangible Assets	1.2	0.9	0.9	0.9	0.9	FOREX Effect	0.0	0.0	0.0	0.0	0.0
LT Loans & Advances	2.5	0.0	0.0	0.0	0.0	Opening Balance of Cash	0.1	1.2	4.6	12.1	21.0
Other LT Financial Assets	3.4	14.0	23.4	29.2	33.4	Closing Balance of Cash	1.2	4.6	12.1	21.0	50.1
LT Income Tax Assets	2.0	2.0	2.0	2.0	2.0						
Other Non Current Assets	11.1	28.8	48.2	60.3	68.9						
Net Current Assets	(2.8)	24.3	140.2	326.2	515.8						
Total Assets	390.4	442.6	605.0	824.7	1,039.9						

Source: Company Reports & Ventura Research

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