



Rolex Rings Limited

Issue Opens	Wednesday, July 28, 2021
Issue Closes	Friday, July 30, 2021
Price Band (in Rs)	880/900
Bid Lot	16 shares and multiples thereafter



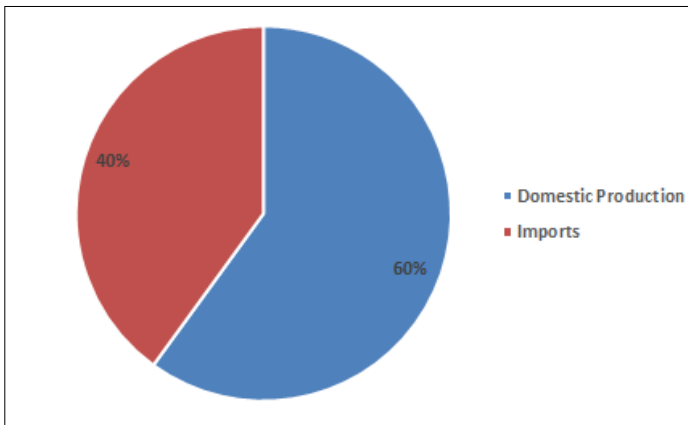
IPO UPDATE

Rolex Rings Limited

Industry Overview:

The Indian bearing market is estimated at Rs12,000cr and it constitutes less than 4% of the global bearing demand. In terms of consumption, about 60% requirement is met through domestic production while the remaining is met through imports. Indian manufacturers do not produce special purpose bearings as demand for the same is low. Special purpose bearings are therefore, imported, as investments for such low-volume SKUs are not financially viable. Out of 40% imports, the major portion (>70%) is imported by larger suppliers/manufacturers primarily for industrial segments whereas the rest is imported by local manufacturers/traders for the domestic aftermarket. OEMs constitute 60% of demand whereas the rest is driven by aftermarket and exports.

Exhibit 01: Breakup of Domestic Production and Imports

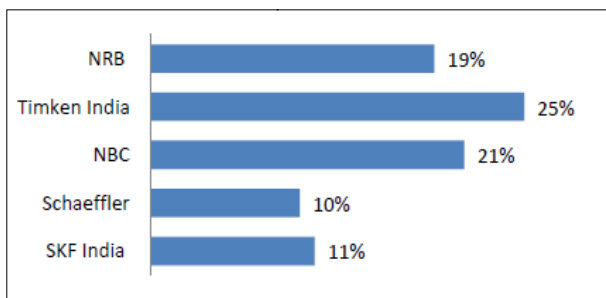


Source: Company RHP, Progressive Research

Exports Overview:

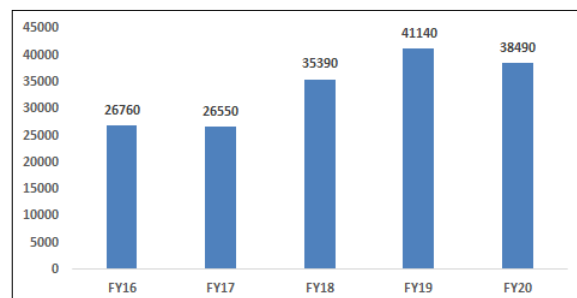
To capitalise on India's low-cost labour advantage, global MNCs have also started using the Indian unit as their global sourcing partners. In general, employee expense accounts for ~10% of sales in India compared to ~25% in developed countries, which lends cost advantage for MNCs to set up units in India, if volume of certain SKUs justifies investments. Among the top five OEMs, Timken India derives 25% of its revenue from exports followed by NRB and NEI (at ~20%). The Indian operations have emerged as the export hub for Timken globally and other Indian players like NRB and National Engineering Industries (under NEI Bearing brand) has also made a niche presence in the global market with reputed customers like Daimler, Volkswagen Group and others. Exports growth has supported the overall revenue growth for these entities, given the sluggish demand in domestic market over last few years, especially, due to deferment in investment activities, which has affected the industrial segment.

Exhibit 02: Exports Share as a % of Sales



Source: Company RHP

Exhibit 03: Bearing Exports Trend (Rs in mn)



Source: Company RHP, Progressive Shares

SNAPSHOT		
Issue Opens	Wednesday, July 28, 2021	
Issue Closes	Friday, July 30, 2021	
Price Band (Rs)	880/900	
Bid Lot	16 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (Rs Mn)	Fresh Issue	560
	OFS	6,750
	Total	7,310
*Implied Market Cap (Rs Mn)	22,143	
P/E (based on FY21 Earnings)*	25.46	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs900

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100

Object of the Offer	
<ul style="list-style-type: none"> Funding long term working capital requirements General corporate purposes 	



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Industry (contd.):

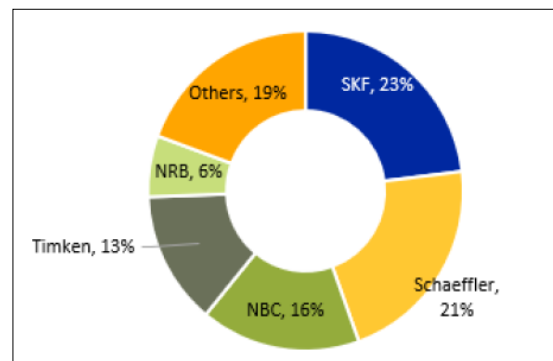
Structure of Indian bearing industry by type of bearings: (i) Ball bearing, (ii) Tapered Roller Bearing, (iii) Cylindrical Roller bearings, (iv) Spherical Roller bearings, (v) Needle Roller bearings

Top Players:

The Indian market is dominated by international majors i.e., SKF, Schaeffler and Timken as well as indigenous players like NEI, NRB, ABC and others. While there are several players present in the industry, the competition is moderate as the top five players constitute ~80% of the market share. The bearing industry is technology as well as capital intensive industry, as end products find application in critical applications like aviation, automobile engines, railways and others. Consequently, all major players in India have product backup with their parent (SKF, SCHAEFFLER, Timken) or with a foreign collaborator. Technological collaboration with reputed global OEMs lends credibility to bearing manufacturers and acceptability to their products given the similar level of quality control followed in the Indian unit as their counterparts/collaborators in the overseas units.

Players like NRB and NEI, which earlier had technical JVs but are now working independently, are spending on R&D to sustain their market position in the Indian market. In fact, NEI is one of the select entities in the global bearing industry to have received Deming Grand prize for quality. Given the technology-intensive nature of the industry, especially in terms of precision and advanced bearings, the current structure of the industry ensures that the existing top players would continue to lead the sector.

Exhibit 04: Market Share



Source: Company RHP

Bearing Components and Major Suppliers in India: (i) Inner Rings, (ii) Outer Rings, (iii) Rolling Element, (iv) Cage, (v) Seals.

ICRA estimates that domestic bearing components suppliers have a market potential of Rs4,500cr as rest of the demand is catered by finished goods imports. Out of the bearing raw material cost, bearing rings/races account for the major share of raw materials followed by rollers, cages and seals.

Bearing Rings Industry:

Bearing Rings form one of the most critical and largest raw material cost for the bearings sector and at ~Rs.2,200cr, the industry contributes ~18.3% of the size of domestic bearing market. Rings can be manufactured using tubes, cold-drawing of steel bars or by forging process. Amongst these three processes, forged rings are mainly used in critical applications where load/stress is relatively high. Forged bearing rings market is estimated at about Rs1,100cr of overall bearing rings market while the balance is split across rings manufactured using tubes and cold-drawing of steel bars. Given that bearings find application in computer hardware to aerospace industry, and can vary from few millimetres in diameter to tens of meters, the complexity of bearing ring varies with its proposed applications, weight and size. While, the entry barrier is relatively lower for smaller bearing rings with high tolerances, the technological knowhow as well as manufacturing capabilities becomes a differentiating factor as complexity/size of bearing increases. Indian forgings players like Bharat Forge Limited (BFL) and Ramkrishna Forgings Limited (RFL) as well as forged bearing rings manufacturers like Rolex Rings Limited (Rolex) have developed in-house capabilities to cater to the requirement of large rings (using ring-rolling facility), which are higher value-added products with relatively lower competitive intensity. Also, the share of value addition in the form of higher machining content supports margin expansion for supplier apart from the benefits of low rejection rate at the customer's end.

Bearings Industry-Outlook:

Lockdown-related restrictions impacted the revenue in Q1FY21, however, industry participants have witnessed a V-shaped recovery from Q2FY21 onwards, supported by inventory re-stocking at distributorship, stable aftermarket demand and a recovery in the automotive production. With the opening up of economy, business activities have picked up, which is also reflected in the IIP trend. Moreover, BS-VI transition has facilitated higher realisation/content per vehicle, which also supported performance in Q2FY21. Revenue growth in the bearing industry is essentially a reflection of the underlying investment cycle (which is also linked to the overall GDP growth) as well as demand dynamics in the domestic automotive industry. Incremental investments towards capacity creation and hence towards new (heavy) machinery drive demand for industrial bearings. Similarly, demand momentum in the automotive and the tractor segments is the key driver for bearings demand in the automotive industry. Generally, wide application across various industries as well as a healthy aftermarket demand provides support to the bearing industry which is also reflected in 10.1% CAGR revenue growth during FY13-FY19. Nevertheless, simultaneous meltdown in demand across automotive as well as the overall industrial demand during the last 12-18 months resulted in a moderation in revenue growth for the bearings manufacturer.

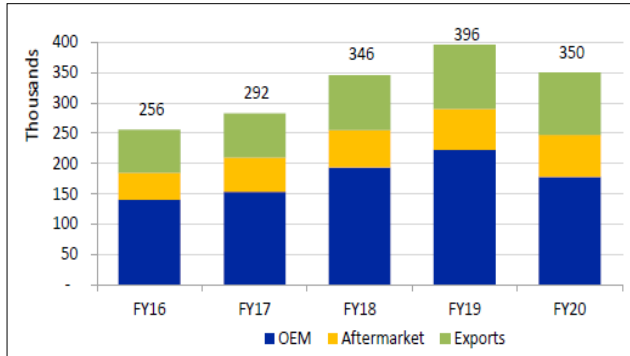


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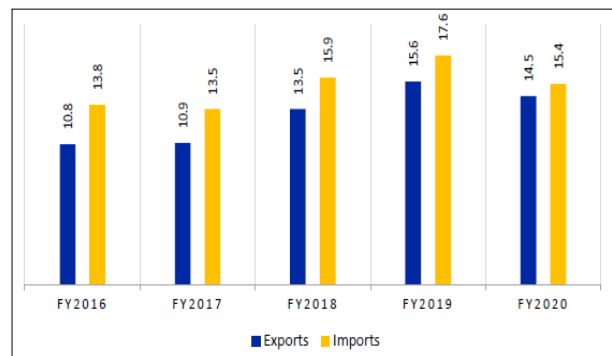
Industry (contd.):

Exhibit 05: Indian Auto Component Industry- Overview



Source: Company RHP

Exhibit 06: Export & Import- Auto components (in USD bn)



Source: Company RHP

Supported by a healthy revenue export growth, a stable aftermarket growth and improving content per vehicle, the domestic auto component industry witnessed a healthy CAGR of 9.7% during FY11-19. However, a slowdown in domestic automotive demand as well as the lockdown impact during March, 2020 resulted in a 11.7% decline in the auto component industry revenue in FY20. As per ACMA, the Indian auto-component industry size is estimated at Rs3,49,637cr in FY20. In terms of product segmentation, engine and engine component account for the bulk of the auto component industry in terms of revenue followed by transmission and steering components, suspension and braking system and body and chassis parts. Generally, technological entry barriers are highest in engine and transmission system, and minimal in press metal components and sheet metal parts. Nevertheless, even in sheet metal parts, OEMs generally outsource interior blanks & parts whereas skin panels are generally manufactured by OEMs themselves.

About the Company:

Rolex Rings Limited (Rolex Rings) is one of the top five forging companies in India and a manufacturer and global supplier of hot rolled forged and machined bearing rings, and automotive components for segments of vehicles including two wheelers, passenger vehicles, commercial vehicles, off-highway vehicles, electric vehicles, industrial machinery, wind turbines and railways, amongst other segments. 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 some auto OEMs. As per ICRA Report, SKF India Ltd, Schaeffler India Ltd, Timken India Ltd, NEI and NRB collectively account for 81% of the market share of Indian bearing industry. Rolex Rings is one of the key manufacturers of bearing rings in India and cater to most of the leading bearing companies in India. Rolex Rings started their manufacturing operations in 1988, with their first manufacturing plant set up in Rajkot. Currently they have 3 manufacturing units in Rajkot. Their manufacturing infrastructure includes high-speed hot formers from Sakamura and Hatebur and vertical forging lines from Manyo, Mistubishi, SMS Meer, Enomoto, Eumoco and conventional forging lines integrated with induction heating furnaces. A large part of their existing machining lines consists of spindles from DMG, FUJI, ACE, TSUGAMI, Hyundai, Mazak, Muratec and domestic CNC Turning centres as well. Currently they have 22 forging lines with a combined installed capacity of 1,44,750 MTPA, machining facilities consisting of 528 spindles with a combined installed capacity of 69 million parts per annum and other machinery including heat treatment furnaces, cold rolling machines and other infrastructure. Company's product portfolio includes a wide range of bearing rings, parts of gear box and automotive components, among others. For FY21, Rolex Rings supplied bearing rings and automotive components to over 60 customers in 17 countries, primarily located in India, USA and in European countries such as Germany, France, Italy, and Czech Republic, and Thailand. They have been able to maintain long standing relations with their customers and 70% of their 10 largest customers for FY21 have been with them for over a decade. The company intends to de-risk their business' dependence on changes in power tariffs and reduce their carbon footprint through investment in renewable energy.

Product Description: The product description for some of the products forming part of our product portfolio is as follows:

(i) Bearing Rings: Bearing Rings forms a critical part of bearings and provide a surface on which the rolling element of bearings ride. The larger ring that goes into a bore is called the outer ring, and the small ring that the shaft rides in is called the inner ring. The design and machining of the bearing rings is dependent on the expected end-use, load requirements, shape of rolling elements and other considerations. Bearing ring design, raw material specifications, machining requirements, precision sought, processing requirements and other parameters are decided by its customers, intimated to the company through detailed drawing and other specifications and Rolex is required to follow such parameters. Till date, the company has offered a diverse range of hot forged and machined alloy steel bearing rings weighing from 0.01 kilograms to over 163 kilograms, and with inner diameter of 25 millimeters to outer diameter of 900 millimeters.



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Product Description (contd.):

(ii) **Automotive components:** Rolex manufactures a wide range of automotive components including wheel hubs, shafts and spindles, gears, etc. These components are manufactured as per the customer specifications and comprise of parts of gear box, among others.

Manufacturing Facilities: The below mentioned table depicts the various processes undertaken at the manufacturing facilities

Exhibit 07: Facilities Updates

Unit details	Process undertaken
Unit I, Rajkot	1. Forging 2. Heat treatment
Unit II, Rajkot	3. Shot blasting 1. Forging 2. Heat treatment 3. Shot blasting 4. Cold rolling 5. Machining 6. Quality control and testing 7. Packing and dispatch
Unit III, Rajkot	1. Tool and die making 2. Shot blasting 3. Machining 4. Quality control and testing 5. Finished good warehouse 6. Packing and dispatch

Source: Company RHP

Production Process: The process caters to Engineering and designing, Tooling and die-making, Forging.

Exhibit 08: Forging Lines Production Capacity

Sr. No.	Line	No. of Lines	2018-19			2019-20			2020-21		
			Achievable Capacity	Utilized Capacity	% of total utilization	Achievable Capacity	Utilized Capacity	% of total utilization	Achievable Capacity	Utilized Capacity	% of total utilization
1	Conventional	6	11,250	7,287	64.77%	11,250	4,638	41.23%	11,250	4,726	42.01%
2	Manyo	6	25,000	15,137	60.55%	25,000	10,940	43.76%	25,000	8,478	33.91%
3	Mitsubishi	2	8,750	4,617	52.77%	8,750	3,559	40.67%	8,750	3,313	37.86%
4	Sakamura 160 Hot Former High Speed	1	17,500	7,981	45.61%	17,500	3,920	22.40%	17,500	5,693	32.53%
5	Sakamura 120 Hot Former High Speed	1	12,500	8,216	65.73%	12,500	4,974	39.79%	12,500	6,112	48.90%
6	Harebur-HM75 Hot Former High Speed	1	18,750	8,892	47.42%	18,750	5,596	29.85%	18,750	6,101	32.54%
7	SMS-MEER	1	9,000	2,343	26.03%	9,000	3,316	36.84%	9,000	2,868	31.87%
8	Harebur-HM35 Hot Former High Speed	1	12,500	6,530	52.24%	12,500	4,693	37.54%	12,500	4,460	35.68%
9	Sakamura HFW-1000	1	18,750	6,009	38.46%	18,750	2,898	15.46%	18,750	4,928	26.28%
Sr. No.	Line	No. of Lines	2018-19			2019-20			2020-21		
10	Enomoto Press	1				1,563	100	6.40%	6,250	1,562	24.99%
11	Eumoco	1							2,250	220	9.78%
	Total	22	1,34,000	67,013	50.01%	1,40,250	44,633	32.92%	1,44,750	48,461	33.48%

Source: Company RHP



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Strengths:

- Comprehensive product portfolio
- Manufacturing capabilities which offer scale, flexibility and locational advantage
- Long standing customer relationships and geographically diversified revenue base
- Experienced promoters and management team with strong domain expertise
- Strong financial performance over the past few years

Strategies:

- Increasing the share of business amongst existing customers
- Expand the customer base
- Continuing focus on improving operational efficiency
- Further enhance the manufacturing infrastructure and product portfolio
- Reduce the power costs and reduce the carbon footprint
- Further improve the financial risk profile

Financials:

In the financial performance side, revenue from operations for FY21, FY20 and FY19 came in at Rs6,163mn, Rs6,660mn, and Rs9,043mn respectively and EBITDA margin were 17.7%, 18.2%, and 22.2%, respectively for the corresponding period. For FY21, FY20 and FY19, revenue from operations from outside India as a percentage of revenue from operations were 56.12%, 53.82%, and 56.27%, respectively. The company derives major revenues from two sources i.e., Bearing rings and Auto components and over the past three fiscals, both these sources have posted declining trends in revenues. Net profit for FY21, FY20 and FY19 came in at Rs870mn, Rs529mn, and Rs590mn respectively. The company has not declared any dividend for the last three fiscals. However, it will follow a prudent dividend policy based on financial performance and future prospects.

Exhibit 9: Financials Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	9,043	6,660	6,163
EBITDA	2,011	1,214	1,089
<i>EBITDA Margin</i>	22.2%	18.2%	17.7%
Net Profit After Tax	590	529	870
<i>Net Profit Margin</i>	7.1%	8.6%	15.3%
Earning Per Share	24.6	22.1	36.3
RoNW	27.4%	19.8%	24.4%

Source: Company RHP, Progressive Research

Risks and Concerns:

- The company have defaulted in payment of certain loans in the past, and had approached CDR Cell for restructuring debt in FY13.
- The company are heavily dependent on the performance of the automotive sector in India, Europe, North America, Latin America and some part of Asia.
- The company loan agreements require promoters and certain members of the promoter group to pledge equity shares and NCRPS of the company with lenders.
- Any shortages, slowdown or shutdown in the company manufacturing operations may lead to under-utilization at the existing manufacturing facilities.
- The company's top 10 customers accounted for a substantial majority of its revenue.
- The demand of the company products in foreign countries is subject to international market conditions and regulatory risks.
- The geographical concentration of the company's manufacturing facilities may restrict the operations.



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Outlook and Recommendations:

Rolex Rings is a manufacturer and global supplier of hot rolled forged and machined bearing rings, and automotive components for segments of vehicles including two-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles, electric vehicles, industrial machinery, wind turbines and railways, amongst other segments. It is amongst the top five forging companies in terms of installed capacity. The revenues for the company have been on a downturn and so has it been for its peers as well, but Rolex has generated better ROEs due to better asset turnover. The raw materials prices are volatile which impact the operating margins. The newer products as well as long standing clientele relationship should augur well for the company to garner market share. The company would be debt free and that should be an edge over others once things get back to normal. There have been a few defaults in payments of certain loans in the past and the company had approached CDR cell for restructuring as well in FY13. The positive sentiment in the primary market could give the necessary perks for listing gains but definitely over a longer perspective the future performance needs to be tracked. At the higher price band of Rs900, the asking PE stands at 25x. **We do not have any rating on the company. This document has been created for information purpose only.**



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