

Rolex Rings Ltd.

SSIS IPO GRADE 3/5 (Average)

26th July, 2021

Rating Overview

Rolex Rings Limited ("Rolex Rings") was originally started as a partnership under the name of 'Rolex Industries' in 1977-1978. They have 3 manufacturing units in Rajkot with product portfolio which includes a wide range of bearing rings, parts of gear box and automotive components, among others. 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 p.a. and other machinery including heat treatment furnaces, cold rolling machines and other infrastructure.

The company intends to de-risk their business' dependence on changes in power tariffs and reduce their carbon footprint through investment in renewable energy. Currently, they have windmills with installed capacity of 8.75 MW. They are in the process of expanding capacity of their solar projects by an installed capacity of 16 MW and have already placed purchase orders for equipment with installed capacity of 7.35 MW.

There are some risks involved in investing in Rolex Rings. The delay in exit from CDR is one of the biggest concerns along with the heavy dependence on auto sector. Another important risk factor is the fact that the company derives a high concentration of top 10 customer group (72.6% in FY21). The increase in raw material prices and the inability to pass on this rise could impact profitability. A sticky clientele, increasing share of business amongst existing customers, improving operational efficiencies led by better utilisation and exit from CDR remain key catalyst for RRL.

The IPO is valued at 28.2x of FY21 earnings, which appears to be attractive considering peers' valuations and strong return ratios. We believe strong outlook for auto ancillary companies especially the forging companies with visible pick-up in demand around the globe should aid RRL to record healthy growth in the ensuing years. Further, possibility of further improvement in balance sheet, industry-leading return ratio and healthy clientele base augur well for the company.

Our overall rating of Rolex Rings is average despite its market position and industry growth prospects. The ask price is on the higher side and that is usually a concern in cyclical companies.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

Rolex Rings Ltd. (RRL) is one of the top five forging companies in India in terms of installed capacity (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 two-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles, electric vehicles), industrial machinery, wind turbines and railways, amongst other segments. It supplies 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.

RRL is one of the key manufacturers of bearing rings in India (Source: ICRA Report) and cater to most of the leading bearing companies in India. Its product portfolio includes a wide range of bearing rings, parts of gearbox and automotive components, among others. The company's manufacturing capabilities are complemented by its tool design, engineering and product development capabilities. To date, it 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 an inner diameter of 25 millimetres to the outer diameter of 900 millimetres. This makes its products suitable for a wide range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy, among others. RRL has been able to maintain long-standing relations with customers and 70% of the 10 largest customers for Fiscal 2021 have been with it for over a decade.

Financial Performance

On the financial performance front, for the last three fiscals, RRL has posted turnover/net profit of Rs. 911.25 cr. / Rs. 59.04 cr. (FY19), Rs. 675.33 cr. / Rs. 52.94 cr. (FY20) and Rs. 619.76 cr. / Rs. 86.96 cr. (FY21). While the jump in bottom lines for FY21 is attributed to deferred tax provisions while the decline in top lines for the last two fiscals is due to a pandemic that disrupted industries globally.

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.

For the last three fiscals, RRL has posted an average EPS of Rs. 29.44 and an average RoNW of 23.34%. The issue is priced at a P/BV of 6.05 based on its NAV of Rs. 148.76 as of March 31, 2021, and at a P/BV of 5.94 based on its post-issue NAV of Rs. 151.55 (at the upper cap).

If we attribute FY21 earnings on fully diluted post issue equity, then the asking price is at a P/E of around 28.18 (at the upper price band). Thus the issue is reasonably priced against listed peers.

As per the offer documents, RRL has shown Bharat Forge, Ramkrishna Forge and MM Forgings as its listed peers. They are currently trading at a P/E of 134.47, 90.80 and 37.08 (as of July 23, 2021). However, they are not truly comparable on an apple to apple basis.

Summary of financial Information (Restated Consolidated)			
Particulars	For the year/period ended (₹ in millions)		
	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	7,969.24	6,861.73	7,822.57
Total Revenue	6,197.57	6,753.32	9,112.54
Profit After Tax	869.55	529.41	590.41

Issue Details

To part finance its needs for working capital (Rs. 45.00 cr.) and general corpus fund, the company is coming out with a maiden IPO via a book-building process. The issue comprises of fresh equity issue worth Rs. 56 cr. (approx. 622224 shares based on upper price band) and an offer for sale of 7500000 equity shares (Rs. 675.00 cr. at the upper cap). Thus the overall size of the issue is Rs. 731.00 cr. (approx. 8122224 shares). RRL has fixed the price band of Rs. 880.00 - Rs. 900.00 per share of Rs. 10 each. The issue opens for subscription on July 28, 2021, and will close on July 30, 2021. Minimum application is to be made for 16 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 29.82% of the post issue paid-up capital of the company.

Book Running Lead Managers (BRLMs) to this offer are Equirus Capital Pvt. Ltd., IDBI Capital Markets & Securities Ltd. and JM Financial Ltd. Link Intime India Pvt. Ltd. is the registrar to the issue. Having issued initial equity at par, RRL raised further equity in the price range of Rs. 140.00 to Rs. 150.65 between April 2010 to December 2010. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. 15.08, Rs. 17.05, Rs. 17.34, Rs. 18.81 and Rs. 149.16 per share.

Post issue, RRL's current paid-up equity capital of Rs. 26.61 cr. will stand enhanced to Rs. 27.23 cr. At the upper price band, RRL is looking for a market cap of Rs. 2451 cr.

Application Dates	Jul 28, 2021 – Jul 30, 2021
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹880 to ₹900 per equity share
Market Lot	16 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹731.00Cr)

Issue Timeline

Basis of Allotment Date	Aug 4, 2021
Initiation of Refunds	Aug 5, 2021
Credit of Shares to Demat Account	Aug 6, 2021
IPO Listing Date	Aug 9, 2021

Investment Strategy

Though RR's top line has shown declining trends, its higher earnings following deferred tax and other provisions and reasonable pricing make it a worthy bet for short to long term rewards. The company will be a debt-free company in the near term and will pose for bright prospects ahead once normalcy is restored. Off late we are also witnessing fancy for forging companies. Investment may be considered.