

Equity Research Desk



ALPHA

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Rolex Rings Ltd. – Bearing Component Maker

Market Data	
CMP	Rs. 1942
Date	11-Nov-22
Target Price	Rs. 2275
Upside Potential	17.00%
52 Week High/Low	2199/995
Market Cap	Small Cap
NSE Code	ROLEXRINGS
Sector	Bearings
Rating	Buy

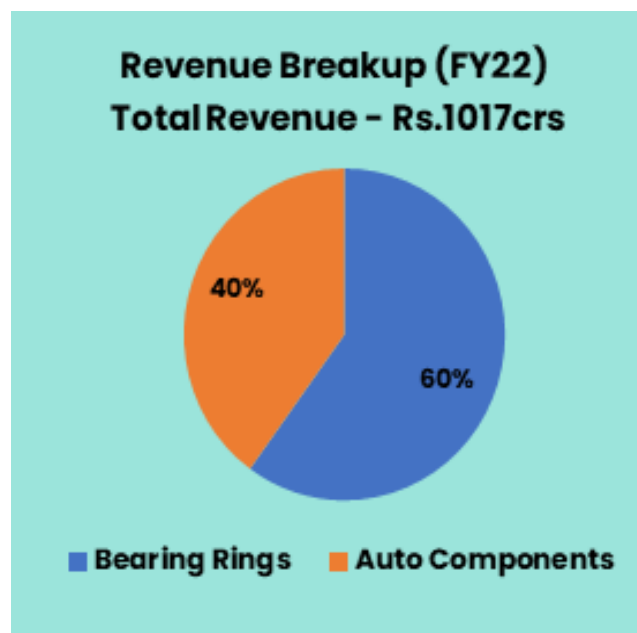
Rajkot based (Gujarat), RRL (Rolex Rings Private Limited) was established as a partnership firm by Mr. Rupesh D. Madeka in 1980 and later on reconstituted as a public limited company in 2021 and is presently managed by Mr. Manesh D. Madeka and family. RRL is engaged in manufacturing (forging and machining) of bearing rings and auto-components like engine parts, transmission parts, exhaust system parts, chassis parts, etc. It caters primarily to the requirement of automobile sector and has a reputed clientele comprising global and domestic auto-component manufacturers. The company has three manufacturing units that are all in Rajkot with an annual achievable capacity of 144,750 MTPA in forging and 70 mn parts per annum in machining. Currently it has 22 forging lines and 2 more are expected to be added in new future.



Products & Services: RRL's product portfolio includes a wide range of bearing rings, parts of gear box and automotive components, among others. It offers a diverse range of hot forged and machined alloys steel bearing rings weighing from 0.01 kg to over 163 kg, with diameter size ranging from 25 mm to 900 mm. The company's products are suitable for a wide-range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy and others.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	57.64	57.64	0.00
FPI	3.18	1.71	1.47
DII	32.70	22.39	10.31
Public & Others	6.48	18.26	-11.78
Pledged	0.00	0.00	0.00

Subsidiaries: The Company doesn't have any subsidiary, associate or joint venture company as on Mar'22.





Key Rationale

- **Strong Position** – RRL is one of the top five forging companies in India in terms of installed capacity and a manufacturer and global supplier of hot rolled forged and machined bearing rings (~600 types), and automotive components (~150 types). It has been supplying to almost all leading global bearing manufacturers like Timken, Schaeffler, SKF and NBC etc. According to the management, bearing rings are the most critical component in the bearing where precision and high-quality standards are needed and due to that reason, the customer stickiness in this industry is very high. About 7 out of top 10 customers are associated with the company for more than 10 years. This shows that the company has been able to develop longstanding, extensive relationships with the customers and has been amongst the preferred suppliers or partner.
- **EV Opportunity** – Electronic Vehicles needs lesser numbers of bearings as well as auto components compared to its counterpart due to the elimination of the engine and its parts. RRL's bearings as well as auto components for the engine part is negligible. Its bearing segment finds application in the wheels and transmission parts. Most of the components that the company manufacture is going to be used in the EV, so the company is expecting decent opportunities lying ahead with EV transition. As per management they are having good inquiries for the auto components that are going to be used in EV and are having strong order inflow from the bearing companies who are in turn supplies to EV manufacturers. From current 7% contribution of EV to the total revenue in FY22, the company is expecting it to be rise up to 14-15% in next two years. The margins in this segment is also higher compared to the conventional ones because they require more precision meaning more value add and hence higher margins.
- **Q2FY23** – In Q2FY23, Rolex reported a revenue of Rs.290 crs which is a growth of 12% YoY. EBITDA has reported a 12% YoY growth to Rs.64 crs and the EBITDA Margin has remained the same 22% in Q2FY22 and Q2FY23. The company reported a PAT of Rs.49 crs which is a growth of 50% YoY. Net Debt of the Company as at end of Quarter has reduced to below Rs.170 crs. The 4.0 MW solar project is expected to be commissioned by end of Dec. 2022; the residual capacity should come on-stream by Mar. 2023.
- **Financial Performance** – The PAT has grown at a CAGR of 31% from Rs.59 crs in FY19 to Rs.132 crs in FY22. The company's 5 Year average ROE stands at a strong 31% (FY18-22). The 5 Year average ROCE stands at 24% for the same period. RRL generated healthy cash flow from operations of ~Rs.59 crore in FY22 despite increase in working capital requirement due to improvement in profitability.

**Ratios - FY22**

ROE	24%
ROCE	28%
Div. Yield	0.00%
PE Ratio	40.00
Face Value	10.00
EPS	Rs. 48.43

Industry Analysis

The Indian bearing industry accounts for less than 4% of the global bearing market. However, its share is expected to grow over the medium to long term, supported by increasing industrialisation as well as a healthy growth expected in the automotive market. According to a study by Astute Analytica, the Indian bearing market would grow at a CAGR of 10.9 percent between 2022 and 2027. Revenues for Indian bearings market are projected to increase significantly, from USD 1772.6 million in 2021 to USD 3374.4 million in 2027. The Indian auto-components industry has experienced healthy growth over the last few years. The auto-components industry expanded by a CAGR of 3.28% from FY16 to FY20 to reach US\$ 45.90 billion in FY21. India's auto component sector recorded its highest-ever revenue of Rs. 4.2 trillion (US\$ 52.59 billion) in FY 2021-22, growing by 23% as a result of good aftermarket and export results. The industry is expected to reach US\$ 200 billion by FY26.

Growth Drivers

India has a competitive advantage in auto components categories such as shafts, bearings and fasteners due to large number of players. This factor is likely to result into higher exports in coming years.

Increasing localization in Indian bearings industry (currently 40% imports), will help domestic suppliers of components for bearings.

Demand for domestic bearing components (rollers, rings) is expected to grow at a faster rate (~CAGR of 10-12%) than the underlying bearings industry.



Peer Analysis

Competitors: Ramkrishna Forgings, MM Forgings, etc.

Rolex has superior return ratios, strong balance sheet, long standing clientele and a diversified range of product portfolio. The company's debt to equity ratio is very low when compared with its peers.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Rolex Rings	1942	5292	24.00%	28.00%	40	48.43
MM Forgings	752	1813	17.00%	15.00%	20	38.01
Ramkrishna Forgings	242	3870	20.00%	15.00%	19	12.89

Outlook

The company has witnessed strong growth in FY22 and the management has guided that the momentum is expected to continue as they are witnessing strong demand pull across domestic as well as export markets. They have guided for Rs.1250 Cr revenue for this year and are confident of achieving similar kind of margin run rate. To reduce the power cost, the company has invested in renewable energies projects. It has already built windmills and now invested in solar plant which will be fully operational by end of FY23. The company is also looking to improve the capacity utilization levels. To grab the rising opportunity from the EV space, the management has increased focus in this area and has guided that the share of EV in the total sales could rise up to 14-15% in next 2 years from current 7%.

Margins - FY22	
Gross	54%
EBITDA	23%
PAT	13%



Valuation

Rolex Rings has posted superior financial performance over last three years and reduced debt by around 40% led by strong free cash flow generation. It delivered attractive return ratios driven by high margins. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.2275, 40x FY24E EPS.

Risks

- **Client Concentration Risk** – RRL is exposed to customer concentration risk with top customer groups accounting for ~79% of its total sales in FY22 (~77% in FY21). However, RRL has long-standing relationships with majority of its customers for over a decade.
- **Raw Material Risk** – Steel and its alloys form the key raw material required for manufacturing of bearing rings and auto components. The prices of steel and its alloys, being commodity items, are volatile in nature. Further, RRL does not have any long-term supply agreements with steel suppliers. Consequently, RRL's profitability is exposed to adverse movement in raw material prices.
- **Competitive Risk** – The Indian auto component industry is a critical part of the OEM value chain. An organized segment of this industry includes original equipment manufacturers (OEMs) who are engaged in the manufacture of high-value precision instruments, while the unorganized segment comprises of low-valued products catering to after-market services, resulting in high competition.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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