IPO Note – Rolex Rings Limited

27-July-2021

Issue Snapshot:
Issue Open: July 28 – July 30 2021

Price Band: Rs. 880 –900

*Issue Size: 8,122,222 eq shares
(Fresh Issue of Rs.56 cr + Offer for sale of 7,500,000 eq sh)

Issue Size: Rs.716-731.0 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 148.76 (Mar 31, 2021)

Bid size: - 16 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	26.61 cr
*Post issue Equity:	Rs.	27.23 cr

Listing: BSE & NSE

Book Running Lead Managers: Equirus Capital Private Ltd, IDBI Capital Markets & Securities Ltd, JM Financial Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	59.0	57.6
Public	41.0	42.4
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Rolex Rings Ltd (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, 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 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. SKF India Limited, Schaeffler India Limited Timken India Limited, NEI and NRB collectively account for 81% of the market share of Indian bearing industry. It is one of the key manufacturers of bearing rings in India and caters to most of the leading bearing companies in India.

RRL's product portfolio includes a wide range of bearing rings, parts of gear box and automotive components, among others. Its manufacturing capabilities are complemented by its tool design, engineering and product development capabilities. Till 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 inner diameter of 25 millimeters to outer diameter of 900 millimeters. This makes its products suitable for a wide range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy, among others. RRL's customers typically order in large volumes, and it caters to their orders by using flexible manufacturing infrastructure, skills and processes to achieve operational efficiency and quality. For Fiscal 2021, it supplied bearing rings and automotive components to over 60 customers in 17 countries, primarily located in India, United States of America and in European countries such as Germany, France, Italy, and Czech Republic, and Thailand. It has been able to maintain long standing relations with its customers and 70% of its 10 largest customers for Fiscal 2021 have been with it for over a decade. In the past, it has received awards from its customers in relation to the products, such as 'Supplier Quality Excellence Award'' from General Motors in 2018 and 2019 and Éxcellence in New Product Development'' from Timken in 2018. It has also received various certifications, demonstrating its dedication and commitment to quality and service excellence.

The Company intends to de-risk its business dependence on changes in power tariffs and reduce its carbon footprint through investment in renewable energy. As on date, the Company operates windmills with installed capacity of 8.75 MW. It is in the process of expanding capacity of its solar projects by an installed capacity of 16 MW and has already placed purchase orders for equipment with installed capacity of 7.35 MW. The proposed expansion will help RRL in reducing its carbon footprint and expanding its profit margins.

Objects of Issue:

The Offer comprises of the Fresh Issue and the Offer for Sale.

Offer for Sale

The proceeds from the Offer for Sale (net of Offer related expenses to be borne by the Selling Shareholder) shall be received by the Selling Shareholder (i.e. Rivendell PE LLC) and RRL shall not receive any proceeds from the Offer for Sale.

Fresh Issue

RRL proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

- Funding long-term working capital requirements (Rs.450 mn); and
- General corporate purposes

In addition, RRL expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges and enhancement of its brand name amongst the existing and potential customers and creation of a public market for its Equity Shares in India.

Competitive Strengths

Comprehensive product portfolio: RRL has a comprehensive portfolio of products in the markets in which it operates. Till 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 inner diameter of 25 millimeters to outer diameter of 900 millimeters. This makes its products suitable for a wide range of end-user industries such as automotive, railways, industrial infrastructure, renewable energy, among others. It also offers auto components such as wheel hubs, shafts and spindles, gears, etc. Its strength in its product portfolio is shown by the fact that it supply domestically and internationally in each of its product segments. Its product portfolio helps in offering a wide range of products to its customers, enhances its ability to attract new customers, improve share of business amongst existing customers and helps de-risk the business through limited dependence on any single product category. It has also helped the Company to become one of the leading forging manufacturers and suppliers of bearing rings and automotive components.

Manufacturing capabilities which offer scale, flexibility and locational advantage: RRL is one of the top five forging companies in India in terms of installed capacity. It started manufacturing of forging and forged products in 1988 has grown organically by setting up its second and its third manufacturing plant. It has three manufacturing units that are all in Rajkot with an annual achievable capacity of 144,750 MTPA in forging and 69 million parts per annum in machining. It is one of the key manufacturers of bearing rings in India. Its investment in infrastructure permits the flexibility to manufacture high volume parts in a cost effective manner. The location of its manufacturing facilities at Rajkot helps in accessing the various automotive clusters in North India, West India and South India as well as cater to the export markets through close proximity to the ports of Kandla, Mundra and Pipavav. It has also been benefited by the presence of smaller machining units in Rajkot which it opportunistically use for pre-machining and the presence of trained manpower which helps in hiring for its manufacturing operations. While it out-source some pre-machining operations to take advantage of lower costs offered by vendors, its infrastructure enables it to complete most of its manufacturing processes in-house which allows it to respond quickly and efficiently to any customer requirements or change in product specifications without the need to depend on any external vendors. This also helps in closely monitoring product quality, production costs and delivery schedules.

Further, RRL's investments in wind and solar energy helps to mitigate risks posed by changes in cost of power and fuel and helps in reducing its carbon footprint. It is in process of setting up a 16 MW ground mounted solar power facility at Taluka Muli (Gujarat) which should further de-risk its business vis-à-vis the cost of power and fuel. For Fiscal 2021, the power generated by its windmills and existing solar power facilities was approximately 10.1 million units as compared to the overall power units consumed by it of approximately 57.1 million units.

Long standing customer relationships and geographically diversified revenue base*:* For Fiscal 2021, RRL supplied bearing rings and automotive components to over 60 customers in 17 countries, primarily located in India, United States of America and in European countries such as Germany, France, Italy, and Czech Republic, and Thailand. Notably, it supplies domestically and internationally to some of the leading manufacturers of bearings, Tier-I and Tier-II auto-component suppliers and certain auto OEMs. It has been able to maintain long standing relations with its customers and 70% of its 10 largest customers for Fiscal 2021 have been with RRL for over a decade. While its customers are not required to specify the end of use of its products to it, its products find end use across automobile sector (including two-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles, electric vehicles), industrial machinery, wind turbines and railways, amongst other segments.

Experienced Promoters and management team with strong domain expertise: RRL is led by an experienced management team that has the expertise and vision to manage and grow its business. Mr. Manesh Dayashanker Madeka, Chairman and Managing Director, has over 40 years of experience in the industry and has been engaged with the Company since its inception. The knowledge and experience of its Promoters, along with senior and middle-management, and its team of sales and marketing employees provides it with a competitive advantage as it seeks to expand in its existing markets and enter new geographic markets. Its senior management team contributes to the overall strategic planning and business development of the Company and is also instrumental in the growth in revenues and operations. Te Compnay's experienced Promoters, senior management team and technically skilled employee base have contributed to the growth of the operations and the development of in-house processes and competencies.

Strong financial performance over the past three years: RRL has been able to significantly improve its financial profile with debt-equity ratio improving from 1.79 times as at March 31, 2019 to 0.70 times as of March 31, 2021 which is also reflected in the credit rating CARE BB, Outlook Stable. It has been able to achieve this through net cash flow from operating activities which for Fiscal 2021, 2020, and 2019 were Rs. 592.14 million, Rs. 1,837.77 million, and Rs. 1,938.05 million respectively. During Fiscal 2021, 2020, and 2019, the Company has spent Rs. 387.29 million, Rs. 160.94 million, and Rs. 367.41 million respectively towards purchase of property, plant and equipment and intangible assets (including capital advances) and capital work in progress. These investments have been made towards expanding its forging and machining capacity, heat treatment facilities, and investments into equipment for generation of solar energy.

Business Strategy:

Increasing share of business amongst existing customers:

RRL believes that its industry is characterized by long validation process from prospective customers. Over the years it has developed longstanding, extensive relationships with its customers and believes that it is amongst the preferred suppliers or partners to some of the

OEMs and Tier 1 suppliers. It intends to continue focussing on increasing its share of business from existing customers by broadening the portfolio of products it offers, higher engagement with existing customers, investment in its manufacturing infrastructure, and to continue to engage with such customers during new product development.
It intends to leverage its long-standing relationships, knowledge of requirements and preferences of customers, to develop and supply more complex, higher margin products. Further, it shall strive to consolidate relationship by continuing to provide quality products at competitive prices and focus on developing products in line with the changing customer requirements.

Expand customer base: Historically, RRL's ability to enter into new customer relationships has been critical to its growth. Certain of its customers are part of large groups with operations across geographies and legal entities. While many of such legal entities take decisions on a standalone basis with respect to vendors, its pre-approval for certain other entities across the same group including adherence to quality standards and track-record should enable RRL to expand into such units where it does not have a supply relationship as on date. The Company also intends to continue to leverage its products and its long-term relationships and credentials with its existing customers and referrals from such customers to further develop and strengthen its customer base.

Continuing focus on improving operational efficiency*:* RRL aims to continue to improve profitability by constant cost optimization, improving product mix by enhancing contribution of higher-value added machined products and increasing capacity utilization. It also constantly aims to identify opportunities to implement product improvements and dedicated research and development resources to optimize production processes. It continuously evaluate the cost-benefit of outsourcing non-critical operations so that it can focus its efforts on delivering the best quality products within its core areas. Its large size and scale also enables it to produce greater volumes of products from its facilities and spread its fixed costs more widely to reduce its production costs on a per unit basis, allowing itto reduce its unit sales price and increase its competitiveness.

Further enhance manufacturing infrastructure and product portfolio: Given RRL's manufacturing capacity and capabilities, it would be able to successfully manufacture and sell a larger variety of forged and machined bearing rings and automotive components, at competitive prices. It also intends to enhance its capabilities in machining and post machining processes so that it can increase the share of value-added and high-margin components. It is in the process of expanding its machining capacities and heat treatment facilities. Further, it continues to evaluate changes in technology, market trends, customer preferences and will seek to make investments to cater to such change in market landscape. In the long run, it also intends to enter into new product lines and target new consumer segments.

Reduce power costs and reduce carbon footprint: Power and fuel expenses contributes one of the largest single expense for the Company and accounted for 8.45%, 8.14%, and 7.91% of the corresponding total revenue from operations for Fiscal 2021, 2020, and 2019, respectively. Currently, RRL depends on state electricity board for most of its power requirements and are subject to changes in power tariffs by state electricity board. It intends to de-risk its business dependence on changes in power tariffs and reduce its carbon footprint through investment in renewable energy. It is in the process of expanding capacity of its solar projects by an installed capacity of 16 MW and has already placed purchase orders for equipment with installed capacity of 7.35 MW. The proposed expansion will also help in expanding its profit margins.

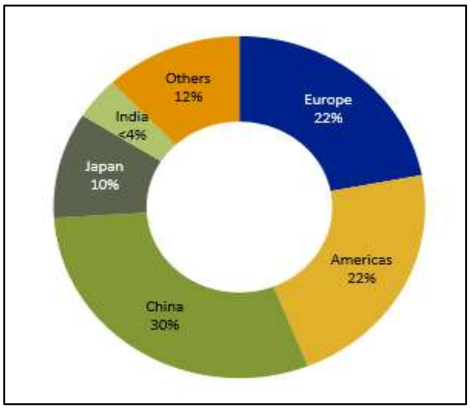
Further improve financial risk profile*:* RRL is scheduled to exit the CDR scheme in March 2022 which should offer it improved flexibility in managing its borrowings and taking other business related decisions. For Fiscals 2021, 2020, and 2019, its net cash flow from operating activities was Rs. 592.14 million, Rs. 1,837.77 million, and Rs. 1,938.05 million respectively. It intends to use the net proceeds from the IPO and internal accruals to further improve its financial profile. Its healthy financial profile permits it to explore new opportunities and invest in expanding its capacities.

Industry

Global Bearings Market

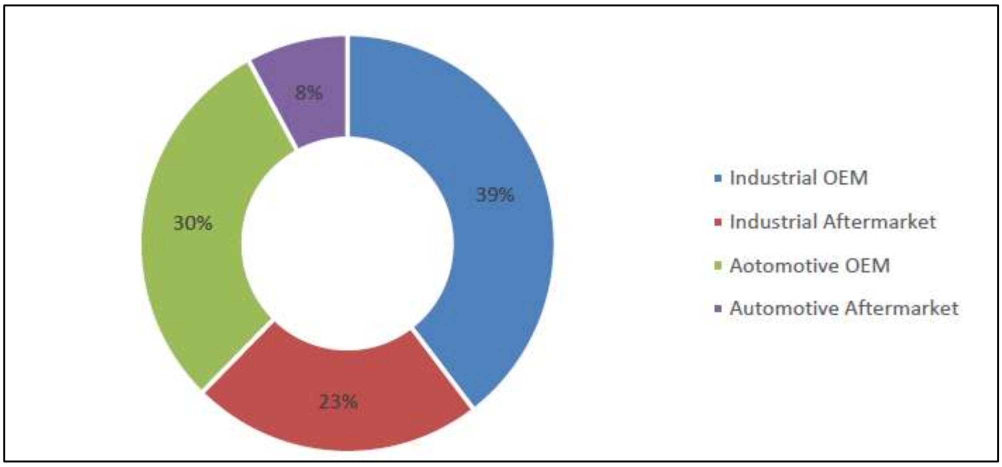
The global bearing industry size is estimated at USD 50 billion (CY2019), which is dominated by multinational companies like AB SKF (Sweden), Schaeffler Group (Germany), The Timken Company (USA) and Japanese companies like NSK, NTN and JTEKT. SKF is the global market leader in ball bearings which along with five other players (Schaeffler, Timken, NSK, NTN and JTEKT) account for 60% of the global bearings market share. Among various geographies, Asia accounts for ~50% of the global bearing demand followed by Europe (22%) and Americas (22%). North American countries like the US, Canada and Mexico constitute bulk of the bearing demand in Americas followed by Brazil. The share of Asian countries increased to about 50% of the global bearing demand, up from 30% around a decade ago.

Over the years, China has become the largest automotive market globally, which led to an emergence of Chinese bearings companies on the global platform. Today, China accounts for 30% of the global bearing demand, followed by Japan at 10%. The Chinese bearing market, which remains the largest of the emerging markets, is very fragmented, with the MNCs accounting for about one third of the market while the other two thirds of the market consists of many local manufacturers. Some of the largest players include Wafangdian (ZWZ), Luoyang (LYC), Harbin (HRB), Zhejiang Tianma (TMB), Wanxiang Qianchao, and C&U.



The Indian bearing industry accounts for less than 4% of the global bearing market, though 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 supported by increasing industrialisation as well as a healthy growth expected in the automotive market. The growing demand for industrial equipment and durable goods will contribute to the bearings growth by the OEMs operating in developed markets like the US, Japan and Western Europe. Growing demand for railway equipment, electronics, aircraft and motorcycles in the developing regions will support growth for bearings and related products in the developing markets like China and India.

The market can be broadly classified as the automotive and the industrial segments, with the industrial segment accounting for 61-63% of the overall revenue pie and the automotive segment accounting for the rest. Aftermarket business is an important sub-segment in both the industrial and the automotive segments. Strong presence in the aftermarket sub-segment provides stability to revenues of bearing manufacturers, which are otherwise exposed to cyclicality in the industrial as well as the automotive segments. The aftermarket business accounts for about 36% of the industrial segment revenue and around 21% of the automotive segment revenue for bearing manufacturers.



With technological advancements in several industry verticals such as automotive, construction, and oil and gas, the applications and functionalities of bearings are evolving continuously. Over the next few years, the global bearing industry is expected to witness a healthy growth, supported by increasing demand across various application sectors such as automotive, industrial, railways, and aerospace. An increase in automobile production worldwide is augmenting the growth in demand for bearings and associated components. In addition, the need for energy efficiency in process industries has also supported the worldwide demand for bearings significantly. The aerospace equipment segment is the fastest growing application segment in the bearings market

Indian Bearings Industry

The Indian bearing market is estimated at Rs. 12,000 crore 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.

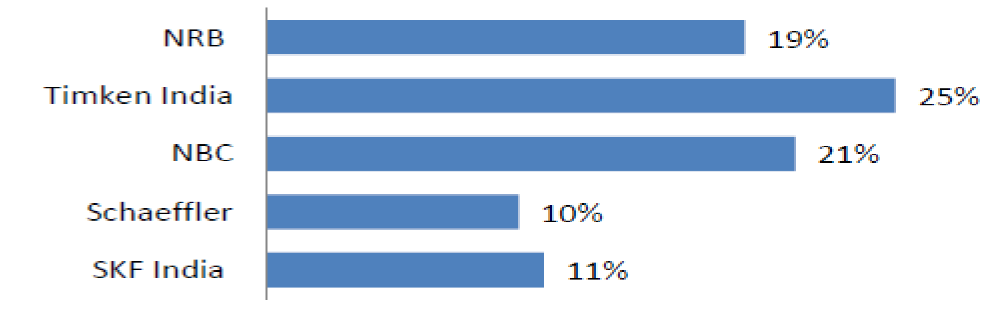
Exports account for sizeable chunk of Indian bearing manufacturers

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.

Share of exports as % of sales



Source: ICRA Report

In terms of demand dynamics, OEMs account for 60% of demand whereas the rest is driven by aftermarket and exports. The industrial segment constitutes 50-55% of the domestic bearing demand, which is largely driven by general machines/motors, electrical equipment (fans/appliances) as well as heavy industries. Increasing automation in manufacturing units, thrust by the Government's 'Make in India' program, spending towards railways and metros will support growth of manufacturing and engineering sectors, which augurs well for the bearing industry. In line with the global market, the domestic market can be broadly classified under the industrial and the automotive segments. However, the share of the automotive segment at 45-50% is relatively higher than the global level (<40%). This is mainly because of higher level of automation in developed countries (resulting in higher industrial activity) and large two-wheeler population in India. Usage of bearings is fairly diversified in the automotive (PV, CV, 2W, 3W, tractor) as well as the industrial segments. Also, the Indian bearing manufacturers derive a sizeable share of their revenue from exports as well as the aftermarket business, which lend stability to the business as well as mitigates the impact of cyclicality in any specific segment.

Heavy industries account for bulk of industrial demand

The industrial segment accounts for 50-55% of the domestic bearing demand, which is largely driven by general machines/motors, electrical equipment (fans/appliances) as well as heavy industries. The other segment mainly includes textile and refinery businesses. Going forward, the industrial segment growth will be driven by core industries such as infrastructure, power, metals, mining and cement among others. In the medium to long term, manufacturing in locomotives is also expected to grow at a healthy pace given the government's push for dedicated freight corridor, and high-speed rail network for both freight and passenger routes. Improved safety measures for rail networks are expected to increase spending on products and solutions with modern technology. Increasing thrust on the Government's 'Make in India' program will support growth of the manufacturing sector, which augurs well for the bearing industry.

Owing to high 2W population, automotive bearing accounts for high share of overall bearing demand compared to global market

Usage of bearings is fairly diversified in the automotive (PV, CV, 2W, 3W, tractor) as well the industrial segments. Also, Indian bearing manufacturers derive a sizeable share of their revenue from exports as well as aftermarket business, which lends stability to the business as well as mitigates the impact of cyclicality in any specific segment.

Structure of Indian bearing industry by type of bearings

Ball bearings - The domestic market for ball bearings is estimated at Rs. 6,000 crore, and finds application in fan, pumps, motors, alternators, two wheelers and three wheelers. SKF is a leading player in the domestic ball bearing market, followed by SCHAEFFLER, NEI, Timken and others.

Tapered Roller Bearing - The domestic market for tapered roller bearings is estimated at ~Rs. 2,200-2,400 crore, largely dominated by Timken. SKF and SCHAEFFLER are other major players in the tapered roller bearing market. Tapered roller bearings find application in M&HCVs, railways, mining and construction equipment, conveyors, tooling units and other applications where the load is high.

Cylindrical Roller bearings - The domestic market for cylindrical roller bearing is estimated at ~Rs. 600 crore, and it finds application in machining units, railways, gearboxes, compressors and mining equipment.

Spherical Roller bearings **-** The domestic market for spherical roller bearing is estimated at Rs. 230-250 crore, and it finds application in suspension systems, heavy industrial conveyors, industrial fans etc.

Needle Roller bearings **-** The domestic market for needle roller bearing is estimated at Rs. 2,800-3,000 crore, and it finds application in engines, industrial gearboxes, and air compressors. While major players are present in all the key segments, they hold leadership positions in some of the segments. For example, SKF is a leading player in the domestic ball bearing market with over 40% market share, whereas SCHAEFFLER is a leading player in cylindrical and spherical roller bearings. Similarly, Timken is the market leader in Tapered roller bearings and NRB holds a dominant position in the needle roller bearing market.

Steel accounts for bulk of bearing manufacturers' cost structure

In general, raw materials account for around 58-60% of the bearing manufacturers' revenue. Bearings are mainly manufactured using high grade steel or alloy steel, which exposes them to global steel price movement. Nevertheless, these manufacturers have relatively better pricing power compared to other commoditised components suppliers, which gets reflected from stable operating margin performance in the recent times. Depending upon their requirement, bearing manufacturers usually enter into supply agreement with domestic or internal steel mills which supply steel to their vendors at pre-determined prices.

Operating margin stable despite underlying volatility in steel prices

Steel is the major raw material for bearing manufacturers. Bearing manufacturers have relatively strong pricing flexibility owing to the technology knowhow and strong aftermarket presence. This is also evident from stable operating margin (OPBIDTA) of around 13-15% despite underlying headwinds in steel prices as well as moderation in demand. The gross margins of bearing manufacturers benefitted from weak commodity prices in the recent quarters. However, a sharp decline in volume and consequent negative leverage because of the Covid-19 related lockdown will result in a more than 150 bps decline in OPM in Fiscal 2021. The OPMs are likely to recover to the normal level from Fiscal 2022 onwards.

Bearing Rings industry

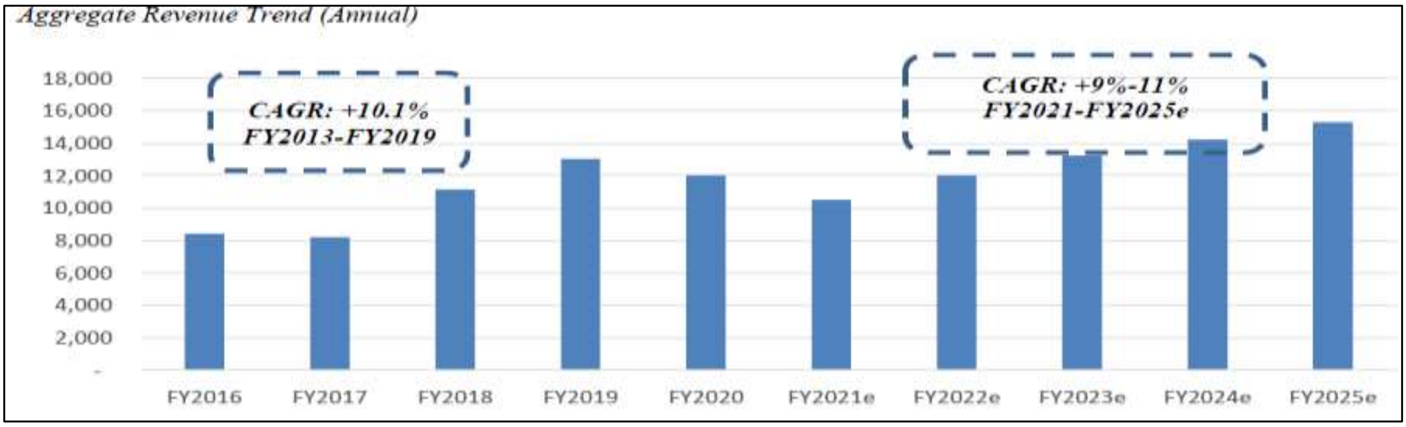
Bearing Rings form one of the most critical and largest raw material cost for the bearings sector and at ~Rs. 2,200 crores, the industry contributes ~18.3% of the size of domestic bearing market. Rings can be manufactured using tubes, cold-drawing of steel bars or by forging process. Amongst these three processes, forged rings are mainly used in critical applications where load/stress is relatively high. Forged bearing rings market is estimated at about Rs 1,100 crore 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 millimeters 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.

The manufacturing process and competitive intensity is also determined by the raw materials being used, machining requirements post forging and surface treatments required to be given to the bearing rings. Being a critical component for the overall performance of the bearing and consequentially the end-use application and thus manufacturers of high precision bearing rings need to adhere to stringent quality standards and adhere to strict tolerance levels. Being an important part of the bearing, the bearing manufacturers tend to restrict the churn in suppliers and prefer to work with approved vendors which is reflected in relatively long customer retention seen in bearing ring manufacturing sector. In addition to the above, manufacturing of high precision, high volume, forged small bearing rings requires advanced hot-formers which entail significant capex for the manufacturing units. The growth in the segment will be driven by growth in bearings industry as well as increased propensity of bearing companies to outsource the manufacturing of bearing rings. The largest costs for forged bearing ring manufacturers are raw material (steel), power and manpower. Steel being a cyclical commodity, most large players in the industry strive to pass-through the raw material costs to their customers thereby partially insulating themselves from the changes in commodity prices. 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.

Outlook for Bearings Industry

Lockdown-related restrictions impacted the revenue in Q1 FY2021, however, industry participants have witnessed a V-shaped recovery from Q2 FY2021 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 Q2 FY2021. 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 Fiscal 2013 to Fiscal 2019. 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.

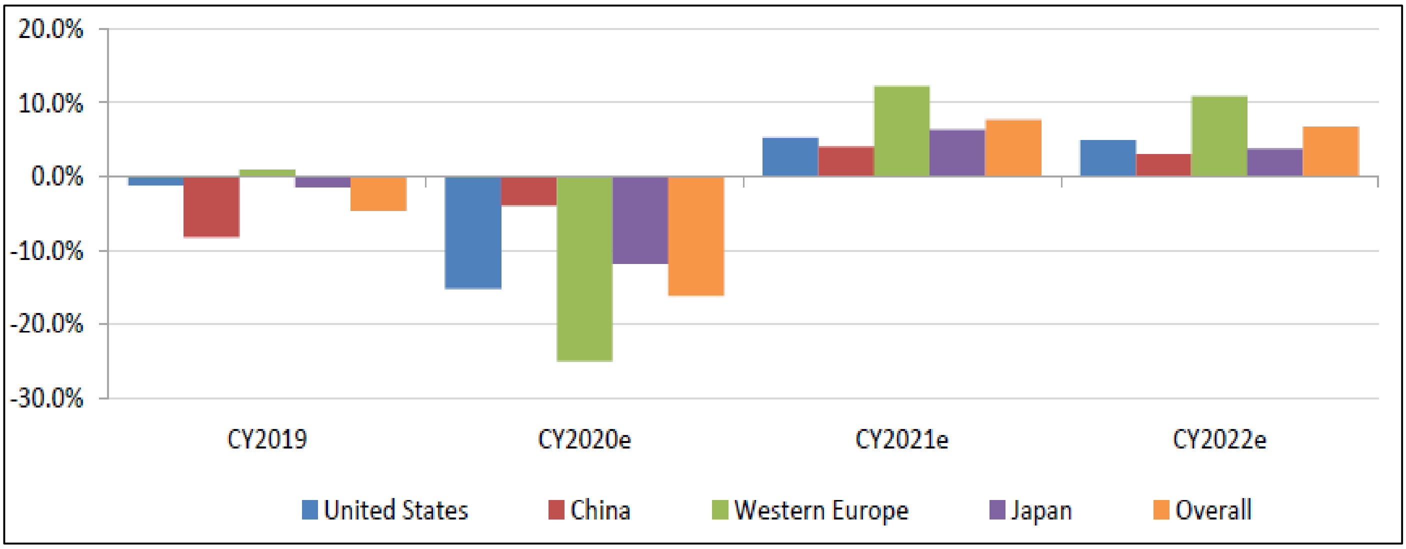
Over the last 3-4 years, sub-optimal capacity utilisation by most corporates resulted in deferment of capex plans, and consequently the demand for bearings was primarily driven by the automotive as well as the aftermarket segments. With recovery in domestic automotive industry as well as likely pickup in investment activity under PLI scheme will result in healthy revenue growth for the sector. ICRA expects overall revenue to grow by 9%-11% CAGR for industry during Fiscal 2021 to Fiscal 2025 period.



Currently, about 40% of the domestic bearing requirement is catered through imports as volume in India for certain SKUs are economically viable for bearing manufacturers to set up dedicated lines. With an improved off-take, bearings will get increasingly localised, which will help bearing component suppliers in the medium to long term. Hence, the demand for domestic bearing components (rollers, rings) is expected to grow at a faster rate (~10-12% CAGR) than the underlying bearing industry. Moreover, increasing complexity of bearings will further add to realisation for bearing component suppliers. While the operating margin in Fiscal 2021 will be impacted owing to weak Q1, the overall operating margin of the industry is likely to remain rangebound at around 13-15% in the medium term.

Insight On The Automotive Industry The global light vehicle (including passenger vehicle and light commercial vehicles) unit sales registered a 4.5%-5% decline in CY2019, and the volumes are likely to shrink further by over 15% in CY2020 due to the Covid-19 related impact on economy and consumer sentiments. The decline will be the sharpest in the European markets, especially in Spain and Italy, which were worst impacted by the pandemic.

Growth outlook for key automotive markets

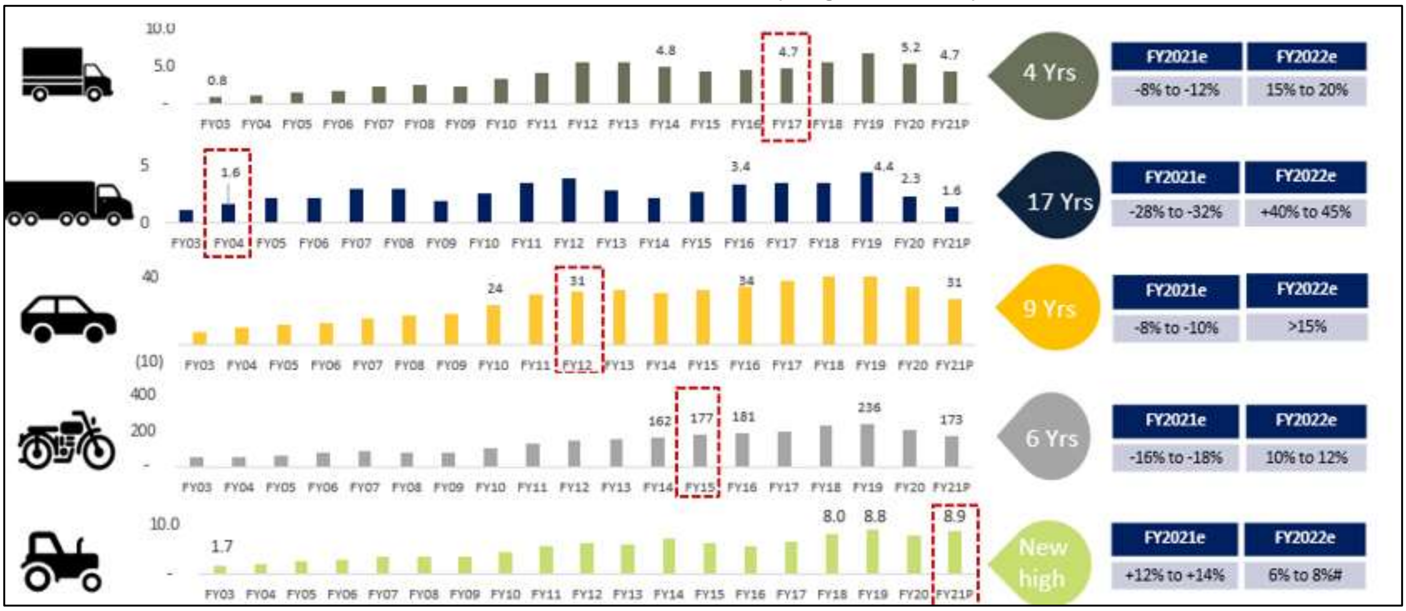


India Automotive Market – Most Automotive Subsegments will register double digit growth in Fiscal 2022e

The domestic OE demand was already reeling under demand pressure prior to the Covid-19 because of a slowdown in the economic activity, tighter financing cost, transition impact of various regulations (safety/emission/axle-load norms) and weak consumer sentiments. The Covid-19 aggravated the situation, with sharp decline in volume during Q1 FY2021 though the industry witnessed handsome recovery during Q2

FY2021 and Q3 FY2021 which is likely to continue in coming quarters as well. ICRA expects all major automotive sub-segments to witness strong double digit growth in Fiscal 2022, albeit on low base of Fiscal 2021.

Domestic Automotive Demand (Long Term Trend)



India Automotive Market – Outlook for various segments

Commercial vehicles – The domestic Commercial Vehicle industry is expected to grow in Fiscal 2022, supported by the low base, improvement in economic activity and financing environment. Infrastructure activity, one of the key growth levers for the heavier CVs, has seen increased execution in recent months, and is expected to be further augmented by the significant capital outlay of Rs. 5.54 lakh crore announced in the recent Union Budget.. The much awaited scrappage policy, which is expected to be announced soon, would also provide some impetus to volumes, with vehicles older than 15 years required to undergo a mandatory fitness test. Overall, ICRA expects the domestic CV Industry volumes to report double-digit growth of 24-27% in the upcoming fiscal, after two years of sharp contraction.

Passenger vehicles – Demand recovery post lockdown relaxation is much better than expectations with industry registering 17.0% and 14.4% growth during Q2FY2021 and Q3FY2021, respectively. ICRA expects over 15% growth in PV sales during Fiscal 2022. The growth will also look better due to low base effect of Fiscal 2021, especially Q1 Fiscal 2021. Within PV segment, UV segment will continue to outperform which is also in line with global trend. In the medium term, ICRA expects UV segment to account for over 40% of total PV sales in the Indian market.

Two wheelers – Over the past few years, strong growth in domestic 2W demand was largely driven by outperformance in scooter segment whereas motorcycle demand, especially in commuter segment remained sheepish. The trend however reversed in recent quarters with motorcycle segment witnessing healthy demand. This can be attributed to greater rural demand, which is expected to remain buoyant due to higher disposable income with farmers resulting from healthy Government procurement of the kharif crop. Increased preference for personal mobility in urban markets, to maintain social distancing, is also expected to support retail demand.

Tractors – Aided by healthy rabi cash flows across the regions and progress of the monsoon (in line with the forecasts), there has been a sequential improvement in tractor sales ever since. After a strong surge in the wholesale volumes during June-September 2020, the growth moderated to an extent in October 2020 (~8% growth on a YoY basis), partially because of a higher base. Even as wholesale growth moderated to an extent, the tractor industry continued to record a robust growth in retail volumes (~57% on a YoY basis). OEMs continue to be focused on maintaining healthy production levels and are optimistic of healthy sales for the rest of the year.

Auto component Industry expected to grow at a CAGR of 10%-12% during Fiscal 2021- Fiscal 2025

ICRA expects export revenues to grow at a healthy pace, supported by the Government's 'Make in India' initiative, increasing exports by a few domestic OEMs and a healthy growth in the US automotive market. Over the medium to long term, increasing efforts by the OEMs on localisation of raw materials and increasing component value/sophistication per vehicle platform are positives for the industry. Further, revenue growth is expected to accelerate from Fiscal 2022, with robust growth expectation for the 2W, PV and CV industry. With increasing import substitution, thrust of 'Make in India' (to boost exports) and an overall improvement in demand, it is expected that the industry to witness a CAGR of 10%-12% during Fiscal 2021- Fiscal 2025, with an upward bias.

Indian Forging Industry

The Indian forging industry is among the key contributors of the manufacturing sector and one of the key growth drivers for the auto component exports. Being a labour-intensive process, Indian forging companies have cost advantages over its peers in the developed market. Over the years, Indian forging companies have gained technical knowhow in making critical components as well as improved share of machined content, which has helped margin expansion for some of the larger players. As per the Association of Indian Forging Industry (AIFI), the country's forging industry had an installed capacity of 4.7 million MTPA capacity and a turnover of Rs. 34,000 crore in Fiscal 2020 (compared to Rs. 45,000 crore in Fiscal 2019). The automotive sector accounts for 60% of the forging production whereas the rest is catered to by the nonautomotive segments like oil & gas, locomotive, defence and other applications. Based on their installed capacity, the forging units can be classified as very large (capacity above 75,000 MT), large (capacity above 30,000 to 75,000 MT), medium (capacity above 12,500 to 30,000 MT), small (capacity above 5,000 to 12,500 MT) and very small (capacity up to 5,000 MT). As per AIFI, about 83% of the total forging units is classified as small and very small, while about 8% can be classified as very large and large units. The medium sized units constitute the balance 9%.

Key Concerns:

- RRL has defaulted in payment of certain loans in the past, and had approached CDR Cell for restructuring debt in FY 2013.
- Heavily dependent on the performance of the automotive sector in India, Europe, North America, Latin America and some part of Asia.
- RRL's Loan agreements require its Promoters and certain members of its Promoter Group to pledge Equity Shares and NCRPS of the Company with lenders. A breach by its Company of certain covenants under the financing agreements may entitle these lenders to exercise their rights under the financing agreements and reduce the shareholding of its Promoters and certain members of the Promoter Group, which may adversely affect the business.
- Any shortages, slowdown or shutdown in manufacturing operations may lead to under-utilization at RRL's existing manufacturing facilities which could have an adverse effect on its business, results of operations, cash flows and financial condition.
- The continuing impact of the outbreak of the COVID-19 could have a significant effect on RRL's operations, and could negatively impact the business, revenues, financial condition, cash flows and results of operations.
- Top 10 customers accounted for a substantial majority of RRL's revenue.
- The demand of RRL's products in foreign countries is subject to international market conditions and regulatory risks that could adversely affect the business and results of operations.
- RRL has outstanding borrowings which may adversely affect its financial condition. Restrictive covenants in financing agreements may limit its operations and financial flexibility and materially and adversely impact the financial condition, results of operations, cash flows and prospects.
- RRL is subject to strict quality requirements and any product defect issues or failure by it to comply with quality standards could adversely affect the business, results of operations, cash flows and financial condition.
- RRL has substantial working capital requirements and if it is unable to secure adequate working capital on commercially reasonable terms, its business, financial condition, cash flows and results of operation may be adversely affected. Further, ability to finance capital expenditure is also subject to certain risks.
- Non-compliance with and changes in, safety, health and environmental laws and other applicable regulations in manufacturing operations may adversely affect RRL's business, cash flows, results of operations and financial condition.
- The geographical concentration of manufacturing facilities may restrict RRL's operations and adversely affect its business, cash flows and financial conditions.
- RRL may be unable to obtain, renew or maintain statutory and regulatory permits, licenses and approvals required to operate its business and operate its manufacturing facilities, which could have an adverse effect on its results of operations.
- RRL does not have firm commitment agreements with its customers. If its customers choose not to source their requirements from it, its business and results of operations may be adversely affected.
- Availability of raw materials and fluctuation in the prices of raw materials required for RRL's products may adversely affect its business, financial condition, cash flows and results of operation.

- Insurance coverage may not be sufficient or may not adequately protect RRL against all material hazards, which may adversely affect its business, results of operations, cash flows and financial condition
- Dependent on a number of key personnel, including senior management, and the loss of, or RRL's inability to attract or retain, such persons could adversely affect the business, results of operations, cash flows and financial condition
- RRL has availed certain loans which may be recalled by its lenders at any time.
- Relies on third parties to transport its products to RRL's customers, and source raw materials for its manufacturing facilities and any disruption in its transportation arrangements or increases in transportation costs may adversely affect the business, cash flows, results of operations and financial condition.
- Inability to effectively manage RRL's growth or to successfully implement business plan and growth strategy could have an adverse effect on its business, results of operations, cash flows and financial condition.
- Faces competition from both domestic as well as international players, RRL's inability to compete effectively may have a material adverse impact on its business and results of operations.
- RRL does not hold any patents or other form of intellectual property protection in relation to its manufacturing processes, and inability to maintain the integrity and secrecy of its manufacturing processes may adversely affect the business.
- Exchange rate fluctuations in various currencies in which RRL do business could negatively impact its business, financial condition, cash flows and results of operations.
- Any downgrade in RRL's credit ratings could increase the borrowing costs, affect the ability to obtain financing, and adversely affect its business, results of operations, cash flows and financial condition
- Operations could be adversely affected by strikes, work stoppages or increased wage demands by RRL's employees or any other kind of disputes with its employees and contract labour.
- Success depends on RRL's ability to understand evolving industry trends and to fulfill the changing preferences of its customers. If it is unable to raise additional capital, its business prospects could be adversely affected.
- Any failure of RRL's information technology systems could adversely affect its business and its operations.
- RRL in the past entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest with the equity shareholders.
- Unforeseeable business interruptions, including war, terrorist activities, political and social unrest, epidemics and natural disasters, such as earthquakes, could have a negative effect on the Indian economy and adversely affect the business.
- Business is dependent on the Indian economy. It may be adversely affected by future regulatory changes. Foreign investors are subject to foreign investment restrictions under Indian law that limits RRL's ability to attract foreign investors, which may adversely impact the market price of the Equity Shares.
- Financial instability in Indian financial markets could adversely affect its results of operations, cash flows and financial condition.

Profit & Loss

Particulars (Rs in million)	FY21	FY20	FY19
Revenue from Operations	6163.3	6659.9	9043.2
Other Income	34.3	93.4	69.3
Total Income	**6197.6**	**6753.3**	**9112.5**
Total Expenditure	**5074.6**	**5445.6**	**7032.4**
Cost of raw materials and components consumed	3165.9	3137.4	4529.4
Decrease/ (increase) in inventories of finished goods and work-in progress	-291.6	155.9	-190.1
Employee benefits expense	518.7	526.6	608.1
Other expenses	1681.6	1625.6	2085.0
PBIDT	**1122.9**	**1307.8**	**2080.2**

Interest	117.0	321.7	420.2
PBDT	1005.9	986.1	1660.0
Depreciation and amortization	254.1	265.2	254.4
PBT	**751.8**	**720.8**	**1405.6**
Tax (incl. DT & FBT)	**-117.7**	**191.4**	**815.2**
Current tax	130.4	127.2	308.9
Deferred tax charge / (Credit)	-248.1	64.3	506.3
PAT	**869.5**	**529.4**	**590.4**
EPS (Rs.)	36.3	22.1	24.6
Equity (Latest)	239.8	239.8	239.8
Face Value	10	10	10
OPM (%)	17.7	18.2	22.2
PATM (%)	14.1	7.9	6.5

(Source:RHP)

Balance Sheet

Particulars (Rs in million) As at	FY21	FY20	FY19
Assets			
Non-current assets			
Property, plant and equipment	3713.9	3730.3	3808.4
Right-of-use assets	0.5	0.7	0.8
Capital work-in-progress	11.5	-	9.5
Intangible assets	9.5	11.7	14.1
Financial assets			
- Loan	0.0	25.0	33.3
- Other financial assets	139.6	33.7	125.0
Income tax assets (net)	19.7	19.5	19.7
Other non-current assets	288.2	111.3	131.4
Total non-current assets	**4183.0**	**3932.2**	**4142.3**
Current assets			
Inventories	1710.7	1305.7	1602.0
Financial assets			
- Loans	0.8	30.9	1.2
- Trade receivables	1708.0	1276.7	1815.0
- Cash and cash equivalents	46.1	12.5	1.4
- Bank balances other than Cash and cash equivalents	58.1	151.9	45.3
- Other financial assets	68.0	60.0	102.0
Other current assets	194.7	91.9	113.5
Total current assets	**3786.3**	**2929.6**	**3680.3**
Total assets	**7969.2**	**6861.7**	**7822.6**
Equity and Liabilities			
Equity			
Equity Share Capital	239.8	239.8	239.8
Other equity	3327.5	2441.2	1913.6
Total equity	**3567.3**	**2681.1**	**2153.4**
Liabilities			
Non-current liabilities			
Financial liabilities			
- Borrowings	323.5	442.4	913.4
- Lease liabilities	0.7	0.9	1.2
Income tax liabilities (net)	179.3	179.3	170.5
Deferred tax liabilities (net)	324.1	569.5	506.2
Provisions	31.1	30.9	23.4
Total non-current liabilities	**858.6**	**1223.0**	**1614.7**
Current liabilities			
Financial liabilities			
- Borrowings	1835.7	1939.3	2343.3
- Lease Liabilities	0.4	0.4	0.4

- Trade payables			
total outstanding dues of micro enterprises and small enterprises	19.2	14.8	25.4
total outstanding dues of creditors other than micro enterprises and small enterprises	1157.2	723.7	887.6
Other liabilities	14.8	8.4	13.2
Other financial liabilities	434.0	261.2	671.2
Provisions	7.3	7.2	6.5
Income tax liabilities (net)	74.9	2.7	106.9
Total current liabilities	**3543.3**	**2957.7**	**4054.5**
Total equity and liabilities	**7969.2**	**6861.7**	**7822.6**

(Source:RHP)

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