Stock Idea

Rajratan Global Wire Ltd.

Date: 29th Sep, 2020

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Contents

Snapshot (1/2)

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- **Total Weightage % in portfolio = %**
- **Best buying range =**
- **Price target =**
- Rajratan is the second largest bead wire manufacturer in Asia (excluding China), the largest manufacturer in India and the only manufacturer in Thailand with a 20% market share.
- Thailand’s operation constitutes 35-35% of total revenue.
- Company has recently expanded its capacity in India from 36,000 to 72,000 TPA and 26,000 to 34,800 TPA in Thailand..

Their Trust is Our Treasure

Market Cap: ₹ 315.34 Cr.	**Current Price: ₹ 310.55**	**52 weeks H/L: 396 / 166**
Book Value: 170.85	Stock P/E: 12.69	Dividend Yield: 0.64%
ROCE: 19.07%	ROE: 20.92%	Sales Growth (3Yrs): 19.22%
Face Value: 10	Promoter Holding: 64.53%	Dividend Payout: 6%
Sales Growth (10Yrs): 10.05%	Profit Growth (10Yrs): 17.57%	ROE (10 Yrs): 14.85%

Source: Screener.in, As on Sep 29th, 2020

Snapshot (2/2)

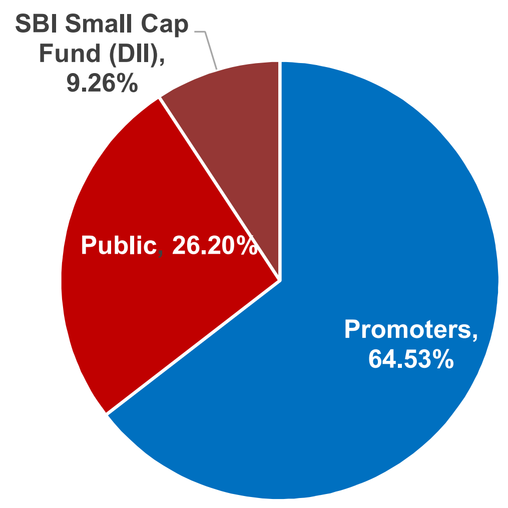
Investment rationale:

- Company was incorporated in the year 1988 by Mr. Sunil Chordia (Chairman and Managing Director). Under his leadership the Company has grabbed a market share of 50% in the Industry. This reflects the extensive experience of Company's promoters in the Tyre bead wire business.
- Market leadership position, both in India and Thailand makes the company a good pick
- Company has established long term relationship with major tyre manufacturers like MRF, Apollo, CEAT, BKT, Birla, Bridgestone, Yokohama and others. And Company generates 85% of the revenue from clientele of more than five years.
- This leadership position is further supported by company strategic positioning in Thailand, where, it is the sole manufacturer of Tyre bead wire for all major tyre manufacturers. This provides a logistical advantage to the Company, owing to its proximity to the tyre manufacturers.
- Management expansion plans are also very sustainable (from a long term perspective) with limited or controlled reliance on external debt for funding the expansion or capital expenditure requirements.
- Company boosts strong financial statements, with continuous improvement in the top line as well as bottom line numbers. Currently Company is trading at a PE multiple of "12.81x" and Price to book value of "1.83x"
- All these factors make the Company a good pick from a long term perspective.

Background of the company:

- The company was originally formed as Rajratan Wires Pvt. Ltd. in 1989 by family members engaged in the iron and steel trading business. Commercial production commenced in 1991 with the production of pre-stressed concrete wires and stands.
- The name of the company was changed to Rajratan Wires Ltd. following the IPO of equity shares in 1995 when the company commenced the production of bead wire.
- Rajratan entered into a technical collaboration and joint venture with Gustav Wolf Group of Germany following which the name of the company was changed to Rajratan Gustav Wolf Ltd. in 1998.
- Following the joint venture for five years, the Indian promoters bought back equity held by Gustav Wolf after which the name of the company was changed to Rajratan Global Wire Ltd in 2004.
- The company extended to the launch of operations in Thailand In 2006, resulting in the commissioning of Rajratan Thai Wire Co. Ltd. (a 100% subsidiary).
- The Thailand operations of the company commenced commercial production in 2008. Mr. Sunil Chordia and his family members account for promoter interests in the company with 64.53% equity ownership.

Shareholding % as on June 30, 2020



- Zero promoter pledged shares
- Zero foreign institutional holdings
- Domestic Institutional Investor is SBI Small Cap Fund which has increased its stake from 6.20% to 9.26% over a period three years.

Management of the Company:

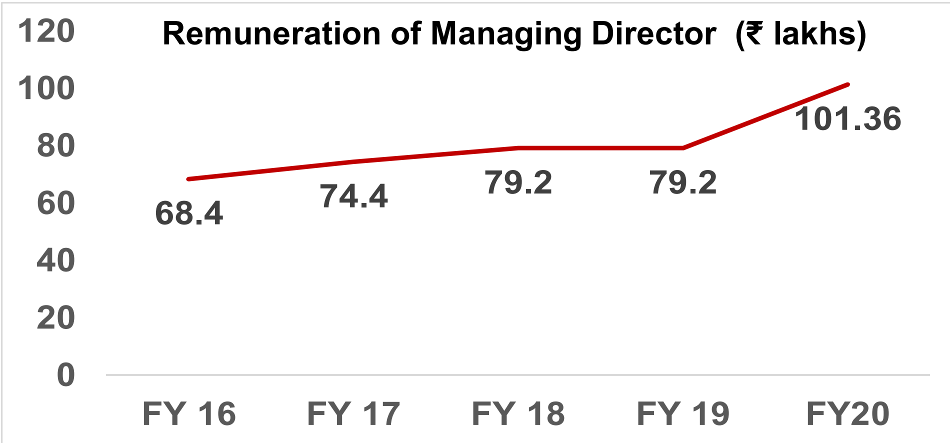
Mr. Sunil Chordia (Chairman and Managing Director):

Chairman and Managing Director of Rajratan Global Wire Limited, manufacturer of Tyre Bead Wire with their facilities in India & Thailand.

He is Board Member at Swastika Investment Ltd., Swaraj Technocraft Pvt. Ltd., Levers for Change Pvt. Ltd.

An active member of Confederation of Indian Industries (CII). Past Chairman of M.P. State Council and now a member of the Western Regional Council of CII. Chairman of Industrial Relations Sub-Committee of the Western Region of CII. Past Chairman of Steel Wire Manufacturers Association of India.

Name of the Director	Type
Sunil Chordia	Chairman and Managing Director
Yashovarshan Chordia	Executive Director
Shiv Singh Mehta	Independent Director
Surendra Singh Maru	Independent Director
Chandrashekhar Bobra	Independent Director
Rajesh Mittal	Independent Director
Aparna Sharma	Independent Director
Abhishek Dalmia	Non Executive



Product of the Company:

Tyre bead wire:

Tyre bead wire is high carbon bronze coated steel wire used in all kinds of automobile tyres, tyres of earth moving equipment's and aircrafts. The main function of bead wire is to hold the tyre on the rim and to resist the action of the inflated pressure which constantly tries to force it off.

The bead is the crucial link through which the vehicle load is transferred from rim to the tyre. It significantly affects the safety, strength and the durability of tyres. Company boosts 90% of its revenue from bead wire.

Bead wire accounts for a 4% share of the final cost of a tyre.

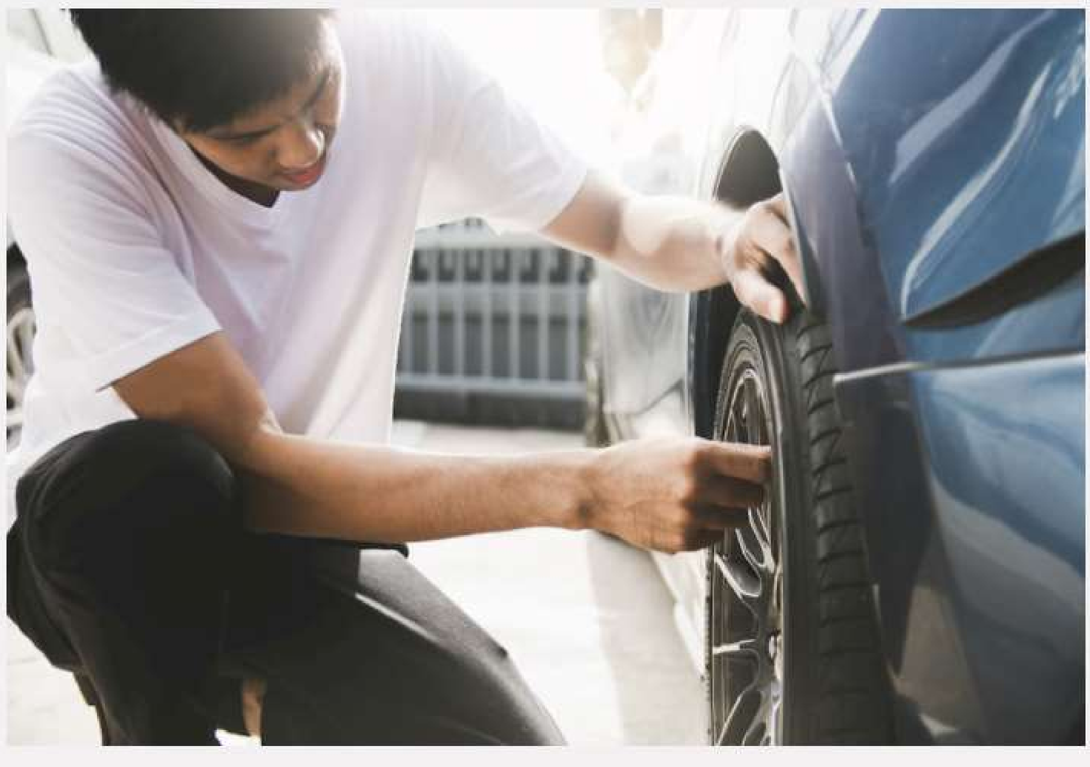
High carbon steel wire:

This is drawn steel wire (also popularly known as black wire) manufactured from quality wire rods with high carbon content. The product plays a vital role in many industries (automobile and construction to engineering). At Rajratan, they manufacture high carbon steel wire in our state-of-the- art plants and employ world-class patenting heat treatment process.

Tyre industry's statistics

Global tyre market

Market size ($ billion) 2019	112.16
CAGR (2014-19)	4%
Units sold (billion)	3.2
Expected units to be sold by 2025 (billion)	4
Expected CAGR by 2025	3.7%
Share of Asia pacific	55%



Indian tyre market

Units produced (million) 2019	192
Units sold (million) 2019	185
Expected units to be sold by 2025 (million)	245
Expected CAGR by 2025	3.7%

Source: Annual report Rajratan., IMARC, Market Watch

Growth Drivers (1/5)

1. Infrastructural development

A significant growth in the construction of roads and highways and the introduction of five Smart Cities are expected to catalyse tyre demand.

National Smart Cities Mission is an urban renewal and retrofitting program by the Government of India with the mission to develop smart cities across the country, making them citizen friendly and sustainable. The Union Ministry of Urban Development is responsible for implementing the mission in collaboration with the state governments of the respective cities. The mission initially included 100 cities, with the deadline for completion of the projects set between 2019 and 2023.

2. Electrical vehicles

The Government approved the FAME-II scheme with Rs. 10,000 Crores funding, helping introduce electrical vehicles into the public transport system. Even as automobiles pass through a transformation from fossil fuel-driven to electric variants, the tyre is expected to remain a core and irreplaceable component.

Further, Karnataka was the first state to come up with an electric vehicle policy, hoping to generate investments of Rs.31,000 crore in EV R&D and manufacturing (reported by Economic times). Since then, 11 states including Gujarat, Delhi, Maharashtra, Tamil Nadu, Telangana and Andhra have brought out their own policies.

There are also rumours that Tesla might be looking to open its second gigafactory in Asia (outside China).

India's EV market is expected to touch Rs 50,000 crore by 2025, financial services firm Avendus said in a report in July. Of this, battery, motor and controller together can be a Rs 15,000 crore opportunity for India by 2025.

Growth Drivers (2/5)

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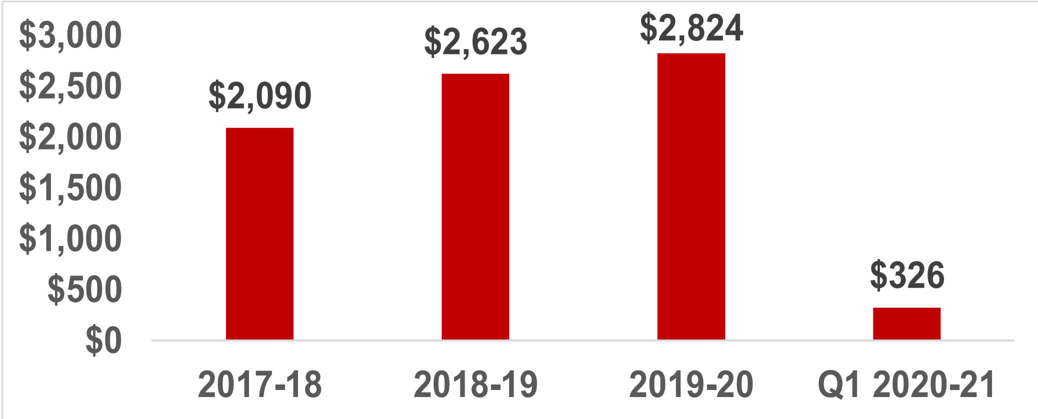
3. Rising investments

Major tyre manufacturers have capital expenditure worth Rs. 17,000 Crores planned till 2022. The Government of India expects foreign and local investments worth US$ 8-10 billion in the automobile sector by 2023.

As we can see from the graph, that FDI inflow has gone up during the last three year. Further, it was continued during the countrywide Covid-19 lockdown as well, which is a good sign for the sector.

FDI equity inflow ($ million)



4. Government policies

The vehicle scrappage policy is expected to entail scrapping of old vehicles in exchange for some incentives for consumers while setting up vehicle recycling clusters to boost use of recycled materials, thereby cutting cost of raw materials.

The proposed policy is seen as a growth driver in boosting demand for new vehicles at a time when the economy is hit by weak consumer sentiment amid covid-19 led slowdown in the broader economy. Mr. Nitin Gadkari (road transport and highways minister) said “The vehicle scrapping policy is very important for the revival of the auto industry. I assure you that the scrappage policy is in its last stages of approval and it will come within a month“

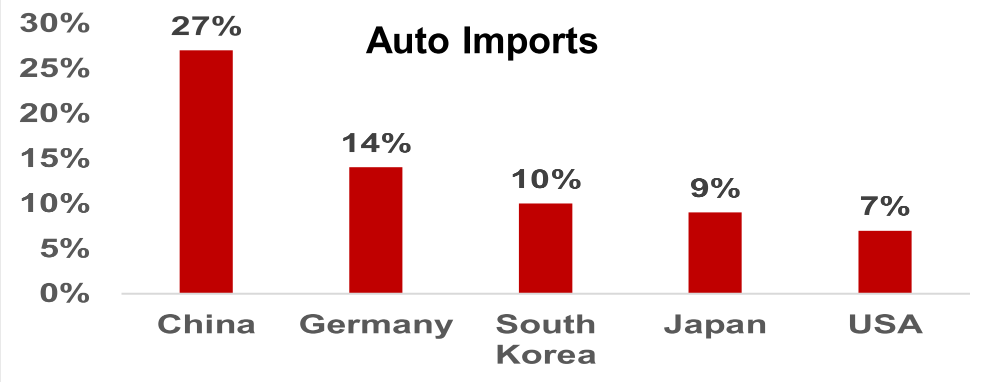
Government initiatives like ‘Make in India’, ‘NEMMP 2020’ and ‘Automotive Mission Plan 2026 are projected to grow the automobile sector.

Growth Drivers (3/5)

5. Indo China conflict

As per Automotive Component Manufacturing Association of India (ACMA) report for FY 19, India imports 27% of auto component from China.

Due to ongoing conflict , and the anti dumping duty on the import of certain Chinese radial tyres used in buses and trucks for a period of five years, will lead to local procurement of tyres, which will again be indirectly favourable to Rajratan.



6. Geographical advantage

Rajratan has its subsidiary Rajratan Thai Wire based out of Thailand. Thailand is the source of 37% of the world's new raw rubber supply. The country is the world's largest rubber exporter. Thailand's tyre market is projected to cross $5.6 billion mark by 2022.

The Thai government plans on increasing tyre production from 530,000 tonnes per year to more than a million tonnes. The world's tenth-largest tyre maker (and China's largest) Hagzhou Zhongce Rubber built a new facility in Thailand, as did Linglong Tyre and Double Coin. The government-operated Board of Investment announced it would invest US$100 million to set up a major automotive tyre-testing facility.

The Board of Investment announced that Bridgestone Corporation, Shandong Linglong Tyre Company, and Goodyear Thailand would invest more than US$312 million to turn the country into an ASEAN hub for aircraft tyre manufacture. Major global tyre players such as Bridgestone, Michelin, Sumitomo, Yokohama and Goodyear, among others, operate their production facilities in Thailand.

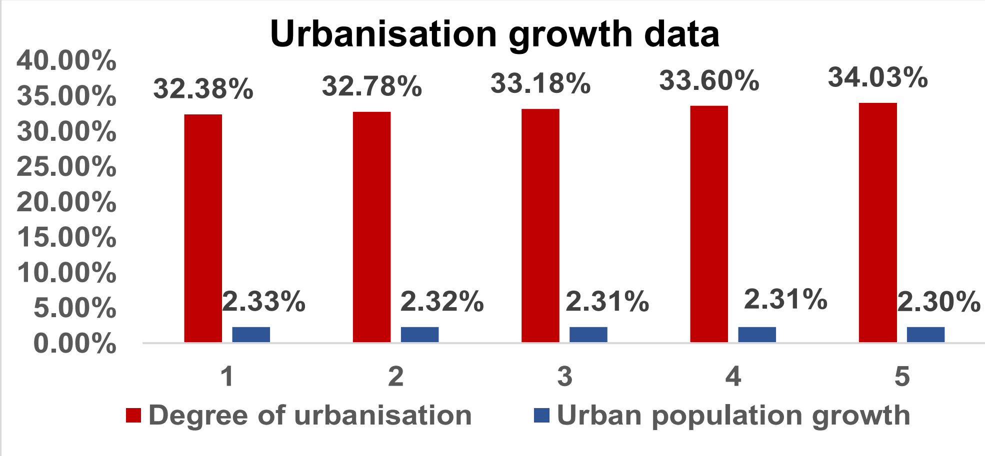
Growth Drivers (4/5)

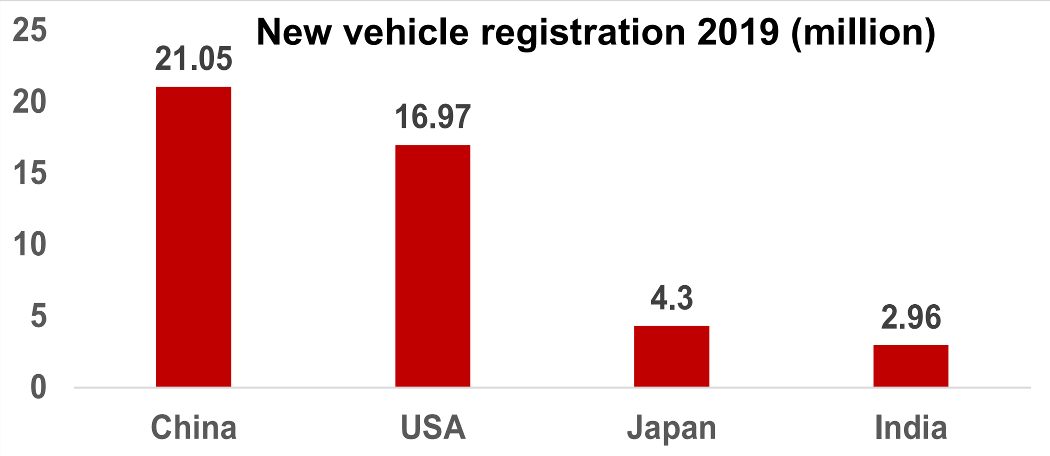
7. Favourable demographics

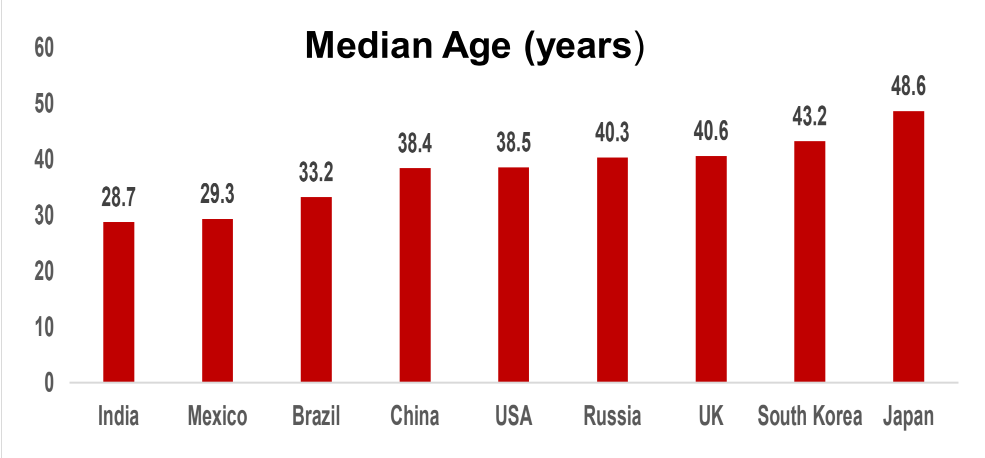
India possesses 22 motor vehicles per 1000 individuals compared to 980 in the US and 164 in China. Worldwide, India ranks around 137th in this category.

Being the 4th largest automobile market in the world after China, USA and Japan, these number are very low, which leaves the Indian Auto Industry with large headroom to grow.

Further, favourable demographics like rising urbanisation, low median age also represents the untapped potential of the Indian market.







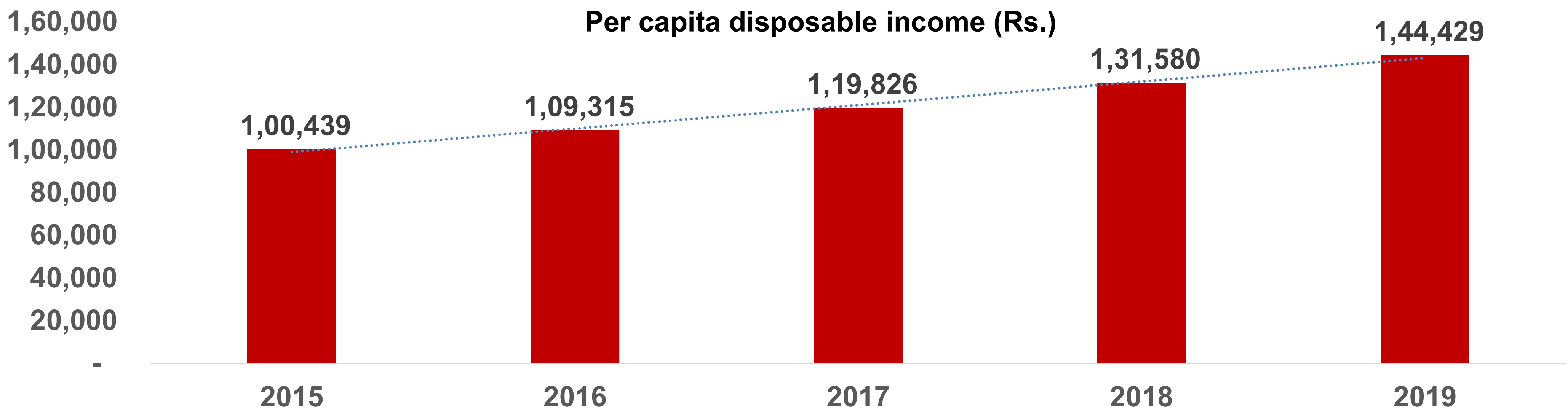
Growth Drivers (5/5)

7. Favourable demographics (continued…..)

As per the report by McKinsey- Tracking the growth of Indian middle class, large chunk of Indian middle class will be spending the disposable income on the discretionary expenses in the ratio of 70:30 respectively.

Also, it has to be noted that based on income classification India's 42% of the population is expected to be Middle and Affluent i.e. earning annual household income more than 200,000. And per capita disposable income of the country is also on the rise.

These indicators shows the untapped upside potential of the business for a country where owing a vehicle is still considered to be a luxury.



Financial & Business Analysis (1/5)

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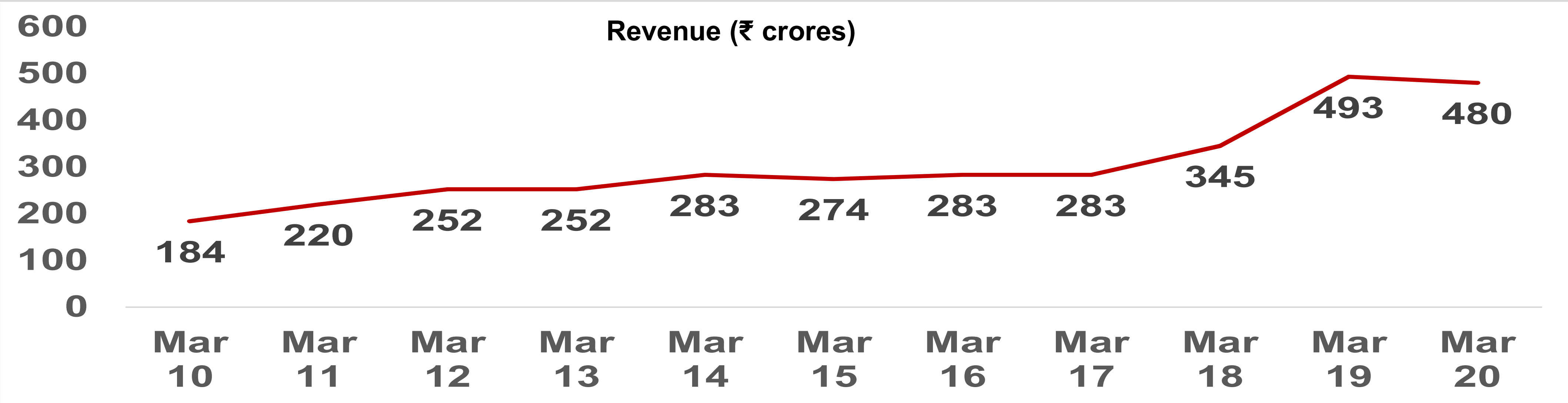
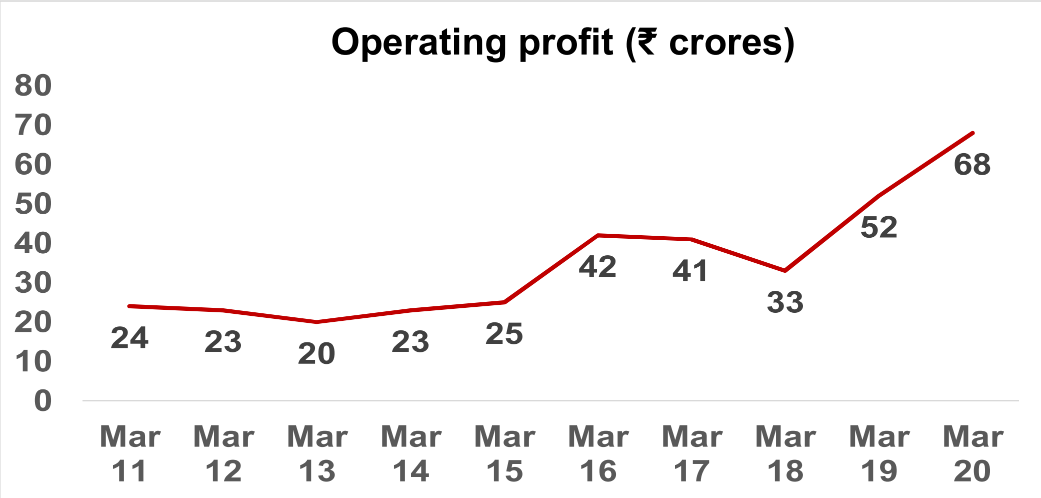
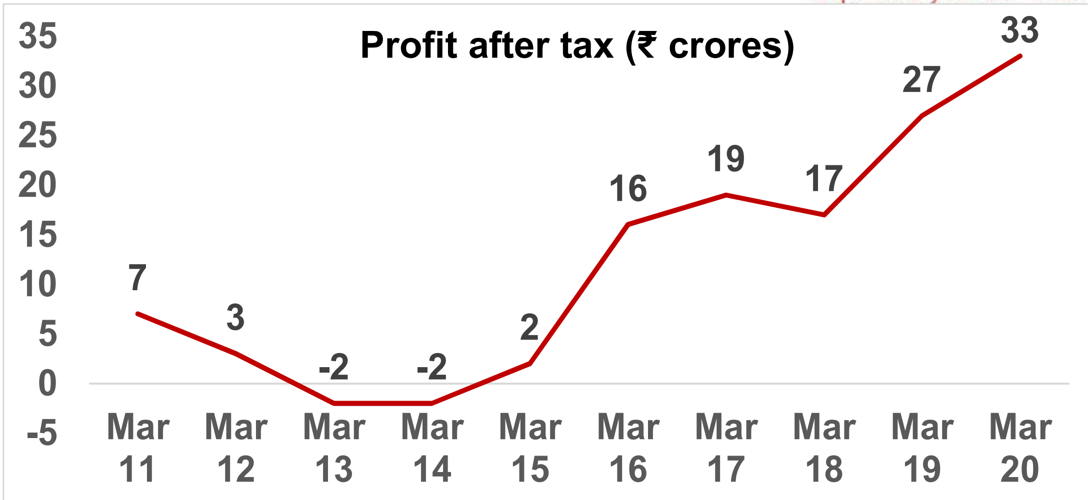
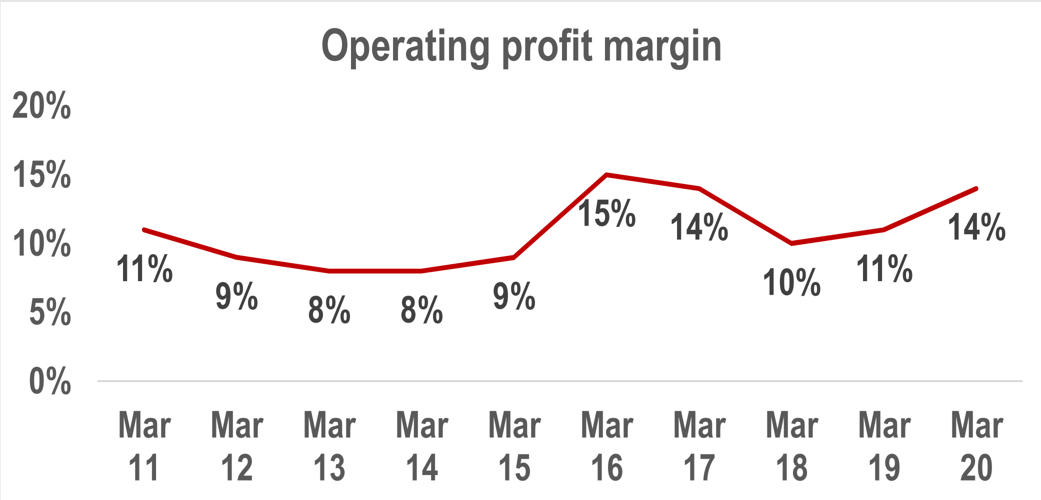
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Operating Revenue (₹ Cr.)	184	220	252	252	283	274	283	283	345	493	480
Operating Profit (₹ Cr.)	24	24	23	20	23	25	42	41	33	52	68
Consolidated Profit (₹ Cr.)	6	7	3	-2	-2	2	16	19	17	27	33
Cash EPS (₹)	6.24	6.59	3.14	0.00	0.00	1.69	16.04	18.53	16.75	26.20	32.55

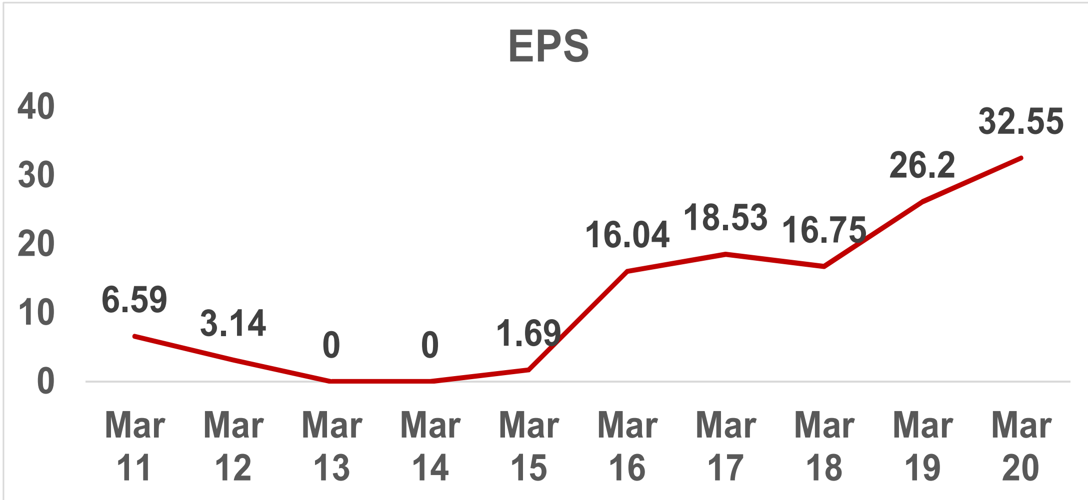


Financial & Business Analysis (2/5)

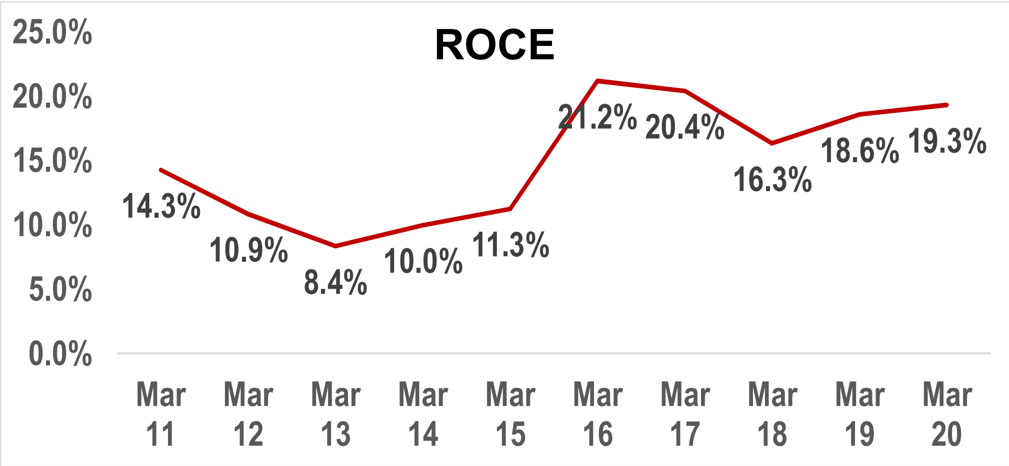


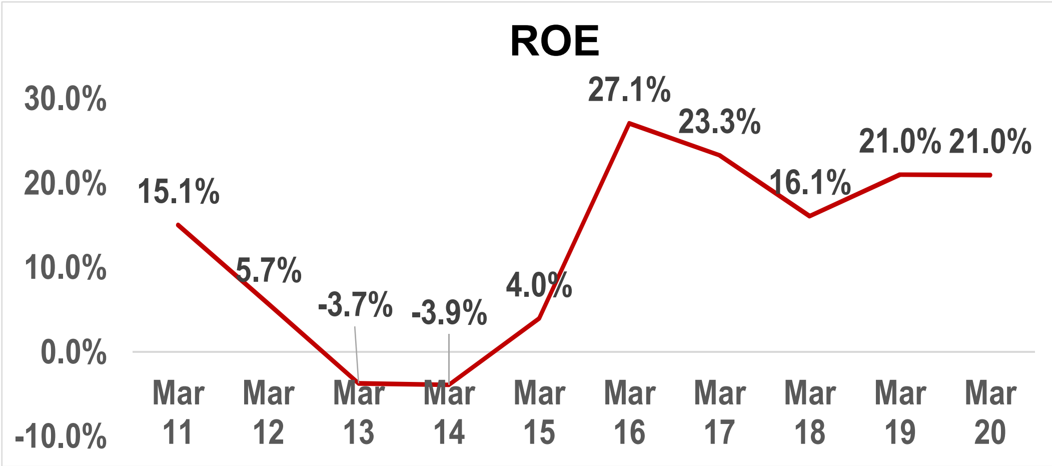


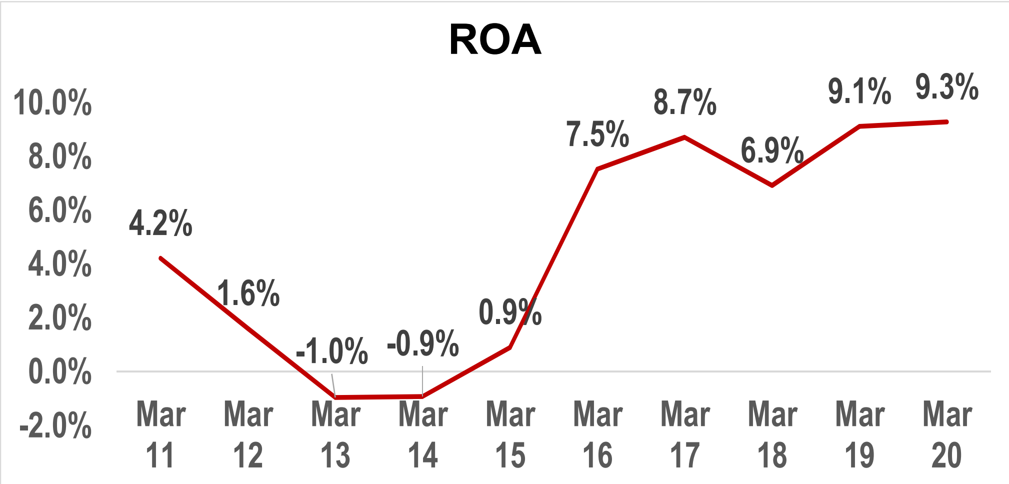


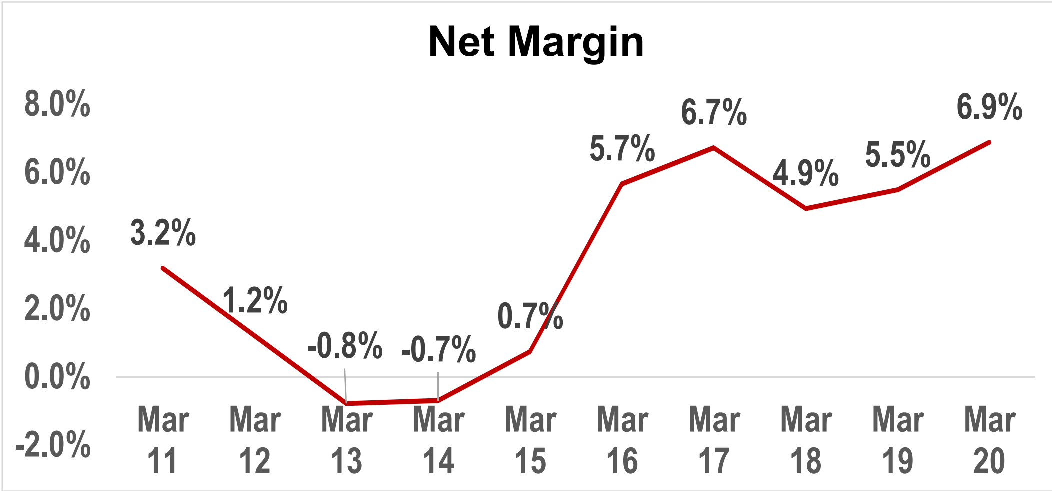


Financial & Business Analysis (3/5)









Financial & Business Analysis (4/5)

Analysing the numbers and ratios of the Company

- Operating revenue of the company has been growing at a CAGR of 12% over the past 5 years. Whereas, operating profit and profit after tax have been growing at 22% and 75% respectively over the same period.
- Operating revenue in FY20 de-grew at 3% (due to lowered selling price, where Company passed on the benefit of falling raw material cost), however, profit after tax gone up by 22%, in comparison to FY19. Also, the Company lost around a month in the integration of the expansion into the manufacturing operations.
- Company derives individual revenue of more than 10% each from three customers.
- EPS has grown at a CAGR of 81% during the period FY15-20.
- Company has shown good performance over the recent years with revenue growth of 22% and 43% in FY18 & FY 19 respectively.
- Margins and return ratios have shown clear uptrend over the years, owing to strong revenue numbers and continuously falling raw material cost, which resulted in better margins of the Company.
- Further, this can be attributed to the updated product mix and stronger cost management of the Company.
- Analysing the graph (given in earlier slides), we can see that ROCE of the company has gone up from 14.3% to 19.1% (with an all time high of 21.2% in FY16) over the last ten years. This can be attributed to increase in asset utilisation and coverage of fixed cost.
- Company has also worked on its debt cost, which has come down from 11% in FY 17 to 8% in FY 20

Financial & Business Analysis (5/5)

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Debtors to sales	0.18	0.19	0.21	0.21	0.23	0.21	0.22	0.20	0.15	0.16
Asset Turnover	1.40	1.36	1.20	1.30	1.25	1.33	1.30	1.41	1.67	1.35
Receivable days	72	80	75	85	81	75	85	76	53	64
Inventory Days	11	10	8	8	6	6	6	7	9	8
Payable days	8	17	32	47	55	46	43	40	30	34
Cash Conversion Cycle	74	73	51	46	32	34	48	43	32	38
Debt Equity ratio	1.98	2.20	2.23	2.26	2.39	1.48	0.98	0.84	0.96	0.84
Dividend payout ratio	10%	16%	-	-	24%	3%	3%	4%	3%	6%

- Company boost a low debtor to sales ratio, which shows that the company's cash collection cycle doesn't represent a great liquidity risk.
- Company has a stable asset turnover ratio latest figures being 1.35, which represents that for every one rupee of asset, company generates 1.35 times revenue.
- Companies cash conversion cycle has also improved over the years from 74 in FY 2011 to 38 in FY 20.
- Debt equity ratio has been handled quite well by the Company, which has come down from 1.98 in FY 11 to 0.84 in FY 20. For this, Company has a efficient policy *"we had selected to grow our capacities through a cautious approach wherein we ensured that nearly 80% of the debt we had mobilised for expansions in the past would have been repaid by the time we embarked on a fresh expansion round. The result is that even during this recent expansion, we possessed a right-sized Balance Sheet with a post-expansion debt-equity ratio of 0.84"*.
- Company is quite regular in Dividend payment and that too after doubling the capacity in India as well as Thailand.

How is the competition faring?

Bead Wire is a critical component of a tyre and as such, there are very strict norms on its quality. Almost every tyre manufacturer has an independent process to approve Bead Wire of a particular manufacturer and this can take a long time.

As a result, the entry barriers in this particular sub-industry are particularly high, restricting the number of major players in the Indian TBW industry. The major domestic players in this industry include Rajratan , Tata Steel Limited and Aarti Steels Limited, while the major foreign players are KISWIRE Limited and Hyosung. Company doesn't have any direct listed or unlisted competitor (TATA Steel and Aarti Steel, both have steel as their main product and not bead wire.

Company’s strengths

- Company is the market leader in India with reported market share of the Indian plant at 50% in June 2020 (32%, March 2020). Share of Bead wire in Company’s revenue is close to 90%. Further, Thai operations of he Co, generates 41% revenue through exports.
- The Company possesses an installed aggregate manufacturing capacity of 1,06,800 TPA across its Indian and Thailand facilities. Expansion were done at Indian and Thailand plant in the year 2019 (Indian plant, 36,000 to 72,000 TPA and Thailand’s from 26,000 to 34,800 TPA)
- Around 85% of the revenues were derived from customers associated with the company for more than 5 years.
- The company has established business relationships and a healthy share of business (SOB) with almost all the leading tyre manufacturers in India, including Apollo Tyres Limited (Apollo), MRF Limited (MRF), Ceat Limited (CEAT), Balkrishna Industries Limited (BKT), Bridgestone India Private Limited (BIPL) and Birla Tyres (Birla), among others.
- Customer retention can be attributed to that fact that Company is providing the quality product while keeping the price points at check. During the year FY 20, Company passed on the benefit of falling raw material cost viz steel prices to the customer which lead to 2.4% increase in the volume of sales.
- In response to the anti-dumping duties (ADD) imposed by the US on China, several Chinese tyre manufacturers have incrementally set up their manufacturing units in Thailand, where they are required to procure a certain minimum raw material requirement through the local manufacturers. This has directly aided Rajratan Thai Wire Co.’s sales with the company being able to capture business from these Chinese tyre manufacturers in a short span. Going forward, the management expects this to be Rajratan Thai Wire Co.'s primary growth driver.
- The Company is the only bead wire manufacturer in Thailand. Company enjoys a tax hedge for eight years on its Thai operations for all production in excess of 22,000 TPA, which is expected to expire by 2025.
- Entry barrier in the Tyre Bead Wire industry: Bead Wire is a critical component of a tyre and because of that, there are very strict norms on its quality. Almost every tyre manufacturer has an independent process to approve Bead Wire of a particular manufacturer and this can take a long time. As a result, the entry barriers in this particular sub-industry are particularly high.

Risk & Concerns

1. Limited value addition and impact of variation in steel prices on profitability

Value addition in Rajratan business remains limited as operating margin of the company ranges from 10-15%. Margins are dependent of the steel prices (majorly steel wire rod is the raw material). Here one thing has to be noted that Co.'s competitors domestically are Steel players viz Tata Steel and Aarti Steel.

Company follows a policy of transferring the changes in the steel prices to its customers but, there have been past delays in doing that, which adversely impacted the margins. Since, both of its domestic competitors are steel giants, they enjoy, benefit of economies of scale

2. Exposure of cyclicality in automobile industry

Bead wire's growth is directly related to the tyre industry, which itself relies on the automobile sectors growth. Currently the sector is going through a slowdown and Country wide lockdown has worsened the situation.

Industry volumes are highly correlated to the level of economic activity in the country. Any adverse impact on the economy or the automobile sector will impact the demand for the Tyre bead wire.

3. Lack of product diversification and Forex rates

Company earns 90% of the revenue from the Tyre bead wire, which leaves the Company with high exposure. Any technological replacement might impact the company adversely. Company's Thai operations generates 41% of revenue from exports various South-East Asian countries and India. Hence profitability of the Company is also exposed to foreign currency fluctuations.

4. Vulnerability to tariff and trade restrictions

Rajratan's Thai subsidiary witnessed a steady growth in business driven by the demand from Chinese tyre manufacturers, who have set up their units in Thailand over the last two years and are expected to contribute to the company's incremental revenues. However, the Thai unit's sales remain exposed to changes in any trade restrictions imposed by its key destinations, like the US. Also, Rajratan (India) riding the growth wave on account of imposition of anti dumping duty and increased custom duty on Chinese tyres.

Future Outlook

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Tyre bead wire is very niche market and the Company holds a market share of around 50% in India, and the only manufacture in Thailand.

Recently the Company has come up with capacity expansion, at times when there is a slowdown in the Indian economy, which, in turn, translated into a slowdown in the automobiles and tyre sectors, which shows the overall strategy of the Company (to capture the market share) doubled its manufacturing capacity across our India operations at one of the lowest capital costs per tonne without diluting our equity structure

During the Country wide lockdown operations of the Company were disrupted for 40 days in India and 25 days in Thailand. Resulting in decline of 50% and 83% in revenue and PAT respectively.

But now the operations have returned to normalcy and so does the expectation from the auto sector. As Economic times reported that Auto sector is about to witness 26-30% growth in the last 27 months, which is a good sign for the bead wire market as well.

9/30/2020 Auto Cos Ride Fest Hopes, Expect Volumes to Rise Up to 30% in Sept - The Economic Times - Delhi, 9/30/2020

Auto Cos Ride Fest Hopes, Expect Volumes to Rise Up to 30% in Sept

Sustained demand for personal mobility, healthy offtake in rural areas to drive growth

Ketan Thakkar & Ashutosh R Shyam

Mumbai:

LUV – we seem to be re-learning the alphabet everyday as economists of all stripes try to explain the trajectory of the economic recovery underway. But for a true assessment of the prevailing consumer sentiment, it's best to visit an auto dealer: They are finally doing good business because of strong recovery.

Car, two-wheeler and tractor makers are set to register unit volume growth of 15-30% in September, the quickest pace of growth in two years, building on the growth registered in August.

At 2.8-2.9 lakh, the car market is set to witness a 26-30% growth, the highest in 27 months. Two-wheeler dispatches of 1.88 to 1.9 million would mean a growth of 15%, the highest seen in 24 months. In tractors, sales of 100,000 to 110,000 units would be the highest absolute level in 11 months, likely registering a growth of 20% year on year.