



**HIDDEN GEMS**

**UNEXPLORED MULTIBAGGER SMALL CAP STOCKS**

**EQUITY RESEARCH REPORT**

<b>RAJRATAN GLOBAL WIRE LTD.</b>	BSE CODE: 517522
Industry: Auto Ancillaries	CMP: Rs. 639.00 (30/11/2017)
Market Cap: 278.08 (INR in Crore)	Target Price: Rs. 1250
Date: November 30, 2017	Time Period: 12 – 24 months



**Saral Gyan Capital Services**

An Independent Equity Research Firm

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## 1. Company Background



### RAJRATAN GLOBAL WIRE LTD

Established in 1988 by Mr Sunil Chordia, Rajratan Global Wire Ltd (Rajratan Global) is a market leader in supply of tyre bead wire in India. The company along with its subsidiary Rajratan Thai Wire Company (Rajratan Thailand) has around 40% share of the Indian tyre bead wire market. The company earlier entered into the Joint Venture with Gustav Wolf (Germany) for gaining technical know-how, later in 2003 shareholding held by Gustav Wolf was bought back by the promoters.

The company commenced international operations in 2008 by setting up a plant in Thailand through a wholly owned subsidiary Rajratan Thai Wire Company.

The company is second largest manufacturer (by capacity) of automotive tyre bead wire in India and only player manufacturing tyre bead wire in Thailand. Along with tyre bead wire, the company also manufactures other specialized steel wires (black wires) like rope wires, spring wires, auto cable outer etc. Steel wire rods is the primary raw material used for manufacturing by the company

Rajratan Global has 2 manufacturing facilities, one in India and another in Thailand.

PLACE	CAPACITY	CERTIFICATION
Pithampur, India	36,000 MTPA	ISO TS:16949:2009, ISO 14001:2004 and OHSAS: 18001:2007
Ratchaburi, Thailand	26,400 MTPA	ISO / TS 16949:2009

Rajratan Global is a long term supplier for almost all major tyre manufacturers in India and is the market leader in the automotive tyre segment since 2012. The company has long term standing relationship with marquee clients.

Rajratan Global Clients:



**Products Description:****i) Tyre Bead Wire**

Tyre bead wire is high carbon bronze coated steel wire used in all kinds of automobile tyres, tyres of earth moving equipments 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

Bead wire is a drawn steel wire, which is manufactured from quality wire rods with high carbon content. Bead wire's surface is coated with copper or bronze which ensures proper adhesion with the used rubber compound.

Bead wire being a crucial component in any kind of tyre manufacturing, the company always ensure that not only the best of raw-material goes into its manufacturing, but that it also goes through toughest of quality tests.

The company specializes in bead wire of customized tensile grades as per the requirements of its clients. Besides bead wire, it also produces high carbon steel wire and uncoated wires of varying specifications for different applications.

**2) High Carbon Steel Wire**

High carbon steel wire is popularly known as black wire. It is a drawn steel wire which is manufactured from quality wire rods with high carbon content. With a wide range of usage, black wire plays a vital role in many industries from automobile and construction to engineering industries. The company manufactures high carbon steel wire in its state-of-the-art plants and employ world-class patented heat treatment processes. The high carbon steel wire manufactured by the company are of two Grades:

1. Spring / Rope grade confirming to Grade I, II & III.
2. Rolling quality / flattening quality grade.

## 2. Recent Developments

### i) India's Tyre Market to witness a CAGR of over 9% during 2016-2021

India's tyre market is forecast to witness a CAGR of over 9% during 2016-2021, according to the report of Research and Markets, a leading international market research agency. As per the report, titled "India Tyre Market Forecast & Opportunities, 2021, India ranks among one of the largest tyre markets in the world. Growing automobile sales coupled with expanding automobile fleet are the major factors boosting demand for tyres in the country.

Though the replacement tyre demand had majority share in 2015, the OEM tyre demand is expected to outpace replacement tyre demand during 2016-2021 with more than 60 tyre manufacturing plants spread across the country.

Moreover, with favorable inflationary scenario, expanding middle class population and increasing national disposable income, tyre sales across all the automobile segments are expected to grow in the coming years. As per report, presence of major automotive OEMs such as Ford, Hyundai, Honda, Mahindra, Maruti Suzuki, TATA, BMW, etc. has been hugely contributing to the sales of tyres in India.

Two-wheeler tyre segment, which accounts for a volume share of over 50% in the country's tyre market is also expected to maintain its position as the largest tyre segment over the next five years, adds the report.

### ii) India imposes Anti-Dumping Duty on select Tyres from China

In Sept 2017, India has imposed an anti-dumping duty on a certain types of unused radial tyre for trucks and buses for the next five years in an attempt to protect the domestic tyre industry from low-cost Chinese imports.

The duty slapped on "new/unused pneumatic radial tyres with or without tubes and/or flap of rubber (including tubeless tyres) having nominal rim dia code above 16 (inch)," ranges between \$245.35 to \$452.33 per tonne, according to a notification by the Central Board of Excise and Customs.

Earlier, the Directorate General of Anti-dumping and Allied Duties had suggested such as levy on Chinese imports which are dumped in India for a cost below normal value. While the duty does not ban the import of these goods, it is meant as a tool that levels the field between the foreign and domestic industry.

This is a positive development as tyre industry gets nearly 55 percent of its revenue from trucks and buses radial tyre.

### 3. Financial Performance

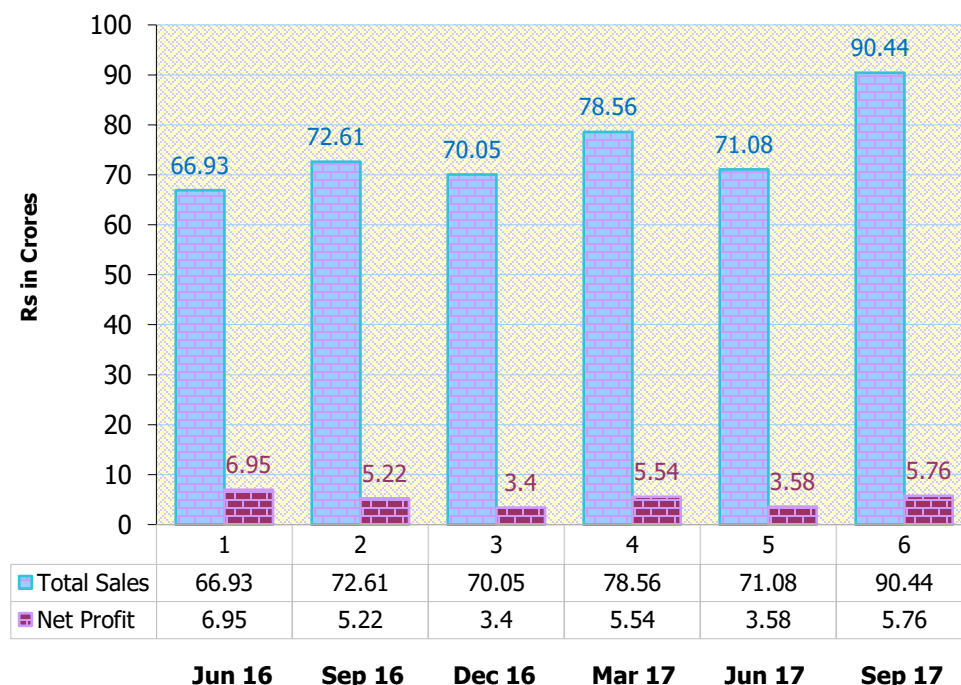
#### Rajratan Global Wire consolidated net profit rises 30.61% in the Sept 2017 quarter

Net profit of Rajratan Global Wire rose 30.61% to Rs 5.76 crore in the quarter ended September 2017 as against Rs 4.41 crore during the previous quarter ended September 2016. Sales rose 24.54% to Rs 90.44 crore in the quarter ended September 2017 as against Rs 72.62 crore during the previous quarter ended September 2016.

#### Rajratan Global Wire consolidated net profit declines 43.26% in the June 2017 quarter

Net profit of Rajratan Global Wire declined 43.26% to Rs 3.58 crore in the quarter ended June 2017 as against Rs 6.31 crore during the previous quarter ended June 2016. Sales rose 5.92% to Rs 71.08 crore in the quarter ended June 2017 as against Rs 67.11 crore during the previous quarter ended June 2016.

**Last 6 Quarters Net Sales & Profit**



## Current & Expected Earnings

### Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017 E	Mar 2018 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
<b>Net Sales</b>	<b>70.05</b>	<b>78.56</b>	<b>71.08</b>	<b>90.44</b>	<b>91.28</b>	<b>98.47</b>
Other Operating Income	0.14	0.12	0.62	--	--	--
Total Income – Operations	70.19	78.68	71.7	90.44	91.28	98.47
Raw Materials Consumed	41.5	50.11	49.54	51.75	52.64	56.71
Purchase of Traded Goods	--	0.01	--	--	--	--
Increase/Decrease in Stocks	1.2	-4.02	-7.98	6.99	5.89	3.45
Power & Fuel	--	--	--	--	--	--
Employees Cost	5.11	5.13	6.08	5.34	5.55	6.15
Depreciation	1.71	2.3	1.83	2.03	1.78	1.83
Admin & Selling Expenses	--	--	--	--	--	--
Other Expenses	14.81	16.55	15.1	17.22	16.47	18.89
P/L Before Other Income	5.86	8.61	7.13	7.1	8.95	11.44
Other Income	0.46	0.78	--	1.5	0.7	0.85
P/L Before Int., E. Items & Tax	6.32	9.39	7.13	8.6	9.65	12.29
Interest	2.39	2.46	2.3	2.46	2.51	2.65
P/L Before E. Items & Tax	3.93	6.93	4.83	6.14	7.14	9.64
Exceptional Items	--	--	--	1.66	--	--
P/L Before Tax	3.93	6.93	4.83	7.8	7.14	9.64
Tax	0.43	1.25	1.24	2.05	1.94	2.47
P/L After Tax – Ord. Activities	3.5	5.67	3.59	5.75	5.2	7.17
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
<b>Net Profit/(Loss)</b>	<b>3.5</b>	<b>5.67</b>	<b>3.59</b>	<b>5.75</b>	<b>5.2</b>	<b>7.17</b>
Minority Interest	-0.09	-0.14	-0.01	0	0	0
Share of P/L of Associates	--	--	--	--	--	--
Net P/L After MI & Associates	3.4	5.54	3.58	5.76	5.2	7.17
Equity Share Capital	4.35	4.35	4.35	4.35	4.35	4.35
Reserves	--	--	--	--	--	--
<b>Calculated EPS</b>	<b>7.82</b>	<b>12.72</b>	<b>8.23</b>	<b>13.23</b>	<b>11.95</b>	<b>16.48</b>
Calculated EPS (Annualised)	31.28	50.88	32.92	52.92	47.82	65.93
Public Shares Holding	1641309	1641309	1641309	1609976	NA	NA
Public Share Holding (%)	37.72	37.72	37.72	37.00	NA	NA

The company performance in Jun'17 quarter was subdued mainly on account of increase in input cost and lower offtake due to GST. However, it managed to post better Sept'17 quarter results by increasing its product prices due to rise in of raw material cost.

## 4. Peer Group Comparison

PEER GROUP	RAJRATAN GLOBAL WIRE	BEDMUTHA INDUSTRIES	USHA MARTIN
CMP	639.00	28.00	22.70
52 W L/H	467.20/724.75	16.50/49.95	11.95/28.85
Market Cap	278.08	69.92	690.24
<b>Results (in Crores)</b>	<b>Sep-17</b>	<b>Jun-17</b>	<b>Sep-17</b>
Net Sales	90.44	154.94	1122.87
PAT	5.75	-18.92	-74.20
Equity	4.35	24.53	30.54
EPS (TTM)	42.00	-24.37	-14.07
P/E	15.24	0.0	0.0

## 5. Key Concerns / Risks

- Steel wire rods is the primary raw material used for manufacturing by the company. Increase in steel prices can adversely impact the operating margins of the company. As per management, the company passes on 60-100 percent of the higher raw material prices to its customers.
- Sluggishness in automobile demand globally can impact tyre industry, this can have a direct impact on revenue growth of the company.
- Steel wire Industry is highly fragmented and competitive. Any adverse development in market conditions, trade or government policies, foreign exchange fluctuations may impact company's performance.



## 6. Saral Gyan Recommendation

- ✚ The growth outlook for Indian tyre industry looks promising with imposing of anti-dumping duty on a certain types of unused radial tyre for trucks and buses for the next five years and expected rise in domestic automobile sales going forward. This will augur well for the company being a market leader in India with 40% market share in automotive tyre bead wire segment and preferred supplier of more than 15 major tyre manufacturers in India and abroad. Moreover, growth momentum is expected to sustain in Thailand with addition of new clients like Bridgestone.
- ✚ With rise in demand, Rajratan Global expanded its Thailand plant capacity from 24,000 MT to 26,400 MT last year. The company has planned further expansion of 9,600 MT over next 2 to 3 years to meet the growing demand for the company's product. Moreover, the company has also invested in a new warehousing facility which is expected to help Rajratan Thailand to maintain sufficient inventory levels. Increase in minimum stock volume is being prioritized which will ensure efficient delivery performance.
- ✚ The company's Thailand operations are in sweet spot. The company is sole manufacturer of tyre bead wire in Thailand and enjoys significant logistic benefits as major tyre manufacturers are located in close proximity. Thailand is one of the largest producers of natural rubber making it a market of choice for global tyre manufacturers. Presently there are around 20 tyre manufacturers in Thailand out of which 5 are Japanese and Taiwanese, providing good opportunity for Rajratan. The company is preferred supplier of Global OEM's, major Japanese clients includes Sumitomo, Bridgestone and Yokohama. Recently, the company gets into agreement with Bridgestone and expect good revenue growth with rise in orders in coming quarters.
- ✚ The company continue to target 100% share of business in Thailand, it's a sole supplier to companies such as Otani Radial, ND Rubber, Siam Rubber, Hihero, Union, BKF & Camel. Moreover, the company is continuously growing its exports market, it's a largest supplier to the Sri Lanka tyre market with strong foot hold in other South East Asian countries like Vietnam and Malaysia.
- ✚ Rajratan Global has registered sales CAGR of 2.8% and profit CAGR of 45.2% with ROE of 12.9% over last 5 years. The company has reduced its debt significantly over last couple of years with increase in operating margins.

Key Financial Parameters	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Return on Equity (%)	-5.29	-4.14	3.49	27.77	26.75
ROCE (%)	3.83	5.15	6.87	15.7	16.16
Operating Profit Margin (%)	7.93	8.28	8.65	14.4	13.85
Net Profit Margin (%)	-1.11	-0.72	0.61	5.74	7.18
Debt to Equity (%)	2.22	2.23	2.39	1.47	1.07

- ✚ Rajratan Global has experienced core management team with strong Industry connect. Mr. Sunil Chordia is the Founder and MD of the company. He steered Rajratan Global towards significant growth in the tyre bead wire business and helped the company receive international approvals in short span of time. He possess over 27 years of experience and holds BSc, DCMA and MBA (finance) degrees. Mr. Yashovardhan Chordia looks after Thailand operations. He has worked as consultant for 3 years at Levers for change, he has experience in working on turn around projects for various sectors like Steel, Refinery, Refractory and Plastic.
- ✚ As of Sept'17, promoter's shareholding in the company is at 63% out of which 16.41% shares is pledged. Promoters increased their shareholding by 0.72% in Sept'17 quarter, promoter's shareholding in Jun'17 quarter was at 62.28%. Institution shareholding in the company is at 7.86%.
- ✚ The company is paying regular dividend since 2007. The company has paid dividend even during the years when it was in losses. The dividend yield is at 0.23%.

YEAR	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17
EPS	0.00	0.00	3.97	37.60	48.51
Dividend / Share (In Rs)	1.00	1.00	1.00	1.20	1.50

- ✚ As per our estimates, Rajratan Global can deliver PAT of 21.71 crores in FY17-18 and Rs. 27.98 crores in FY18-19 with annualized EPS of Rs 49.89 and Rs. 64.32 respectively. At current price of 639, stock is available at forward P/E multiple of 9.9X based on FY18-19 earnings. Company's valuation looks attractive considering strong earning visibility on account of planned expansion & robust growth outlook for tyre industry.
- ✚ On equity of Rs. 4.35 crore, the estimated annualized EPS for FY18-19 works out to Rs. 64.32 and the Book Value per share is Rs. 244. At current market price of Rs. 639, stock price to book value is 2.62.

Imposition of anti-dumping duty for 5 years and robust growth outlook of automobiles is expected to augur well for Indian tyre manufacturers in medium to long term. Considering company's leadership position in domestic tyre bead wire market, continuity in growth momentum in its Thailand business with addition of new clients, planned expansion over 3 years to meet growing demand and attractive valuations of the company with comfortable debt level, Saral Gyan team recommends **"Buy"** on **Rajratan Global Wire Ltd** at current market price of Rs. 639 for target of Rs. 1250 over a period of 12 to 24 months.

#### Buying Strategy:

- 70% at current market price of 639
- 30% at price range of 520 - 550 (in case of correction in stock price in near term)

**Portfolio Allocation: 3% of your equity portfolio.**

## 7. Disclaimer

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