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TINY
TREASURE

January 2021



The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code : 517522

Time Duration : 1 year

CMP : ₹527.85 (as on 28 January, 2021)

Target Price : ₹690

Rajratan Global Wire Ltd.

Tough Tyres make Smoother Roads to Profits

Our Tiny Treasure for the month of January 2021 is Rajratan Global Wire Limited (RGWL). Its 90 per cent of the revenue is derived from the manufacturing and selling of tyre bead wire (TBW) in India & Thailand. The remaining 10 per cent of the revenue comes from the manufacturing of high carbon steel wires that are used in products, ranging from mechanical springs, high performance springs to cut wire shots for shot blasting & pinning applications.

Growing market share

RGWL is the second-largest bead wire manufacturer in Asia (excluding China) with a market share of more than 50 per cent in India. In 2019, its market share in this segment was only 35 per cent. Also, it is the only manufacturer in Thailand with a market share of less than 20 per cent, which supplies to tyre manufacturers like Sumitomo Corporation, Otani Tire Co Ltd, ZC Rubber, Century Tyres, Double Coin Tires, etc. It has a 10 per cent market share in high carbon steel wires, which was started by the company to use unutilised capacity of bead wire plant. Through this segment, it caters to customers like Suprajit Engineering, Ransom Cables, mattress manufacturing companies, spring manufacturers in India. Larger availability of bead wire capacity, prospects of improved quality, and lower manufacturing costs give it a competitive advantage over its peers, which further helps in gaining the market share. The company's management is also focussing to increase its market share in Thailand.

Capacity expansion

RGWL possesses an installed aggregate manufacturing capacity of 1,06,800 TPA across both products in its Indian and Thailand facilities. In 2019, the capacity of the Indian facility was only 36,000 TPA. In FY20, it nearly doubled its capacity to 72,000 TPA. The capacity expansion for the Indian unit was completed in Q3FY20. This capacity expansion has led to growth in its top-line and profitability in the last 2-3 quarters and is expected to continue in the upcoming quarters. Thailand unit's capacity was increased from 26,000 TPA to 34,800 TPA in 2019. Recently, the

company's management has planned for an expansion of Thai capacity to 60,000 TPA per year. This proposed capacity expansion in Thailand would help the company to further strengthen its market share there.

Exports from Thailand plant

RGWL is a dependable global supplier of bead wire to renowned tyre manufacturing companies. In addition to marketing products within India & Thailand, it also serves customers in Italy, the USA, The Czech Republic, Malaysia, Indonesia, Philippines, Vietnam, Sri Lanka, UAE, Bangladesh, and other countries. The company has strategically shifted the demanding needs arising out of major export contracts to Thailand plant. Exports from Thailand accounted for around 41 per cent of the revenue in FY20.

Demand for bead wire in tyre industry

Bead wire is one of the essential components required for tyre manufacturing. It is virtually used for all types of pneumatic tyres such as trucks, buses, passenger cars, jeeps, off the road (OTR) equipment, farm equipment, motorcycles, scooters, and cycle tyres. Around 70-75 per cent of the demand for tyre comes from the replacement market. In India, RGWL caters to companies like Apollo Tyres, Ceat, ATC Tyres, Balakrishna Tyres, Bridgestone, Goodyear, JK Tyre & Industries, MRF, TVS Srichakra, etc. MRF, Apollo, CEAT, and JK Tyre contribute more than 50 per cent of RGWL's total revenue. Also, it is an exclusive supplier of bead wire to Bridgestone in India and of Michelin for their new plant in Chennai. MRF is putting up a new plant in Gujarat, which is going to be its biggest plant while Ceat is starting a plant in Andhra Pradesh. RGWL's management has guided for approximately 15 per cent volume growth on YoY for the next 3 years, led by the expectation of Automotive Tyre Manufacturers Association (ATMA) that the tyre industry would grow at a CAGR of 7-8 per cent. The expansion plans of the various leading tyre companies would lead to a higher demand for bead wires, which can be catered to by RGWL, being the market leader.

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Financial performance

Rajratan Global Wires' consolidated revenue for the quarter Q3FY21 came in at Rs 159.22 crore as against Rs 104.82 crore in the corresponding quarter last year, registering a 51.9 per cent YoY increase. EBITDA for the quarter grew by 76 per cent YoY to Rs 26.2 crore as against Rs 14.89 crore in the corresponding quarter last year, with a corresponding margin expansion of 225 bps. EBITDA margin for the quarter stood at 16.5 per cent. PAT for the quarter came in at Rs 14.73 crore as against Rs 7.45 crore in the corresponding quarter last year, with a YoY increase of 97.7 per cent.

Its revenue and net profit have grown at a CAGR of 19 per cent and 21 per cent, respectively over the last three years. By the end of FY20, its debt-to-equity stood at 0.77x. It has been consistently paying out dividends to its shareholders over the past several years.

Valuation

The company is trading at an attractive TTM P/E of 15.6x with TTM EPS of Rs 35.44. In FY20, it had delivered ROE and ROCE of 17.2 per cent and 19.6 per cent, respectively. Within a short period of time, the company was able to increase its market share in the domestic market and is thus, enjoying a dominant position. Its market share in Thailand is also gradually increasing. The extensive capacity expansion in both the Indian and Thailand plants are set to boost its top-line and profitability in the upcoming quarters. The majority of the company's exports are carried out through its Thailand plant, which is further contributing to its growth and market share. Many tyre companies in India are coming up with the expansion plans by setting up new plants to ramp up its production. This will translate into a growing demand for bead wires, which will place ample opportunities for RGWL. Considering these factors coupled with consistent financial performance & attractive valuation, we see a potential upside of 31 per cent with a target price of Rs 690 for a period of one year.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	480.21	492.89	344.58	283.41	282.84
Total Income	481.38	494.59	349.51	285.51	284.84
Total Expenditure	412.19	440.49	311.26	242.43	242.11
PBIDT	69.19	54.10	38.25	43.08	42.72
PAT	33.04	26.71	17.13	18.87	16.28
Dividend %	20.00	20.00	15.00	15.00	12.00
Adj. EPS(Rs)	32.55	26.32	16.86	18.61	16.22

Quarter On Quarter (Consolidated)

Particulars	202012	202009	Q on Q Var %	201912	Y on Y Var %
Net Sales	159.22	139.02	14.53	104.82	51.90
Total Expenditure	133.02	113.28	17.43	89.93	47.92
PBIDT (Excl OI)	26.20	25.74	1.79	14.89	75.96
PAT	14.73	13.55	8.71	7.45	97.72
PBIDTM% (Excl OI)	16.46	18.52	-11.12	14.21	15.83
PBIDTM%	16.88	18.27	-7.61	14.88	13.44
PATM%	9.25	9.75	-5.13	7.11	30.10
Adj. EPS(Rs)	14.51	13.34	8.77	7.34	97.68

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- **Sell:** The intended audience is being informed that they can consider selling the shares of the said company
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