



Long Term Story!

17th Mar, 2016

Rating:



Issue Summary:

Price band (Rs)	40-45
Market Lot	300 Equity Shares
Face Value (Rs)	10
Opens	18 th Mar, 2016
Closes	22 nd Mar, 2016
Issue Size	Rs 70 Cr
Listing	BSE, NSE

OFFER

QIB portion	75%
NIB portion	15%
Retail portion	10%

Book Running Lead Managers

- Intensive Financial Services Private Limited
- BOB Capital Markets Limited

Registrar

- Karvy Computershare Private Limited

Company & Business Profile

Bharat Wire Ropes Limited is a wire rope and wires manufacturing company established in the year 1986. Company has been accredited by reputed accrediting agencies like **British Standard Institute and ANSI – ASQ National Accreditation Board**. Some of the main certifications are: **BIS Licenses (Company hold six different licenses) RDSO Approvals along with (Additional four different licenses) ISO: 9001/2008 DGMS Approval MMD Approval**. They are engaged in manufacturing and sales in wire ropes, structural strands, sling and wires which find its application in general engineering, fishing, elevators, cranes, material handling, power transmission, suspension bridges, onshore /offshore oil explorations, ports & shipping, mining, Defense, railway etc. Company is also engaged in the business of trading of steel related products. Its existing steel wire ropes manufacturing facility with an installed capacity of 12,000 MTPA is located at Atgaon, they also have pyrolysis plant with an installed capacity of 1,260 MTPA at chalisgaon, Maharashtra for production of oil, which is used as a fuel in current manufacturing process. They are proposing to further enhance its capacity to manufacture wire ropes, structural strands and sling by setting up a fully integrated manufacturing facility under one roof with an installed capacity of 66,000 MTPA at chalisgaon, Maharashtra.

Objects of the Issue

Company intent to use the proceeds of the issue for the following purposes:

- To set up a proposed project of 66,000 MTPA wire ropes at MIDC Zone, at Chalisgaon, Dist: Jalgaon, Maharashtra
- To meet general corporate expenses and
- To meet issue expenses

Outlook:

Bharat Wire Ropes consistently made profits over the years, however the amount has not been high. Net profit margin in fiscal 2015 stood at 2.6%. In FY 15 the company reported marginal de-growth in revenue of Rs 7672 lacs with 4 year CAGR of -0.1% and a net profit of Rs 197.5 lacs. For eight months ending November 2015, it reported revenue of Rs 4374 lacs. Company reported EBITDA Margin of 12% for FY 15 with very minimal debt. The company has there after increased its debt/Equity ratio to 1.1 (as on November 2015).

The production capacity after expansion for BWR would be 66,000 MTPA and production will be commenced from December 2016. As on date production was 12,000 MTPA. The company will have fully integrated manufacturing hub at chalisgaon, Maharashtra with investment of Rs 50,920 lacs approx. where the company will import highly sophisticated machines from Germany, Korea. Company has strong customer base with **Government and Semi-Government organizations and Private Organization like Indian Railways, Major Ports, Electricity Board, shipping industry and Oil and Natural Gas, Jindal Steel and Power limited, Larsen and Toubro Limited etc.** and exports to more than 20 countries across the Globe including USA, Germany and Netherland so on.

**SCOT Analysis:**

SCOT Analysis is used in the strategic planning process to evaluate the Strengths, Concerns, Opportunities and Threats around our Company's projects. The SCOT Analysis for BWR Proposed Project is depicted below:

<u>STRENGTHS</u>	<u>CONCERNS</u>
<ul style="list-style-type: none"> ✓ Latest Technology ✓ Experienced Management Team ✓ Diversified client base ✓ Diversified Product Mix ✓ Ability to provide quality services 	<ul style="list-style-type: none"> ✓ Higher Investment ✓ Higher Marketing Efforts ✓ Delay in Implementation of the Project
<u>OPPORTUNITIES</u>	<u>THREATS</u>
<ul style="list-style-type: none"> ✓ Potential Market Opportunity ✓ Low cost of manufacturing 	<ul style="list-style-type: none"> ✓ Competitive Rivalry ✓ Product price volatility

Internal & External Risk for Bharat Wire and Ropes Ltd

- Underutilization of capacity of its existing manufacturing facilities or proposed project may adversely affect its business, result of operations and financial conditions.
- Bharat wire manufactures specialty ropes which are available from China market at 30% to 70% discounted prices.
- Company derives a significant portion of its revenue from top (10) customer. The loss of, or a significant reduction in the revenue company receives from one or more of these customers may adversely affect company.
- In the event of shortfall in receipt of issue proceeds from this Issue, company will be unable to meet the equity requirement for the proposed project at Chalisgaon which may have a bearing on the completion of project on time.
- Proposed project will be operated on lands which have been taken on long term lease from M.I.D.C

**Financial Analysis**

BWR's revenue grew at -0.1% compounded annual growth rate to Rs 7672 Lacs in the period 2011 to 2015. In the first eight months of FY16, it made revenue of Rs 4374 Lacs, lower by -6% compared to the corresponding period of last year. EBIDTA (Earnings before interest, depreciation, tax, and amortization) margin for FY15 was 12%, and has remained around 11-13% since FY11. In FY16, as the company is in the investment phase, it reported net profit in last consecutive 3 quarters due to lower depreciation and interest costs.

BWR has debt of about Rs 7768 lacs as of November 2015, with D/E ratio 1.10.

Estimated Capacity:

Assumption of existing and proposed capacity utilization:

Manufacturing of Wire Ropes, Strands, Slings of various sizes and construction and design.	2015-2016	2016-2017	2017-2018	2018-2019
Utilisation – Atgaon Facility	60%	60%	60%	60%
Capacity (MTPA) – Chalisgaon (Expansion)	-	16,500	66,000	66,000
Utilisation - Chalisgaon(Expansion)	-	55%	55%	55%

Annual capacity of 66,000 metric tonnes is proposed to be available for last quarter of 2016-17. Considering that the completion date of the project is estimated to be December 31, 2016. Management expects increase in the capacity utilization for new facility in view of following:

Fully Integrated Wire Rope Plant under One Roof (60,000 square meters)

- Straight line material flow
- Minimum material handling
- Factory within factory by line management concept

Synchronized Manufacturing Facilities

- Balanced capacity based on theory of constraint
- Standardisation of machines
- Minimum supervision and minimum wastage

Valuation

On the upper band of issue price of Rs 45 and on FY15 EPS of Rs 0.67, P/E ratio works out to be 67x. With respect to EV/EBITDA, the company has multiple of 16.8x at upper band of the issue price based on FY 15 financials. Company has reported a compounded annual growth rate of -0.1% in the top line from FY 2011 to 15 & profit after tax for the same period grew at CAGR of 2.7%.. The EBITDA margin for FY15 stood at 12% & the Inventory turnover ratio was 1.79. The company will be the only player in listed place in wire rope business in India. We feel the risk reward ratio for the stock is fairly high & have a rating of 2 stars.

Source: Company data, Arihant Research



Bharat Wire Ropes Ltd. Balance Sheet - - [INR-Lacs]					
DESCRIPTION	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
EQUITY AND LIABILITIES					
Share Capital	1255.94	2939.67	2939.67	2939.67	2939.67
Reserves and Surplus	1147.31	3677.15	3824.69	3975.04	4150.21
Total - Share holder's Funds	2403.25	6616.82	6764.36	6914.71	7089.88
Monority Intrest					
Non- Current Liabilities					
Long Term borrowings	463.66	948.22	787.91	166.67	0
Deffered Tax Liability	256.59	301.94	368.27	438.34	456.41
Other long term liability	1673.71	1845.07	1861.57	2057.68	3391.13
Long term Provisions	25.92	28.26	30.85	44.26	62.21
Current Liabilities					
Short Term Borrowings	2616.61	2695.03	2140.74	1925.77	2223.71
Trade Payables	2600.2	958.06	1757.55	1808.96	1371.94
Other Current Liabilities	210.13	753.55	917.4	831.59	592.39
Short Term Provisions	176.31	132.98	22.51	7.65	16.32
Total Liabilities	10,426.4	14,279.9	14,651.2	14,195.6	15,204.0
ASSETS					
Non- Current Assets					
Fixed Assets					
Tangible Assets	2151.36	6062.13	6786.96	6724.51	6558.13
Intangible Assets	0	0	0	0	21.46
Capital Work in Progress	28.05	702.48	492.91	785.99	1137.14
Long term loans and Advances	35.31	90.7	100.72	64.45	1706.28
Total Non-Current Assets	2214.72	6855.31	7380.59	7574.95	9423.01
Current Assets					
Current investments	0	0	83.6	0	0
Inventories	4149.32	2877.87	3493.55	3704.85	3853.71
Trade Receivables	2517.93	2203.14	2056.46	2232.86	1417.56
Cash & Cash equivalents	352.29	1257.73	840.13	185.9	181.12
Short-term loans & advances	169.11	325.88	160.47	87.97	29.84
Other Current assets	1022.98	759.93	636.37	409.08	298.75
Total Current Assets	8211.63	7424.55	7270.58	6620.66	5780.98
Total Assets	10,426.4	14,279.9	14,651.2	14,195.6	15,204.0

Source: Company data, Arihant Research



Bharat Wire Ropes Ltd. Profit & Loss Statement - [INR-Lacs]					
DESCRIPTION	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
REVENUE	7697.32	7702.26	7340.5	8223.36	7672.21
Revenue from operations	7697.32	7702.26	7340.5	8223.36	7672.21
Other Income	2.19	0	99.22	6.12	0
Total Revenue	7699.51	7702.26	7439.72	8229.48	7672.21
		0.1%	-4.7%	12.0%	-6.7%
EXPENSES					
Cost of material Consumed	7046.46	4328.15	4025.29	4418.6	3872.24
Purchase of stock in Trade	0	144.4	1454.67	1313.62	1311.52
(Increase)/Decrease in Stock in Trade	-1703.46	750.38	-549.39	2.67	-49.79
Employee benefit expense	436.91	663.4	755.29	832.25	869.08
Other expenses	1294.95	934.18	829.62	765.22	745.17
Total Expenses	7074.86	6820.51	6515.48	7332.36	6748.22
EBITDA	624.65	881.75	924.24	897.12	923.99
Margins%	8.1%	11.4%	12.6%	10.9%	12.0%
Depreciation & Amortisation	111.2	152.8	217.98	239.8	244.59
EBIT	513.45	728.95	706.26	657.32	679.4
EBIT %	6.7%	9.5%	9.6%	8.0%	8.9%
Finance cost	251.78	427.7	489.69	414.48	371.3
PBT	261.67	301.25	216.57	242.84	308.1
Tax Expenses	84.18	87.19	69.03	92.51	110.57
Current Tax	55.35	60.93	46.06	50.34	64.78
Less MAT Credit	0	-19.12	-43.33	-27.91	0
provision for Mat credit	18.89	0			27.73
Deffered Tax	9.94	45.38	66.3	70.08	18.06
Profit After Tax	177.49	214.06	147.54	150.33	197.53
PAT Margin	2.3%	2.8%	2.0%	1.8%	2.6%

Source: Company data, Aриhant Research

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