

Rajratan Global Wire Limited
Annual Report 2020-21



RAJRATAN
OUTPERFORM

OUTPERFORMANCE

Forward-looking statement

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

OUTPERFORMANCE

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This one word captures the essence of our existence.

To do better than what we have ever done. To do better than the others.

This was visibly evident in our FY 2020-21 performance, acknowledged as possibly the most challenging year for global businesses in nearly nine decades.

We are happy to communicate that this challenging year was a record one for our company.

Emphasising our commitment to sustained outperformance.



How our commitment to 'Outperformance' was evident across three important performance realities in FY 2020-21.

Revenue growth**14%**

Rajratan reported a growth in revenues in FY 2020-21.

**Margins increase****274 bps**

Rajratan reported an increase in EBITDA margin in FY 2020-21.

**Net Profit / Earnings growth****61%**

Rajratan reported an increase in profit after tax in FY 2020-21.



Note. These parameters outperformed in only ten months of effective operations in FY 2020-21.

AT A GLANCE

9 realities that make Rajratan a global bead wire outperformer



Vision

To become the leading and most preferred bead wire manufacturer & supplier to tyre companies in India and globally.

Mission

To manufacture and supply superior quality products at competitive prices and support them with excellent customer service.

To imbibe and constantly develop a culture of excellence and improvement in every aspect of the business we are in.

To ensure and enhance safe working conditions for all concerned.

Values

Ethical business built on mutual trust. Quality orientation and constant innovation. Continuous learning and personal growth. To care for and share with the society we live in.

Background

The company was originally formed as Rajratan Wires Pvt. Ltd. in 1989 by Mr. Sunil Chordia and family. 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 actualised its global vision through the launch of manufacturing operations in Thailand in 2006 through Rajratan Thai Wire Co. Ltd. The Thailand operations of the company commenced commercial production in 2008 through a new manufacturing facility.

Mr. Sunil Chordia and the promoter group account for 65% equity ownership in the company.

Research

The company manufactures bead wire conforming to the most stringent international standards. The company invested in Rajratan Technical Centre to engage in research and development. The company invested in the best Quality Management tools to enhance processes and product integrity, strengthening the company's position as one of the most preferred bead wire manufacturer by highly demanding domestic and global clients.

Products

The company is an attractive external upstream proxy of the prospects of the downstream tyre industry, manufacturing products addressing the value-added segment of the segment's pyramid.

Installed capacity

The company possessed an installed aggregate manufacturing capacity of 1,12,000 TPA across bead and black wire in its Indian and Thailand facilities. The company is among the largest bead wire manufacturers in India and the only bead wire manufacturer in Thailand.

This is where we were in FY 2018-19

36,000

TPA, installed capacity

This is where we were in FY 2020-21

72,000

TPA, installed capacity

India

This is where we were in FY 2018-19

26,000

TPA, installed capacity

This is where we were in FY 2020-21

40,000

TPA, installed capacity

Thailand

Tyre bead wire: Used in all kinds of tyres for automobile, earth moving equipment, aircraft, cycles, passenger vehicles, two-wheelers, three-wheelers and truck bus radials. Its function is to hold the tyre to the rim and resist the action of inflated pressure, which constantly tries to force it off. Bead wire is the crucial link through which the vehicle load is transferred from rim to tyre, preventing vibration during driving. The product enhances tyre safety, strength and durability. The company specialises in the bead wire of customised tensile grades as per requirements.

High carbon steel wire: This is drawn steel wire (popularly known as black wire) manufactured from quality wire rods with high carbon content. The product plays a vital role in industries like automobile, construction and engineering. At Rajratan, we manufacture high carbon steel wire in our state-of-the-art plants.

Locations

The company's manufacturing operations are located in India and Thailand.

India: Located in Pithampur Industrial Area near Indore. The city is the

commercial centre of Madhya Pradesh, India's second largest state. The city is centrally located in India, making it possible to reach pan-India customers with speed.

Thailand: Located in Ratchaburi, the facility is close to the port and customers.

Exports

Rajratan is a dependable global supplier of bead wire to renowned quality-demanding tyre manufacturing companies. In addition to marketing products within India and Thailand, where its manufacturing facilities are based, Rajratan also services customers in Italy, USA, The Czech Republic, Malaysia, Indonesia, Philippines, Vietnam, Sri Lanka, Bangladesh and other countries. Exports from Thailand, accounted for around 43% of revenues from that company.

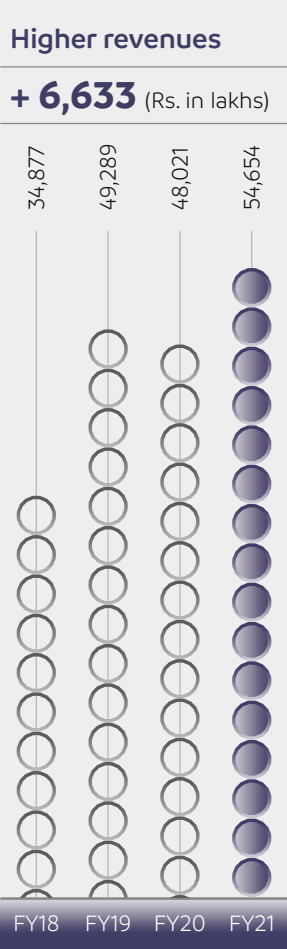
Certifications (India)

IATF 16949:2009
ISO 14001:2004
OHSAS 18001:2007

Certifications (Thailand)

IATF 16949:2016
MS ISO 16650:2009 (P) (SIRIM)
IS 4824:2006 (BIS)

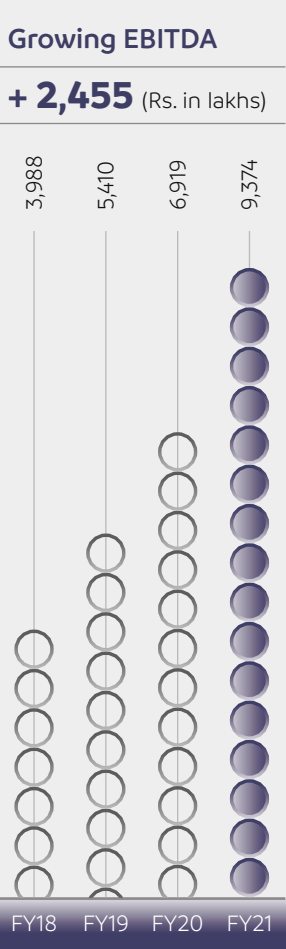
How Rajratan has enhanced value across the years



Definition
Sales growth net of taxes.

Why we measure
This measure reflects the result of our ability to understand market trends and service customers in a timely manner with corresponding products marked by superior quality.

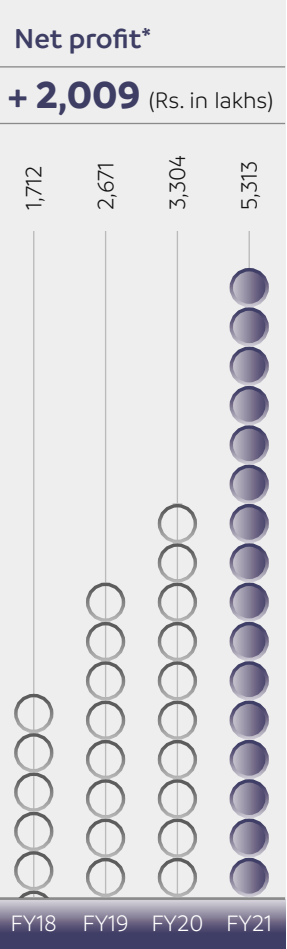
Performance
Our aggregate sales increased 14% to Rs. 54,654 lakhs in FY 2020-21, which compared favourably with the growth of the sector and economy.



Definition
Earnings before Depreciation, Amortisation, Interest (Finance cost) and Tax.

Why we measure
It is an index that showcases the company's ability to optimise operating costs despite inflationary pressures, which can be easily compared with the retrospective average and sectorial peers.

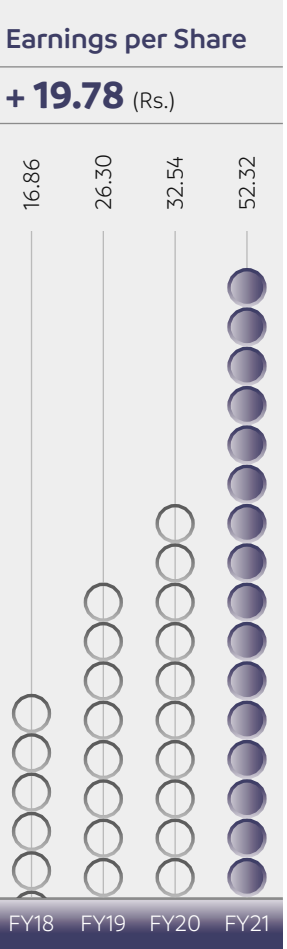
Performance
The company reported its most substantial EBITDA increase during the year under review following an increase in revenues and ongoing cost management.



Definition
Profit earned during the year after deducting all expenses and tax and before Other Comprehensive Income.

Why we measure
It highlights the strength of the company's business model in generating value for shareholders.

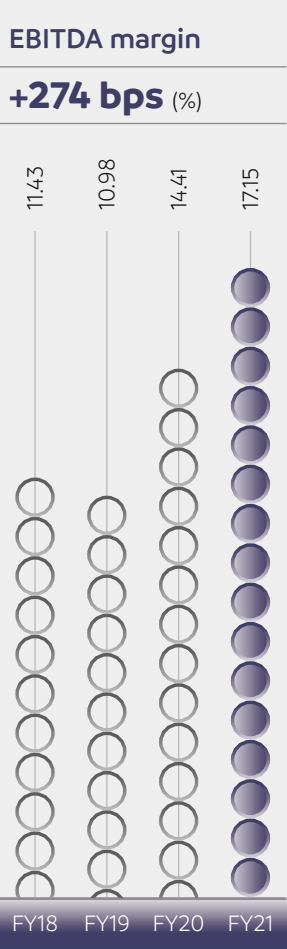
Performance
The company reported the sharpest increase in post-tax profit in its existence during the year under review following increased revenues and a superior amortisation of fixed costs.



Definition
Earnings per share (EPS) is a measure of profit per share reported by the company.

Why we measure
It is a figure highlighting the proportion of net profit per outstanding share.

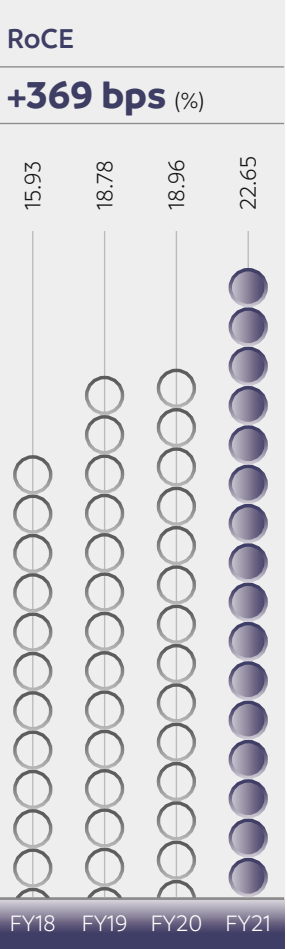
Performance
The company reported the sharpest increase in EPS during FY 2020-21 on account of increased revenues and no equity dilution.



Definition
EBITDA margin is a profitability ratio used to measure a company's pricing strategy and operating efficiency. The higher the operating margin, the better for the company.

Why we measure
The EBITDA margin gives an idea of how much a company earns (before accounting for interest and taxes) on each rupee of sales.

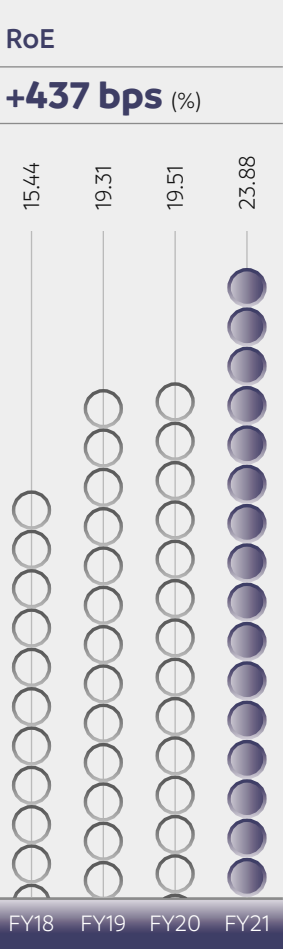
Performance
The company reported a strengthening of its EBITDA margin following superior amortisation of fixed expenses following an increase in revenues.



Definition
It is a financial ratio that measures a company's profitability and efficiency with the capital employed in the business.

Why we measure
RoCE is a useful metric for comparing profitability across companies based on the amount of capital they use - especially in capital-intensive sectors.

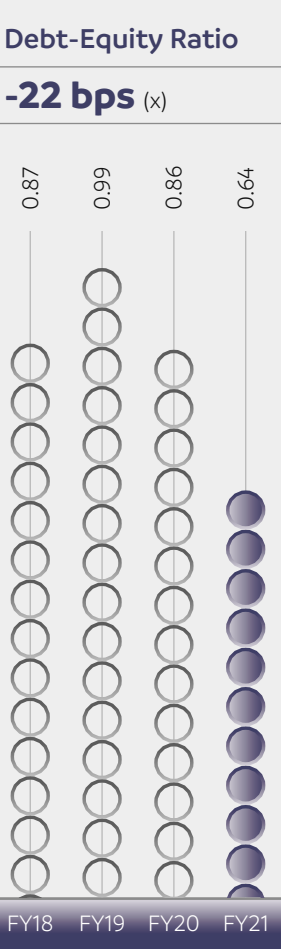
Performance
The company reported a 369 bps increase in RoCE on account of an increase in revenues, asset utilisation and coverage of fixed expenses.



Definition
It is a financial ratio that measures the rate of return that the owners of common stock of a company receive on their shareholding.

Why we measure
RoE signifies the success of the company in generating returns on net worth

Performance
The company reported a 437 bps increase in RoE following an increase in revenues.



Definition
This is derived through the ratio of debt to net worth (excluding revaluation reserves).

Why we measure
This is one of the defining measures of a company's financial health, indicating the ability of the company to remunerate shareholders over debt providers (the lower the gearing the better).

Performance
The company's gearing improved (reduced) from 2.39 in FY15 to 0.86 in FY 2019-20 and stood at 0.64 in FY 2020-21.

* Before Other Comprehensive Income

5 big messages that we wish to communicate to our stakeholders

1**Record**

Rajratan reported a record performance across all financial parameters in what was by far the most challenging year for the bead wire sector in decades

2**Resilience**

Rajratan validated the resilience of its business model, reporting a profit even when sales declined 50% in the first quarter and capacity utilisation declined to a low of 34%

3**Responsiveness**

Rajratan demonstrated its capacity to capitalise on improved demand realities with speed, abbreviating the impact of the lockdown to only one quarter

4**Price-setter**

Rajratan reinforced its competitiveness, graduating from a cost-taker's position to that of a responsible price-setter through the interplay of superior product quality and timely service

5**Critical mass**

Rajratan has created a critical mass and robust Balance Sheet that could facilitate long-term value-creation

Where Rajratan is today

The company enjoys a high customer wallet share; 83% customer relationships have been serviced for more than five years

The company possessed an installed capacity of 1,12,000 TPA across both plants

The company reported consistent annual growth in volumes (production and sales)

How Rajratan has selectively allocated its surplus

The company allocated Rs. 2,648 lakhs, which is 39% from its FY 2020-21 accruals towards capacity expansion

The company allocated Rs. 3,263 lakhs, which is 49% from its FY 2020-21 accruals towards working capital

The company allocated Rs. 812 lakhs, which is 12% from its FY 2020-21 accruals towards dividend

Where Rajratan expects to be three years from now

The company intends to enhance customer wallet share

The company intends to possess a consolidated bead wire capacity of 1,80,000 TPA

The company intends to become completely free of long-term debt

The company intends to report larger increases in annual production and sales – growing faster even as it gets larger

CHAIRMAN'S OVERVIEW

Rajratan is attractively placed to capitalise on three structural shifts in its industry



Overview

I am pleased to present our performance for FY 2020-21.

Never before in our existence of more than two-and-a-half decades did we experience a financial year marked by extreme realities as we did in FY 2020-21.

The company's performance was affected by the pandemic-induced lockdown during the first quarter of FY 2020-21. During this quarter, revenues declined 50% when compared with the corresponding revenues of the previous financial year, while profit after tax declined 83%.

The following quarter proved completely different as the phased lifting of the lockdown inspired a higher offtake of automobiles and pan-India logistic activities (which accelerated tyre replacement) that generated a cascading impact on the offtake of tyres and bead wire. In this dramatic second quarter, Rajratan reported 15% growth in revenues and 40% increase in profit after tax. These numbers were the highest for any single quarter in our existence at that point.

The performance of the company during the third and fourth quarters followed an increasing trend that had been established in the second quarter. Our revenues and profits in each of these quarters were higher than the corresponding quarters of FY 2019-

The result is that the company ended the last financial year with 7% higher tonnage sales, 14% higher revenues, 35% higher EBITDA and 61% higher profit after tax.

20, validating the sustainability of the underlying trend and the capacity to capitalise on them.

The result is that the company ended the last financial year with 7% higher tonnage sales, 14% higher revenues, 35% higher EBITDA and 61% higher profit after tax. Besides, the company reported higher average realisations by 3%; EBITDA margin strengthened 274 bps to 17.15% and the company ended the last financial year with virtually no finished products inventory.

Three structural shifts

The sharp improvement in the health of the Indian tyre (and automobile) sector, starting from the second quarter, was the outcome of three structural shifts.

One, the pandemic brought home the priority for social distancing on the one hand and the need for protected mobility on the other. The result is that a large number of Indians selected to purchase their private means of transportation – two- and four-wheelers – and this trend generated a substantial increase in the offtake of vehicles starting from the second quarter of the last financial year. We believe that this preference for personal mobility is not fleeting; it represents an inflection point in India's automobile sector that could translate into an increased sustainability in volumes.

Two, the pandemic has highlighted a need for proximate supply chains. There is a growing consensus that countries which insource a large proportion of their needs not only enhance national livelihoods and value; they enhance their resilience in the midst of global shocks, protecting their economic journeys.

Three, the pandemic has emphasised the need for secure supply chains. The word 'secure' is becoming increasingly relevant in a world where demand patterns can change with speed, warranting vendor agility. There is a premium on the need for vendors to deliver quality products on time and in full, resulting in a complete peace of mind. The result is that customers no longer need suppliers; they need long-term partners who will integrate their business strategy with their own and invest ahead of the curve.

Interestingly, these are not just ground-level realities transpiring within the India of today; they are backed by national policy. The announcement of Atmanirbhar Bharat by the Indian government has sent out an unmistakable message that it will encourage domestic manufacturing with an objective to service domestic needs on the one hand and service global appetite on the other. The result is a policy that does not just encourage India to make for India but for India to make for the world. We

believe this comes at the right time when the world is seeking alternative supplier options away from China with the objective to de-risk a single country risk and enhance business sustainability.

Competitive positioning

Rajratan is attractively placed to capitalise on these realities.

From a macro perspective, bead wire imports could remain unviable following the weakening of the Indian currency. The competitive pressure has also declined in the domestic and international markets.

The company manufactures a niche product marked by a technological and financial moat.

It is backed by a rich 25-year experience of having grown through market cycles.

It is present in two attractive tyre manufacturing destinations (India and Thailand).

It possesses one of the most competitive cost structures (capital cost per tonne) in the world.

It services the growing needs of virtually every marquee tyre brand in India and Thailand.

It invested adequate manufacturing capacity ahead of the curve to service their growing needs.

It is a value-added player focused on the manufacture of quality-intensive bead wire addressing the needs of select customers willing to pay a premium.

It kick-started a multi-year quality journey towards TPM and TQM.

It possesses adequate people and infrastructure to make this growth sustainable.

It possesses a robust, liquid and under-borrowed Balance Sheet to sustain this growth across the foreseeable future.

Its weighted average debt cost of less than 8% for the Indian business and less than 5% for the Thailand operations provides adequate comfort.

This platform provides Rajratan with the optimism of not merely sustaining growth from this point onwards but accelerating it.

The future

The big question: Where is Rajratan headed?

Rajratan intends to commission a new manufacturing facility in South India that makes it possible to service customers in that region with a higher assurance of product availability, quicker delivery and lower logistic costs. Besides, the plant will capitalise on its port proximity to address a growing global need for bead wire. The plant is expected to be financed largely through internal accruals, strengthening the prospects of shareholder value accretion.

By the end of FY 2022-23, Rajratan expects to possess a bead wire capacity of 120,000 TPA, a 20% growth from its installed capacity at the close of FY 2020-21.

By the end of FY 2022-23, Rajratan expects to possess a bead wire capacity of 1,20,000 TPA, a 20% growth from its installed capacity at the close of FY 2020-21.

The company expects its bead wire consolidated production capacity to be equally shared between India (60,000 TPA) and Thailand (60,000 TPA).

It intends to build on its existing market presence, strengthening its capacity to service customers better.

It intends to build this capacity with substantial accruals and moderate debt.

It will ensure that the capex will be executed with minimal impact on the debt-equity ratio of the Company.

This financial model will enable Rajratan to enhance organisational value in a substantial and sustainable manner across the foreseeable future.

A bright future lies ahead.

Sunil Chordia

Chairman and Managing Director

STRATEGIC OVERVIEW

How we are wired to counter risks and enhance business sustainability



"If I had to identify a theme at the outset of the new decade it would be increasing uncertainty."

Kristalina Georgieva, Managing Director of the IMF, Peterson Institute for International Economics, 17th January 2020

The Covid-19 pandemic

The year 2020-21 was seminal in the modern existence of humankind.

More than anything, the pandemic shook the world's confidence in the predictability of everyday reality, putting a premium on stability, security and sustainability.

If there is one thing that the pandemic put a premium on, it is the need for protection.

Interestingly, this perspective is something that has been relevant at our company since we went into business. Over the years, our principal recall has been that of a conservatively aggressive company, which reconciles the best of growth-seeking at one end and protection at the other. The bottomline is that our business at any point has weighed various risks and prepared for them with the objective to generate sustainable growth.

The recent pandemic represented a validation of our conservative aggression. Even as we recognised that one could never quite be completely de-risked, we could build on a consistent state of preparedness and nimbleness to adapt to unforeseen realities with speed and decisiveness. It would be fair to state that even as our organisational de-risking had factored various options, permutations and combinations, it could have never foreseen an event like the pandemic

for its scale, speed and scope. In such a scenario, the company turned to its deep organisational springs to absorb the full impact of the unexpected downside.

This brought to the centre stage an organisational feature often overlooked for attention in the pursuit of numerical growth: quality of business.

God lies in the details

We are not just one of the largest in the markets of our presence; we enjoy a substantial cost leadership (manufacturing, logistical and financial) as well in the markets of our presence that makes us viable across market cycles.

We enjoy a relatively under-borrowed Balance Sheet that makes it possible for us to absorb the impact of a sales slowdown and mobilise additional debt at low costs.

We expand only when nearly 80% of the long-term debt related to a previous expansion has been covered.

We prefer to grow out of our existing infrastructure, making it possible to commission successive rounds of manufacturing capacity at outlays considerably lower than the prevailing greenfield cost average, making it possible to build a large company with the lowest capital cost per tonne in our business.

We obsess about technology and quality; we are perpetually engaged in experimenting with an improved application, process of treatment that enhances our product integrity. The result is that we commissioned the world's single largest bead wire coating line in 2019; we invested in cutting-edge technologies to moderate breakages to among the lowest global standards within our sector, strengthening our capacity utilisation on the one hand and quality benchmarks on the other.

We run an organisation marked by low overheads, reflected in an increase in per person productivity. The result has been an ability to amortise our fixed costs more efficiently over the sectorial average, enhancing our any-market viability.

We sell to make, which makes it possible to customise our B2B product to the complete needs of our customers while also liberating us from the need to nurse inventory.

We run an organisation marked by low overheads, reflected in an increase in per person productivity. The result has been an ability to amortise our fixed costs more efficiently.