

Bharat Wire Ropes Limited was incorporated in July, 1986, the Company is converted into public limited company in May, 1992. The Company is engaged in Manufacturing and Sale of Wire Ropes, Structural Strands, Slings and Wires. Company's products find its application in general engineering, fishing, elevators, cranes, material handling, power transmission, suspension bridges, onshore / offshore oil exploration, ports and shipping, mining, defense, railways etc.

Existing manufacturing facility with an installed capacity of 12,000 MTPA, located at Atgaon, accredited with Bureau of Indian Standards ("BIS"), ISO 9001:2008 and has obtained BIS Licenses for IS:2266, IS:4521, IS:1856, S:1855, IS:2581, IS:9282, and hold product approvals from RDSO, CORE, DGMS, PGCIL, IRS etc. for various ropes and wire products.

Promoters: The company was originally promoted by the Shah Group and in 2010. One of its current promoters - Gaji Mercantile Private Limited purchased 1,06,75,490 shares on June 30, 2010. Other promoters in the company are Murarilal Mittal, Usha Mittal and Manan Mittal.

In October 2012, Shri. Motilal Oswal and Shri. Raamdeo Agarwal of the eponymous financial services company bought 6.25 per cent of the company for over Rs.10 crore in their personal capacity through Passionate Investment Management Pvt. Ltd. at Rs.55 a share for a valuation of Rs. 165 crore. Since the IPO is entirely a fresh issue, they still continue to stay invested in the company

Established player in the Indian Wire Rope Industry

The Company has around 29 years of experience in wire rope business with an established client base which helps in continued business.

Well diversified customer base

Company has a well-diversified customer base of more than 600 large and medium size customers all over India including oil & gas, mining, fishing, ports & marine, elevator, power transmission, railways, construction, infrastructure, defense, crane manufacturers, etc. The Company receives repeat orders from ~30% of its customers. The Management believes that the diversified customer base has helped the Company to reduce the intensity of any significant single industry's contribution in revenues.

Global reach

The Company's presence in the global market has been rapidly increasing to include countries such as USA, Germany, Spain, Qatar, Egypt, UAE, South Africa, Australia, Nepal, Uganda, Singapore, Mauritius and Oman.

At the upper end of the price band of Rs. 45, the IPO is valued at 124x at 8MFY16 annualized EPS of Rs. 0.36 which looks quite expensive. However, with due consideration to factors like a) Company's ability to cater to a wider customer base on account of its diversified product offering has enabled it to provide customization options to its customers, b) to further strengthen its product mix, the company has made efforts to focus on niche sectors for providing wire ropes such as non-rotating ropes, suspension bridge ropes, c) around 29 years experience in wire rope business with an established client base which helps in continued business, d) experienced management, e) marquee investors lending confidence on growth prospects of the Company, we recommend investors to "SUBSCRIBE" the issue .

Issue date	Mar 18 - 22, 2016
Issue size	Rs. 700 mn. at upper end of the price band
Type of issue	Fresh Issue: Rs. 700 mn
Face Value	Rs. 10
Price Band	Rs. 40 – 45 per share
Lot size	300 equity Shares & multiple of 300 equity shares thereafter
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%
Post issue eq. shares	44.94 mn shares
Post issue market cap	Rs. 2,022 Mn at upper price band
Book Running Lead Managers	Intensive Fiscal Services, BOB Capital Markets
Registrar to the issue	Karvy Computershare Pvt. Ltd.

Y/e 31 Mar (Rs. mn)	8MFY16	FY15	FY14	FY13
Revenue	437	767	822	734
Growth (%)	-	(6.7)	11.9	(4.7)
EBITDA	57	92	89	83
EBITDA Margin (%)	13.12	12.04	10.84	11.24
Reported PAT	10.8	19.8	15.0	14.8
PAT margin (%)	2.47	2.58	1.82	2.01
*Post issue EPS (Rs.)	0.36**	0.44	0.33	0.32
P/E (x)	124	102	136	141
Equity Capital	293.9	293.9	293.9	293.9
Reserves & Surplus	419.3	415.0	397.5	382.4
Book Value (Rs.)	24.10	23.95	23.36	22.85
P/BV (x)	-	1.88	1.93	1.97

**denotes 8MFY16 Annualized EPS

Shareholding Pattern (%)	Pre Issue
Promoters group	87.34
Erstwhile promoters	6.41
Public & Others	6.25
Total	100

Objects of the issue

Particulars	
To set up proposed project of 66,000 MTPA wire ropes at MIDC zone, at Chalisgaon, District: Jalgaon, Maharashtra	Rs. 600 mn (Part finance to set up a New Unit at MIDC Zone, at Chalisgaon, Dist: Jalgaon, Maharashtra)
General Corporate Expenses	-

Source: RHP

Overview of new manufacturing facility

Product	<ul style="list-style-type: none"> • Steel wire ropes • Structural Strands, Slings and wire
Capacity	<ul style="list-style-type: none"> • 66,000 MTPA
Location	<ul style="list-style-type: none"> • MIDC, Chalisgaon, Dist. Jalgaon (330 kms from Mumbai)
Land	<ul style="list-style-type: none"> • 2,54,376 sq. mtrs, already acquired from MIDC on 95 years lease
Incentives	<ul style="list-style-type: none"> • Mega project as per PSI scheme 2007, Sales tax and VAT equivalent to eligible investment in the project
Investment	<ul style="list-style-type: none"> • Rs. 507.18 crores

Source: Company, Ajcon Research

1) Fully integrated wire rope plant under one roof

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

2) Synchronized manufacturing facilities

- Balanced capacity based on theory of constraint
- Standardization of machines
- Minimum supervision and wastage
- The Company's new facility aims to achieve least material handling cost, minimal wastage and very fast delivery.
- BWRL proposes to procure and install machinery having the latest technology to achieve better quality products

Estimated project cost

Particulars	Rs. in mn
Land	33
Building, Civil works and Land development	681
Plant and Machinery	3,575
Misc. Fixed Assets	10
Preliminary expenses	40
Pre operative expenses	187
IDC (Interest during construction)	185
Contingency	96

Margin money	266
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Means of Finance

Particulars	Rs. in mn
Term loans	3,300
Amount proposed to be financed from the net proceeds	600
Amount already deployed as on January 31, 2016 from	622
Internal Accrual/Net worth/Non convertible preference shares/ ICD	550
Total fund required for proposed project	5,072

Business Strategy

1) Expanding Company Product Mix

The company is diversifying and broadening its manufacturing capabilities from chilled cast iron camshafts to ductile iron camshafts and assembled camshafts. Company has secured orders from Ford Motors for supply of ductile iron camshafts, and is in the process of setting up a new machine shop at their EOU unit at Solapur, Maharashtra for which the industrial production is expected to start in fiscal 2017.

2) Improved emphasis on value added products namely fully machined camshafts

The company currently manufactures camshaft casting from their foundries which are then machined by their OEM customers in their captive facilities. They also manufacture semi-machined camshafts to tier I suppliers and fully-machined camshafts to OEMs. The semi-machined and fully machined camshafts are manufactured in their foundries at Solapur. The company seeks to expand their capacity to manufacture fully machined camshafts by setting up two new machine shops in Solapur, Maharashtra. In order to strengthen the business operations in Asia, PCL has entered into **two joint ventures with Ningbo Shenglong PCL Camshafts Co. Ltd. ("NSPCL") for machining of camshafts and PCL Shenglong (Huzhou) Specialised Casting Co. Ltd. for setting up a foundry in China.** The machine shop at Ningbo, China commenced production in April 2013 and the foundry at Huzhou City, China is currently under construction as on date.

3) Expansion through inorganic growth

The company seeks to acquire or make strategic investments in a company or business particularly in Europe which is engaged in the same business as their current business or is engaged in the manufacturing of critical component machining in which they have acquired significant domain knowledge based on their camshafts manufacturing experience.

SCOT Analysis

Strengths

- Latest technology
- Experienced management team
- Diversified client base
- Diversified product mix
- Ability to provide quality services

Concerns

- Higher investment and marketing efforts
- Delay in implementation of the project

Opportunities

- Potential Market Opportunity
- Low cost of manufacturing

Threats

- Competitive rivalry
- Product price volatility

Risks and Concerns

- 1) BWRL derives a significant portion of its revenues from its top ten customers. In the financial years 2013, 2014 and 2015 and for the period ended November 30, 2015, the company's top ten customers accounted for 47.86 per cent, 45.07 per cent, 49.56 per cent and 64.27 per cent respectively, of its revenue from operations.
- 2) In the financial year 2015, its largest customer accounted for 12.47 per cent of revenues. In FY13, FY14, FY15, and for the period ended Nov. 30, 2015, its top 10 customers accounted for 47.86%, 45.07%, 49.56% and 64.27% respectively of its revenue from operations. The loss of business derived from these customers or a significant reduction in the revenues it receive from, one or more of these customers may adversely affect the company's business.
- 3) The company's business requires a significant amount of working capital for smooth functioning. It meets its requirement for working capital majorly through banking facilities or internal accruals. In future, the company's inability, if any to meet its working capital requirements or inability to renew its existing working capital requirements through banking arrangements can adversely impact its business operations and financial position. The company also faces competition in the industry. While in a few instances, the company operates on a rate-contract basis, it does not have long term arrangements with all of its customers for purchase of its products in the future, at fixed prices.
- 4) The proposed project is appraised by an appraising agency and the contents of the appraisal report are withheld. Company's management was changed in 2010 and hence Company's promoters have limited knowledge and records of litigations, disputes etc. of Company.
- 5) Negative cashflows witnessed by the Company in previous years.
- 6) The deployment of funds raised through this issue shall not be subject to any Monitoring Agency and shall be purely dependent on the discretion of the management of the Company as the issue size is less than Rs. 500 crs for which there is no mandatory requirement of appointing an Independent monitoring agency.
- 7) Post setting up of the proposed project, the Company may be highly leveraged and downturn in the turnover may affect its ability of debt servicing. As on Jan. 31, 2016, its term loan stood at Rs. 711 mn and buyer credit stood at Rs. 164 mn, as certified by its statutory auditors vide certificatedated Feb. 16, 2016.



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