

Healthy demand with operational efficiencies to drive growth...

About the stock: BWR, incorporated in 1986, is one of the leading manufacturer of specialty steel wire, steel wire ropes, slings & strands, with wide range of products. Products have applications across industries including elevators, shipping, oil & gas, cranes, mining etc

- Company's ~83% of revenue is from exports while ~17% from domestic markets. In exports, Europe contributes 30-35% of revenue followed by ~20% by US & South America and balance 45-50% by South Asian & Middle East markets
- Revenue and EBITDA have grown by 31.7% and 68.5% CAGR in the last 3 years during FY20-23. PAT recovered sharply from net loss of ₹ 61 crore in FY20 to ₹ 62.2 crore net profit in FY23. During FY23, company reported revenues of ₹ 589 crore (+43.4% YoY) and EBITDA of ₹ 138.8 crore (+123% YoY). PAT in FY23 stood at ₹ 62.2 crore, which increased by 4.5x YoY

Key Investment Thesis:

- Solid presence in global markets led by strong competitive edge:** BWR has a strong presence in international markets (~83% of revenue is from exports), driven by solid competitive edge in terms of manufacturing capabilities, cost of production and on-time delivery of products. With focus on expansion of product portfolio and entry into newer geographies, company is looking to gain market share further in global markets
- Buoyant domestic capex presents sizable opportunity; Focus on continuous improvement in product portfolio:** With healthy capex cycle scenario in domestic market (led by infra, real estate, industrials, oil & gas etc) and improving product mix, company is focused on increasing its domestic share (target to reach ~50% of sales in longer term from ~17% at present)
- Healthy volume growth with operational efficiency measures:** Volume growth is expected at 15-20% YoY for the next 3 years (with capacity utilisation reaching at 80-85% from 62% at present). Margins expected to improve led by operational efficiencies (improvement in capacity utilisation & reduction in energy cost) and positive operative leverage benefits

Rating and Target Price

- BWR is strongly positioned to benefit from healthy demand of its products in global and domestic markets led by buoyant capex outlook in Infra & Industrials and growing replacement demand. Moreover, operational efficiencies and positive operating leverage would drive company's margins and profitability. We estimate revenue, EBITDA and PAT to grow at ~15%, ~26% and ~47% CAGR respectively over FY23-25E
- We recommend **BUY** on Bharat Wire Ropes. We value the stock at ₹ 300 per share (based on 15x FY25 EPS)



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,529
FY23 Gross Debt (₹ Crore)	182
FY23 Cash (₹ Crore)	9
EV (₹ Crore)	1,702
52 Week H/L (Rs)	239 / 87
Equity Capital	67.9
Face Value	10.0

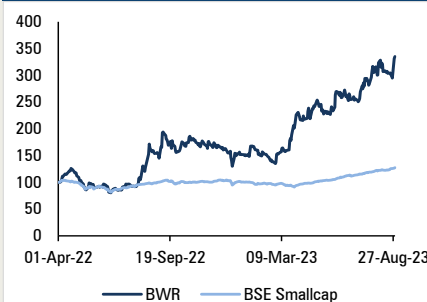
Shareholding Pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	36.8	36.8	39.9	39.9
FII	1.0	1.0	1.4	1.1
DII	16.8	14.8	13.2	12.8
Others	45.4	47.4	45.4	46.3

Risks to our call

- Slowdown in domestic & global capex
- Availability and prices of raw material
- Change in technology

Price Performance



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Key Financial Summary

(₹ crore)	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Revenues	250	411	589	31.7	679	774	14.6
EBITDA	32	62	139	68.5	187	220	25.9
EBITDA margin (%)	13.0	15.1	23.6		27.5	28.4	
Net Profit	(17)	14	62	LTP	110	135	47.2
EPS (₹)	(3.7)	2.2	9.2		16.2	19.8	
P/E (x)	(60.2)	104.1	21.6		13.9	11.3	
EV/EBITDA (x)	55.4	28.9	12.3		8.8	7.0	
RoCE (%)	1.6	5.7	16.0		20.3	22.2	
RoE (%)	(3.9)	3.0	12.6		16.4	16.7	

Company Background

Bharat Wire Ropes (BWR) was originally incorporated in the year 1986, and later in 2010, it was acquired by Mr. M L Mittal, current promoter and managing director

Headquartered in Mumbai (Maharashtra), the company has two manufacturing plants, one at Chalisgaon (Maharashtra) with a capacity of 66,000 MTPA (metric tonne per annum) and one at Atgaon, Maharashtra, with a capacity of 6,000 MTPA

BWR is one of the leading manufacturer of specialty steel wire, steel wire ropes, slings & strands, with over thousands of varieties of products. The Company has the capability of manufacturing wire ropes ranging from 6 mm to 90 mm and Steel Wire ranges from 0.3 mm to 5.5 mm

The wide range of products meet the functional needs of a vast array of industrial applications such as General Engineering, Aviation, Fishing, Elevators, Cranes, Material Handling, Onshore/ Offshore Oil Exploration, Ports & Shipping and Mining

BWR's ~83% of revenue is from exports while ~17% from domestic markets. Company products are being exported to 52 Countries including United States (US), United Kingdom (UK), Australia, Middle East, Nepal, New Zealand, Singapore, South Africa, Vietnam and many more. In exports, Europe contributes 30-35% of revenue followed by ~20% by US & South America and balance 45-50% by South Asian & Middle East markets. On domestic front, company is present at Pan-India level. The company caters to government, semi-government organizations, private organizations and also multi-national companies

In terms of customers, there are about 200 customers of the company in international markets and about 100 customers in India. In exports, company sells its products primarily through distributors (only 10-12% of total exports is to direct OEMs). Top 10 customers contribute ~60% of company's revenue.

Consolidated revenue of the company has grown by 31.7% CAGR in the last 3 years during the period FY20-23 while EBITDA has grown by 68.5% CAGR over the same period. PAT recovered sharply from net loss of ₹ 61 crore in FY20 to ₹ 62.2 crore net profit in FY23. During FY23, company reported revenues of ₹ 589 crore which increased by 43.4% YoY while EBITDA grew by 123% YoY to ₹ 138.8 crore as EBITDA margin improved sharply from 15.1% in FY22 to 23.6% in FY23. PAT in FY23 stood at ₹ 62.2 crore, which increased by 4.5x YoY

Revenue Mix (FY23)

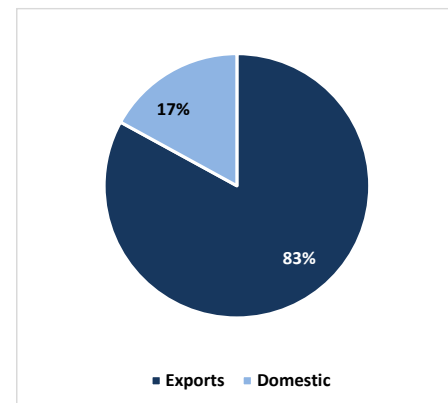






Exhibit 1: Product portfolio

	Wire Ropes	Strands	Slings	Steel Wire
				
Description	6-90 MM of various construction like 6*19, 6*36, 8*19, 35*7 etc.	Stay Wire, Structural Strands and Earth Wire	Mechanically Spliced, Hand Spliced, Spelter Sockets and Swaged Sockets	High carbon steel wires ranging from 0.3mm to 5.5 mm upto 2,360 N/mm ²
End Application	General Engineering, Structural, Oil & offshore, Elevator, Mining, Road Safety, Cranes etc.	Electrification, Haulage, Earthing, Structural Supports and Steel Fencing	An Important piece of rigging hardware used in lifting and hoisting operations and are commonly used across different industries	Cutting Tools, Springs, High Strength Wire, Wire Ropes etc.

Source: Company, ICICI Direct Research

Investment Rationale

Solid presence in global markets led by strong manufacturing capabilities; Products find wide range of applications

BWR has a wide range of products in wire ropes, slings, spiral strands that meet the functional needs of a vast array of industrial applications such as general engineering, aviation, fishing, elevators, cranes, material handling, onshore/offshore oil exploration, ports & shipping and mining. The company has been focused on strengthening its product portfolio by developing capabilities to manufacture a wider range of products

The company has strong capabilities in terms of manufacturing & distribution of its products led by latest technology equipped facilities, close proximity to ports and strong distribution network. With ~83% of its revenue coming from exports, BWR has a significant presence in global markets with products are being exported to over 50 countries including European countries, United States, Middle East, Nepal, New Zealand, Australia, Singapore, South Africa, Vietnam etc. The Company has considerably strengthened its market position in North America from FY23 and acquiring a strong foothold in the region’s wire rope market.

Moreover, company is continuously exploring newer markets globally and targets to increase its global market share led by its strong competitive edge in terms of cost of production, better pricing, proximity to ports and on-time delivery. Company’s manufacturing facility at Chalisgaon (Maharashtra) is a state of the art fully synchronized integrated unit, manufacturing a wide range of wire products. The unit is equipped with machines from South Korea and Germany, which provides a cutting edge while competing with the global manufacturers

With robust manufacturing capabilities, diverse product portfolio with continuous enhancements and competitive edge over many global players, we believe that company is strongly positioned to expand its market share in international markets. Moreover, there is a strong demand outlook in replacement market in international markets which would drive the company’s sales volumes in coming periods

Exhibit 2: Wide range of applications for company’s products



Source: Company, ICICI Direct Research

Buoyant domestic capex presents sizable opportunity; Focus on continuous improvement in product portfolio

Indian steel & wire manufacturing sector has been witnessing strong growth momentum on the back of increased government spending in infrastructure development as well as private & public sector investments in industrial sectors. Recently, government announced its plan to develop over 250 ropeway projects worth \$15 billion (~₹ 1.25 lakh crore) over a period of five years, which is expected to create huge demand for wires and ropes in the coming period. Moreover, enhanced emphasis on shipping and port sector along with growth in the mining and oil & gas industries are also expected to be the key contributors of growth in the coming period

Company is also undertaking various initiatives to expand its presence in domestic market led by focus on cost effective, technically advanced products. With strong technological capabilities, company's continuous focus is to develop and manufacture increased range of high quality wire rope products. Company is focused on domestic tenders from government as cash flows and working capital situation has improved. Moreover, company's products are approved and certified from BIS for usage in major engineering consultants and equipment suppliers

Healthy volume growth with operational efficiency measures

BWR's volume growth stood at ~13% in FY23 with capacity utilisation at 60-62%. EBITDA/ton jumped sharply to ₹ 36023/ton during the year from ₹ 18149/ton in FY22, primarily led by ~30% YoY improvement in realisation (led by increase in share of value added products with better realisations in international markets), improvement in capacity utilisation and positive operating leverage on account of healthy volume growth. Going ahead, company expects volume growth at 15-20% every year for the next 3 years (with capacity utilisation reaching at 80-85%) led by healthy demand scenario in both domestic and international markets, strong replacement market demand and entry into newer markets.

Company targets to maintain its EBITDA/ton level of ~₹ 36000/ton in FY24e though there are multiple triggers of improvement in margins. Energy cost is expected to come down substantially in FY24e led by increase in usage of solar power and lower LNG prices on YoY basis. Company expects ~30% reduction in its overall energy cost in FY24E. Realisation is also expected to improve led by increase in share of value added products (from 5-6% in FY22 to 15-20% in next 3 years). Moreover, positive operative leverage benefits would kick-in led by increase in capacity utilisation and thus increase in volumes

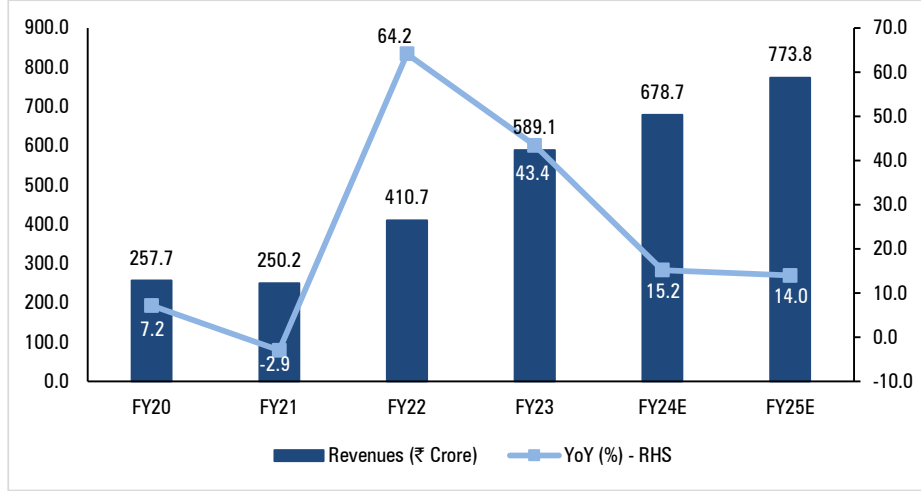
Company also highlight that, once the capacity utilisation of 80-85% will be reached in next 2-3 years, it can be further improved by adding balancing equipments with no major capex required. Moreover, there will be a brownfield capacity expansion at Chalisgaon, which will be announced by the management in the coming quarters

The company is also eligible for PSI (Package Scheme of Incentives) subsidy from Maharashtra government wherein total eligible subsidy amounts to ₹ 4,35 crore, of which disbursements has already began. The government has also extended this subsidy scheme till October 2025 which was expected to expire in October 2023

Revenue growth expected at ~15% CAGR over FY23-25E

Company’s revenue grew at 31.7% CAGR over the last 3 years (FY20-23) led by strong volume growth and improvement in realisations. Going ahead, revenue growth is expected to be at ~15% CAGR over FY23-25E to ₹ 774 crore in FY25E, driven by healthy volume growth of ~15% CAGR over the period

Exhibit 3: Healthy revenue growth ahead

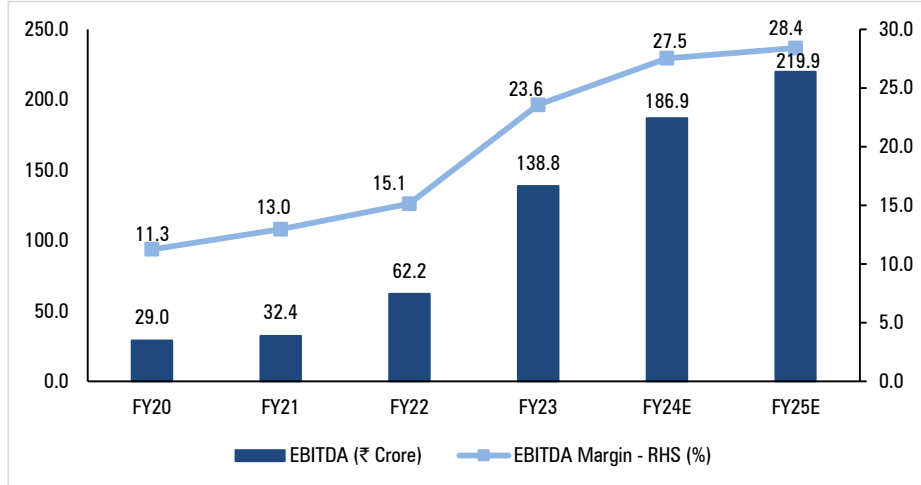


Source: Company, ICICI Direct Research

EBITDA margins expected to improve over FY23-25E; EBITDA expected at ~26% CAGR

Company’s EBITDA margin stood at 23.6% in FY23, improved significantly from 11.3% in FY20 mainly on account of improvement in realisations and positive operating leverage. Going ahead, we estimate EBITDA margins to improve further to 27.5-28.5% in FY24E & FY25E, led by operational efficiencies like reduction in energy cost, lower raw material cost on YoY basis and positive operating leverage. We estimate EBITDA CAGR of 26% over FY23-25E to ₹ 219.9 crore in FY25E from ₹ 138.8 crore in FY23

Exhibit 4: EBITDA & EBITDA margin trend

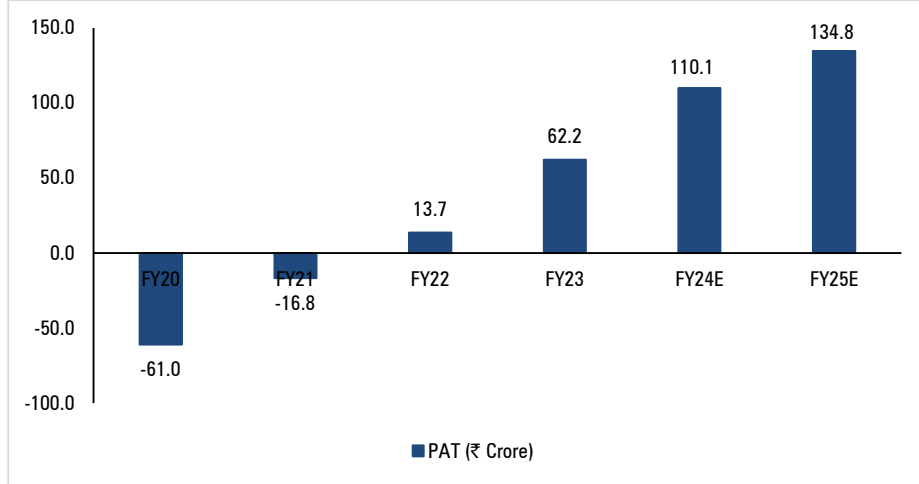


Source: Company, ICICI Direct Research

PAT expected to grow ~47% CAGR over FY23-25E

On account of healthy revenue growth and improvement in margins, company came into profits in FY23 as against losses in FY20. We estimate net profit to grow at 47.2% CAGR over FY23-25E to ₹ 134.8 crore in FY25E from ₹ 62.2 crore in FY23, mainly led by further growth in revenues and improvement in margins during the period

Exhibit 5: PAT trend

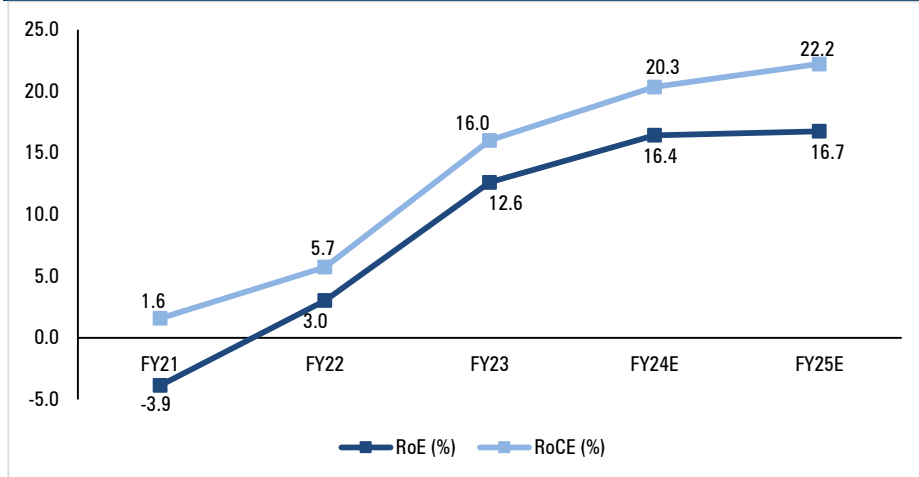


Source: Company, ICICI Direct Research

Healthy return ratios

Company's return ratios witnessed a substantial improvement in FY23 led by improvement in operating margins (on healthy volume growth, improvement in realisations and operational efficiencies) and improvement in asset turnover ratio. Going ahead, we expect the return ratios to improve further over the period FY23-25E as asset turnover ratio and margins are estimated to see further improvement. RoCE (Return on Capital Employed) and Return on Equity (RoE) are expected to improve to 22.2% and 16.7% in FY25E respectively

Exhibit 6: Return ratios



Source: Company, ICICI Direct Research

Key risk and concerns

Slowdown in global and domestic capex

BWR's ~83% of revenue is from international markets and ~17% from domestic markets. Company's business is dependent on the global and domestic capex in infra and industrial segments. Any slowdown in capex in these segments and its sub-segments, may hurt the demand for the company's products and thus revenues and profitability

Supply and prices of raw materials

Company require steel as a primary raw material for manufacturing of steel wire and wire ropes. Any disruption of supply of raw materials from its suppliers may adversely affect company's operations and ability to deliver products on a timely basis. Also, any major fluctuations in the global steel prices can impact company's revenues, profitability and cash flows

Changes in technologies

Inability to keep pace with the rapidly changing technological environment may adversely affect the company's ability to compete efficiently, reduce competitiveness, ability to develop new products and the consequential quality of company's products, and could also adversely affect sales and profitability

Financial summary

Exhibit 7: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Revenue	410.7	589.1	678.7	773.8
% Growth	64.2	43.4	15.2	14.0
Other income	0.6	0.7	0.7	0.7
Total Revenue	410.7	589.1	678.7	773.8
% Growth	64.2	43.4	15.2	14.0
Total Raw Material Costs	260.0	328.8	378.1	434.8
Employee Expenses	34.4	44.2	52.6	59.7
other expenses	54.1	77.3	61.2	59.5
Total Operating Expenditure	348.5	450.2	491.8	553.9
Operating Profit (EBITDA)	62.2	138.8	186.9	219.9
% Growth	91.6	123.3	34.6	17.6
Interest	23.4	22.2	17.5	16.0
PBDT	39.4	117.3	170.1	204.6
Depreciation	21.4	20.7	22.4	23.6
PBT before Exceptional Items	17.9	96.6	147.7	181.0
Total Tax	4.3	26.0	37.7	46.1
PAT before MI	13.7	70.6	110.0	134.8
PAT	13.7	62.2	110.1	134.8
% Growth		355.4	76.9	22.5
EPS	2.2	9.2	16.2	19.8

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	13.7	62.2	110.1	134.8
Depreciation	21.4	20.7	22.4	23.6
Interest	23.4	22.2	17.5	16.0
Cash Flow before WC changes	58.5	105.1	150.0	174.4
Changes in inventory	(15.7)	(29.6)	(10.8)	(16.9)
Changes in debtors	(3.6)	(7.8)	(17.4)	(15.5)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	(30.3)	(16.0)	(28.8)	(19.0)
Net Increase in Current Assets	(49.5)	(53.1)	(57.3)	(51.4)
Changes in creditors	20.3	(13.5)	2.6	2.9
Changes in provisions	0.2	(0.0)	0.0	0.1
Net Inc in Current Liabilities	15.3	(14.6)	8.6	5.8
Net CF from Operating activities	24.3	37.3	101.3	128.8
Changes in deferred tax assets	4.4	33.8	(0.8)	-
(Purchase)/Sale of Fixed Assets	(0.1)	(31.8)	(10.0)	(10.0)
Net CF from Investing activities	(0.9)	13.0	(13.0)	(11.0)
Dividend and Dividend Tax	-	-	-	-
Net CF from Financing Activities	(25.6)	(44.8)	(76.0)	(76.0)
Net Cash flow	(2.1)	5.6	12.2	41.8
Opening Cash/Cash Equivalent	5.4	3.2	8.8	21.0
Closing Cash/ Cash Equivalent	3.2	8.8	21.0	62.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Equity Capital	63.8	67.9	67.9	67.9
Reserve and Surplus	387.9	492.3	602.2	737.0
Total Shareholders funds	451.7	560.1	670.1	804.9
Total Debt	268.9	181.7	141.7	81.7
Total Liabilities	726.3	748.3	818.3	893.1
Gross Block	589.9	618.3	628.4	638.4
Acc: Depreciation	98.4	119.0	141.4	165.0
Net Block	491.5	480.9	486.9	473.3
Capital WIP	0.1	3.1	3.0	3.0
Total Fixed Assets	491.9	484.7	490.6	477.0
Non Current Assets	66.4	22.4	25.4	26.3
Inventory	80.5	110.1	120.9	137.8
Debtors	39.9	47.7	65.1	80.6
Other Current Assets	90.9	106.9	135.7	154.8
Cash	3.2	8.8	21.0	62.8
Total Current Assets	215.5	274.2	343.7	436.9
Current Liabilities	31.3	17.8	20.5	23.3
Provisions	2.5	2.8	2.8	90.0
Total Current Liabilities	47.5	32.8	41.4	47.2
Net Current Assets	168.0	241.3	302.3	389.7
Total Assets	726.3	748.4	818.3	893.1

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
EPS	2.2	9.2	16.2	19.8
Cash per Share	0.5	1.3	3.1	9.2
BV	71.4	82.5	98.6	118.5
EBITDA Margin	15.1	23.6	27.5	28.4
PAT Margin	3.3	10.6	16.2	17.4
RoE	3.0	12.6	16.4	16.7
RoCE	5.7	16.0	20.3	22.2
RoIC	5.7	16.1	20.8	23.8
EV / EBITDA	28.9	12.3	8.8	7.0
P/E	104.1	21.6	13.9	11.3
EV / Net Sales	4.4	2.9	2.4	2.0
Sales / Equity	0.9	1.1	1.0	1.0
Market Cap / Sales	3.7	2.6	2.3	2.0
Price to Book Value	3.2	2.7	2.3	1.9
Asset turnover	0.6	0.8	0.8	0.9
Debtors Turnover Ratio	10.8	13.5	12.0	10.6
Creditors Turnover Ratio	19.4	24.0	35.5	35.4
Debt / Equity	0.6	0.3	0.2	0.1
Current Ratio	6.6	14.4	15.3	15.5
Quick Ratio	4.1	8.4	9.5	9.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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