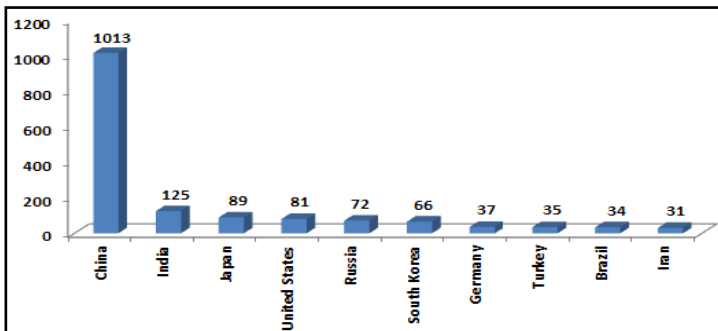


### About the Industry: Global Steel Overview

Globally, China leads the race in the production of steel and has produced ~8-10x more than India, which currently stands at second place. The global sentiments have hampered the economic environment significantly in 2022 given the fact that the inflation risk was fully materialised coupled with other major headwinds like the Russia-Ukraine war and China lockdowns. As far as Chinese steel demand is concerned; the recovery reversed in Q2FY22 on account of repeated Covid-related lockdowns and slump in the property market. The steel demand in China contracted by ~6.6% in the first eight months of 2022. According to World Steel Association, China produced 79.8MMT in Oct'22 (up by 11% from a year ago, but down by 8.3% from Sept'22); contributing 54.1% of the total global crude steel output. For India; it witnessed a production growth of 2.7% in Oct'22 at 10.45MMT. According to Fitch Ratings, incremental growth in steel consumption in 2023 would be seen in markets such as India, Southeast Asia and the US; while the prospects for the steel companies remain gloomy in Europe due to high and volatile energy costs.

Exhibit 01: Top 10 Steel Producing Countries (in MT) (Jan-Dec'22)

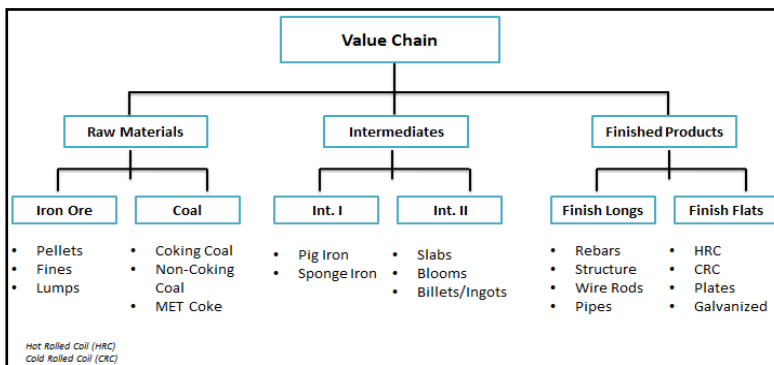


Source: World Steel Organisation PR Dec 2022, Progressive Research

**Indian Steel Structure:** Being regarded as one of the basic raw material for a host of manufacturing activities; steel forms a backbone for the national economic development. Steel industry has one of the highest linkages in the overall GDP (contributes ~2.5% to the national GDP, thereby employing around 2.5 million people). India's crude steel production has stretched from 137MTPA in FY17 to 154MTPA in FY22. The industry is bifurcated into Public (~20%) and Private (~80%).

**Steel Industry Value Chain:** Finished steel (steel that has been processed beyond the stages of billets, blooms, sheet bars, slabs and is ready to hit the market) output in India increased 5.7% to 87.9MT while the consumption went up by 11.5% to 85.5MT between April and December, 2022. As per Care Edge, the governments' thrust towards infrastructure projects would majorly contribute towards the growth in the domestic market; however the international markets are anticipated to remain subdued on account of weak external environment and deceleration of real estate market in China.

Exhibit 02: Industry Value Chain



Source: RBSA Report, Progressive Research

SNAPSHOT				
52 week H / L		Mcap (INR mn)		
160/53		10,422		
Face value: 10				
BSE Code		NSE CODE		
539799		BHARATWIRE		
Annual Performance				
(Rs mn)	FY20	FY21	FY22	FY23E
Total Revenue	2,577	2,502	4,107	5,640
EBITDA	290	324	622	1,246
EBITDA (%)	11.2	12.9	15.1	22.1
Other Income	3	5	6	6
Interest	895	341	234	235
Depreciation	218	217	214	238
PBT	(820)	(228)	179	779
PAT	(610)	(168)	137	573
Equity (Rs mn)	450	626	638	679
EPS (INR)	(13.6)	(3.7)	2.2	8.9
Quarterly Performance				
Parameters (Rs mn)	Mar-22	Jun-22	Sept-22	Dec-22
Sales (Net)	1,345	1,328	1,497	1,443
EBITDA	211	251	312	368
EBITDA (%)	15.7	18.9	20.9	25.5
Other Income	3	1	1	3
Interest	62	40	54	66
Depreciation	53	51	52	51
PAT	76	120	154	189
Equity (Rs mn)	630	641	644	644
Ratio Analysis				
Parameters (Rs mn)	FY20	FY21	FY22	FY23E
EV/EBITDA (x)	49.9	40.5	21.0	10.4
EV/Net Sales (x)	5.6	5.3	3.2	2.3
M Cap/Sales (x)	4.0	4.2	2.5	1.8
M Cap/EBITDA (x)	36.0	32.1	16.8	8.4
Debt/Equity (x)	17.4	0.6	0.6	0.5
ROCE (%)	1.9	2.3	6.3	14.5
Price/Book Value (x)	17.7	1.6	2.1	1.9
P/E (x)	-	-	70.3	17.3
Shareholding Pattern as on 31st March, 2023				
Parameters	No of Shares	%		
Promoters	27,086,764	39.8		
Institutions	9,805,075	14.4		
Public	31,005,634	45.6		
TOTAL	67,897,473	100.0		

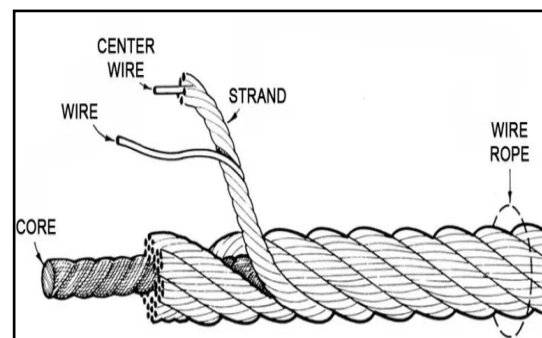
Source: Annual Report, Progressive Research

Note: Data calculated as on 11th April, 2023

**About the Industry (contd.):**

**Wire Ropes:** are value-added products derived from wire rods, and come under the long steel category of steel products. The value chain of wire rope industry progresses as follows: manufacture of wires using wire rods, then strands from wires, and culminating in the manufacture of wire ropes from strands. As with any other industry, the fortunes of the wire rope industry depends on growth and investment in the infrastructure segment. Any slowdown in infrastructure projects and activities negatively impacts the wire rope industry. Implementation delays can inflate costs, and changes in the government regulations can jeopardize the viability and sustainability of the whole project. A correlation can be drawn between the wire rope industry and the steel industry on the basis of the fact that wire ropes are derived from steel. Wire ropes comprise of steel wires that are twisted together in order to form individual strands that are then laid in a helical pattern around synthetic/steel core. The three basic components of wire rope are: the wire, strand and the core; which are twirled together to form a rope.

**Exhibit 03: Wire Rope Components**



Source: Market Reports, Progressive Research

Wire ropes generally find its applications in engineering, construction related activities such as material handling, mining, ports and shipping, construction equipment (structural and cranes), construction of bridges, elevators and escalators, etc. The major sectors that drive the demand for the wire rope industry include engineering & construction, oil & gas, mining, shipping & logistics. As per industry estimates, the engineering & construction industry commands ~60% share of the wire rope industry (includes demand from elevator ropes, aerial haulage, structural systems, general engineering ropes, etc.). The oil & gas industry accounts for 20% (demand from offshore activities, well castings and pipelines) followed by mining industry that accounts for ~10%. The Asia-Pacific region is estimated to be the largest market for steel wire considering the rapid urbanization and industrializations in countries like China and India where both the consumption and sale of steel wire ropes is extremely high. The market for steel wire rope presently is at a much matured stage, with limited number of players dominating the market. Usha Martin is the leading company in terms of revenue and production, Bharat Wire stands at the second position followed by Bedmutha Ltd. The industry has by and large prospered given the growth in infrastructure activities; wherein India plans to invest ~USD1.4tn by FY23. Additionally, with govt. initiatives such as Pradhan Mantri Awas Yojana, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Smart Cities Mission, Delhi Mumbai Industrial Corridor (DMIC), etc. added more impetus to the overall industrial growth. Good growth and increased demand from industries such as marine, fishery, infrastructure and mining are the strong parameters for the steel wire industry. As per EMR estimates, the global wire rope market is expected to grow at a CAGR of 3.4% during 2023-2028. The industry is propelled by the investments in oil & gas, marine and mining industries.

**Exhibit 04: Industrial Applications**

Industry	Applications
Aerospace	Used inside planes and rockets to control levers and pedals
Automotive	Used for raising windows and opening/closing sunroofs, tow trucks
Construction	To move heavy loads vertically and horizontally
Engineering	Reinforce structural strength in security fences, buildings and bridges
Food & Beverages	Conveyor belts enable the movement of products
Mining	Required in deep shaft mining
Oil and Gas	Used as drilling lines

Source: sswr.net/2020/06/16/wire-rope-uses-in-different-industries, Progressive Research

**About the Company:**

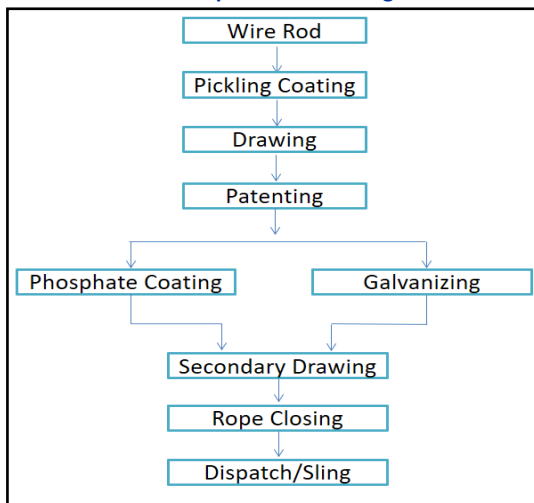
Incorporated in 1986, Bharat Wire Ropes Ltd (BWRL) is one of the largest manufacturers of steel wire ropes in India. It is into manufacturing steel wires, strands, slings and wire ropes with a wide range of varieties. The company manufactures different kind of metal wire ropes (ranging from 6mm to 92mm which are used in lifting equipment like cranes, elevators etc.) and steel wire (that ranges from 0.3mm to 5.5mm), wire rope assemblies and defence products. The wide range of products cater to 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. BWRL has a rich mix of clients ranging from overseas customers, private players, the entire Indian defence segment (Ministry of Defence, Indian Army, Indian Naval Force, Indian Air Force etc.), government, semi-government organizations (Indian Railways, Major Port Trusts, Electricity Boards, Shipping Corporations, ONGC, ISRO, Coal India Ltd and its subsidiaries, BHEL, BEML etc.) and even MNCs. The products are exported to over 50 countries not limited to Australia, Middle East, Nepal, New Zealand, UK, US, Singapore, South Africa, Vietnam. BWRL has 2 manufacturing plants, one in Atgaon, Maharashtra (6,000MTPA capacity) and the other in Chalisgaon, Maharashtra (66,000MTPA capacity). BWRL's products are approved by reputed agencies like Bureau of Indian Standards (BIS), American Bureau of Shipping, Research Designs & Standards Organization (RDSO), Central Organization Railway Electrification (CORE), Directorate General of Mines Safety (DGMS), Indian Register of Shipping (IRS), etc. The company is chaired by Mr. Sanjiv Swarup and has Mr. Murarilal Mittal as the Managing Director.

**Investment Rationale:**

**(A) Product Mix:** The company manufactures wire ropes (comprises of almost 95% of the product basket) that caters to varied sectors including but not limited to general engineering, fishing, elevators, cranes, material handling, power transmission, onshore/offshore oil exploration, ports, shipping, mining, railways etc.

**(i) Wire Ropes:** A wire rope consists of multiple strands that are laid in a symmetrical pattern around the central core (can be a steel rope/steel strand/non-steel material). The company provides wire ropes & strands through its facility in Chalisgaon. The length of the wire ropes & strands ranges from 6mm to 92mm. The company has the capability of manufacturing a single reel of upto 60MT. These wire ropes find applications across elevators, cranes, structural, fishing, oil & gas, shipping, mining and logging & forestry related applications, general purpose etc.

**Exhibit 05: Wire Rope Manufacturing Process**



Source: RHP, Progressive Research

**Exhibit 06: Industrial Applications**

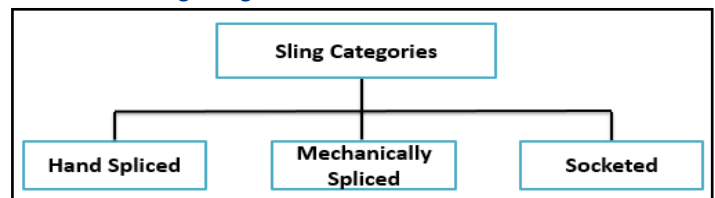
Industry	Applications
Elevators	drive wire rope, governor wire rope, hoist wire rope and redundancy based safety wire ropes
Cranes	telescopic mobile cranes, container handling gantry cranes, bulk unloader cranes
Structural	suspension bridge ropes, roof structure ropes, architectural footbridge ropes, glass walls
Fishing	ocean towing, ship mooring, ship crane ropes
Oil & Gas	offshore exploration drilling rigs, winches, cranes, oil & gas well servicing
Shipping	mooring, tug lines, deep sea towing, derrick cranes
Mining	hoist, balance, haulage, guide and conveyor, dragline & shovel wire ropes
General	passenger haulage, drill stays, freight stays, cross deck pendants and winch systems

Source: Company Website, Progressive Research

**(ii) Slings:** these are value added products of wire ropes and strands. They are components of the hoisting and rigging systems to lift and move loads. BWRL manufactures an assorted array of wire rope slings for hoisting, harness and fastening needs and is regarded as one of the leading names in the manufacturing of wire rope slings in India as well as around the world. **Hand Spliced Slings:** these are made by tucking/locking the wire rope strand under the other adjacent strand.

**Mechanically Spliced Slings:** these are fabricated using metal sleeve (aluminium ferrule/steel sleeve) which is slipped over the ends and pressed to secure the ends to the sling body. **Socketed Slings:** the individual wires of the strands are opened up to form a broom. This broom is inserted into the socket

**Exhibit 07: Sling Categories**

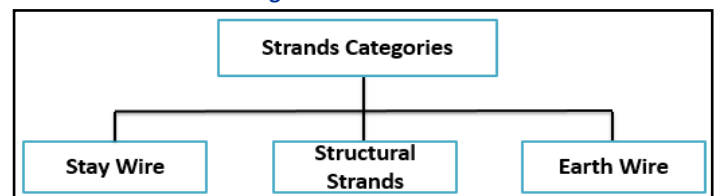


Source: Company Website, Progressive Research

**(iii) Strands:** these find applications in the electrical industry in the form of stay wires, pre-stretched varieties that are used for building small and large structures. **Stay Wires:** these high quality stay wires adhere to the international specifications. BWRL manufactures extensive range of galvanised stay wires generally used in tower structures, electric industry and power poles, transmission lines and railway track signals. **Structural Strands:** these are used for building of small and large structures. The superior quality strands are used for the building of bridges, roofs and other suspended structures. **Earth**

**Wire:** these are used as a medium to transfer the current leakage if any from the metallic body to the earth in order to prevent the shock. BWRL is a key manufacturer of earth wires that prevents the occurrence of electrical faults due to lightning. Composed of 3 to 7 strands; the earth wires prevent the occurrence of electrical faults by re-routing the current flow wherever required.

**Exhibit 08: Strands Categories**



Source: Company Website, Progressive Research

**(iv) Steel Wires: Galvanised Wires:** these are steel wires coated with zinc layer and are suitable for applications in marine locations where the wire is generally exposed to wet, damp and humid conditions. **Ungalvanised Wires:** these wires are not coated with zinc and are more suitable for fasteners, chain link, wire netting, agriculture, wire rope making, etc.

**Investment Rationale (contd.):**

**(B) Technological Advancement and Accreditations:**

Wire rope construction, the tensile strength, type of core and whether the rope is compacted or not makes a huge difference in determining the overall stringency, quality and safety. The entirety of the product portfolio in wire ropes is often subjected to rigorous testing at the quality testing labs. In order to maintain competitiveness both in terms of quality and price; the company has established an entire chain of process through machine procurement (for various procedures that is needed for wire rope manufacturing) from Steuler (pickling machine from Germany), patenting furnaces from South Korea, Lee & Lee (wire drawing machinery from South Korea), Excel Craft (stranding machines from Germany) and SKET (closing machines from Germany). Apart from this, the company also facilitates third-party inspection services from renowned agencies viz; Lloyds, DNV and American Bureau of Shipping (ABS) and it's been accredited by some of the most reputed agencies like the British Standard Institute (BIS) and ASQ National Accreditation Board (ANSI). BWRL has a well established supplier and distribution network panning across the world. With a technically qualified team of experts; the company is able to achieve the objective of zero defects and minimal rejection.

BWRL's **Chaligaon** plant has been accredited with ISO 9001, ISO 14001 and OHSAS 45001 certifications by TUV SUD South Asia Private Limited. Additionally, the plant has also received approvals from Lloyds Register and BIS. The BIS approvals confirms the ISI product markings to IS:2266, IS:2365, IS:4521, IS:1835 & IS:4454. BWRL has also received approval from PowerGrid Corporation of India Limited for manufacturing 7 strand G S earth-wire. As far as the **Atgaon** plant is concerned, the company has been accredited with ISO 9001 certification by TUV SUD South Asia Private Limited, CORE, RDSO, BIS (for ISI mark on products that confirms to IS:2266, IS: 9282 & IS: 12776) for various rope products. The plant has also received approval from PowerGrid for manufacturing 7 strands & 19 strands G S earth-wire. Thus, the company's overall focus has been to meet the stringent quality standards and thereby provide a customer centric approach.

**(C) Diversified Clientele Base:**

BWRL caters to a well diversified customer base of more than 500 large and medium size customers across the country. The rich mix of client ranges from overseas consumers, private players, the entire Indian defence segment and government and semi-government organizations. The company on an average receives repeat orders from ~95% of its customers. Providing services to a variety of clients as well as industries; reduces the intensity of being dependent on a single industry (mitigates concentration risk) for its revenue contribution and thus enables BWRL to be more versatile to handle diverse/heterogeneous enquiries.

**Exhibit 09: Pan India Customer Base**

Industry/Sector	Clientele
Oil & Gas	Oil and Natural Gas Corporation Ltd, The Great Eastern Shipping Company Ltd, GOL Offshore Ltd, Aban Offshore Ltd, Sundowner Offshore International, Arcadia Shipping
Mining	Coal India & Subsidiaries, Hindustan Zinc Ltd, Hindustan Copper Ltd, National Aluminium Company Ltd, Neyveli Lignite, Singareni Collieries. Andhra Pradesh Heavy Machineries & Engineering Ltd, Maheshwari Mining. Shutterlock (Pty) Ltd
Structural Ropes	Construction Catalysers Pvt. Ltd, Dolidar, Helvetas Nepal, Kerala Electrical and Allied Engineering Company Ltd, Mister Shade ME UAE
Cranes	Demag Cranes & Components (I) Private Ltd, WMI Kone Cranes India Ltd, Tata Steel Ltd, Bhushan Steel Ltd, Anupam Industries Ltd, Mukand Ltd, Gammon India Ltd, Bharat Oman Refineries Ltd, Furnace & Foundary Equipment Company
Marine, Ports & Fishing	Shipping Corporation of India Ltd., Nu Quip (Kzn) (Pty) Ltd (South Africa), Kolkata Port Trust, Chennai Port Trust, Cochin Port Trust, Mazgaon Dock Ltd, Mumbai Port Trust, Garden Reach Ship Builder, Dredging Corporation of India
Elevator	Kone Elevators India Private Ltd, Eskay Elevators (India) Private Ltd, Mashiba Elevators India Private Ltd, Kazi Elevator Company, Impel Elemech Company, City Lifts (India) Ltd
Power Transmission	Tata Projects Ltd, Kalpataru Power Transmission Ltd, KEC International Ltd, Gammon India Ltd, Larsen & Toubro Ltd, EMI Transmission Ltd, International Transmission Ltd, Aumni Transmission Industry (P) Ltd, Jyoti Structures Ltd, Gayatri Projects Ltd, Torrent Power Ltd. All Major Electrical State Boards, Power Grid Corporation of India Ltd
Railways	KEC International Ltd, Indian Railways, Larsen & Toubro Ltd, Tata Projects Ltd, Era Infra Engineering Ltd
Transportation	Maharashtra State Power Generation Co. Ltd, South Eastern Coalfields Ltd
Construction	J. Kumar Infraprojects Limited, Kamar Infrastructure Private Ltd, Gammon, Jyoti Structures, Larson & Toubro

Source: RHP, Progressive Research



**Investment Rationale (contd.):**

**(D) Supportive Industry Tailwinds:** The steel wire rope market is at a matured stage with limited number of players dominating the market. As reiterated earlier, steel wire ropes are put to use for lifting and hosting, commercial construction suspension bridges, industrial cranes, etc. Almost all the modern elevators use steel wire ropes for its operations. Therefore, ramp up in infrastructure and construction is a key growth driver. Apart from this, government initiatives of expanding infrastructure under various schemes such as Housing for All, AMRUT would also increase the demand for wire ropes in the future as this would provide an impetus to the construction and allied industries and consequently to the steel wire rope market. On the basis of value, the steel wire rope market bears a direct correlation with end user industry led growth as well as the capex being laid by the private and public participants in the market. Among the Indian counterparts, **BWRL garners the second position in the wire rope market.** The other major companies in India steel wire rope market are Aradhya Ropes and Slings Private Ltd, Asahi Ropes Private Ltd, Orion Ropes Private Ltd, Shree Steel Wire Ropes Ltd and Mahadev Industries. As per Astute Analytica, the global steel wire rope market is projected to grow to USD179.85bn by 2030 from the present USD100.76bn; CAGR of 10.81% during the forecast period 2022-2030. The main growth drivers are the increased construction activity in China and India as well as the replacement demand in mature markets such as the US and Europe. Being a highly fragmented market, the top 5 producers account for only 32% of the global production; wherein, POSCO (8.3%), JFE Steel Corporation (7.1%), Jiangsu Shagang Group (6.2%) and Jianglin Stainless Steel (4.4%) are the top 4 players.

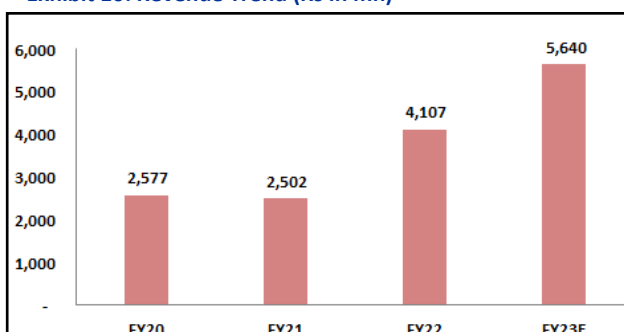
**(E) Bekaert Deal: Long Term Conviction Built:** In 2018, BWRL entered into a 5-year understanding and arrangement with Bridon Bekaert Ropes Group Ltd (part of the Bekaert Group) wherein the latter sourced ropes of various configurations from BWRL for their global requirements. Additionally, BWRL would also represent Bridon Bekaert Ropes Group (BBRG) in the Indian market for special ropes which are not present in its manufacturing range. BBRG is one of the largest and most reputed wire ropes manufacturers in the world. The benefits of the deal would be realized by both the parties in terms of increased business share and expertise exchange in the respective domain. Even after completion of 5 years of the agreement, the deal would continue to work as a contract manufacturing business for BWRL (wherein BWRL manufactures and BBRG sells it) which roughly contributes less than 5% of the overall topline.

**Financials:**

**(i) Raw Material Procurement:** The company's profitability is susceptible to the volatility in the raw material prices. Steel acts as the primary raw material. The company sources **wire rods** (the main component for drawing wire ropes) from Electrosteel Ltd, JSW Steel and JSPL. The contracts do not generally have any price escalation clauses. In order to mitigate the steel price volatility impact, BWRL has sufficient inventory in hand in the form of raw material and finished goods for ~2-3 months (reflected at the prevailing price trends). Also, since, the product offerings are related to engineering applications; the company doesn't face any major impact on its operations due to the fluctuations in steel prices.

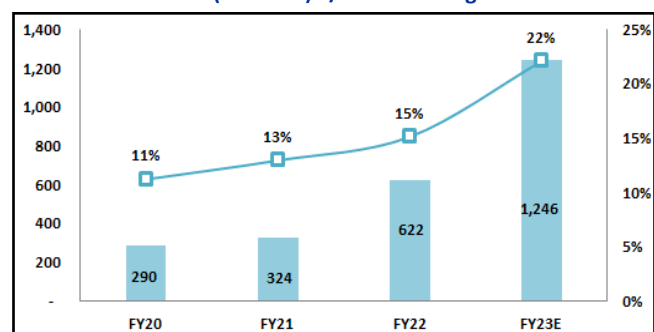
**(ii) Improved Operations:** Post the commencement of Chalisgaon plant in March 2018; BWRL's operation matrix has shown a significant improvement. For the period FY18-22, the overall revenue grew at a CAGR of ~25.6% from Rs1,648mn in FY18 to Rs4,106mn in FY22, well supported by volume and price increase. Generally the order book cycle is 3-4 months and since BWRL manufactures engineered products from steel, the company is in a position to pass on the entire increase in raw material prices (steel and zinc) to its customers in that span of 3-4 months. Uptick in steel industry as well as capex push from government and private players has led to improvement in demand outlook for FY21-FY23 period. For 9MFY23, BWRL has registered net sales of Rs4,267mn with operating profit of Rs781mn. As far as the combined capacity of both the plants put together is concerned, the same stands at 72,000MTPA as on date with a capacity utilisation of ~60% which can be further enhanced by 25% via debottlenecking costs of ~Rs100-150mn. This would also lead to improved operations at the company level in the near term. The management envisions the operational efficiency to further scale upto ~25% in the near term.

**Exhibit 10: Revenue Trend (Rs in mn)**



Source: Annual Reports, Progressive Research

**Exhibit 11: Ebitda (Rs in mn) v/s Ebitda Margins**

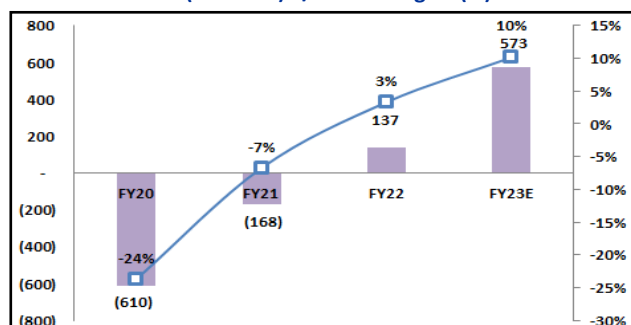


Source: Annual Reports, Progressive Research

**Financials (contd.):**

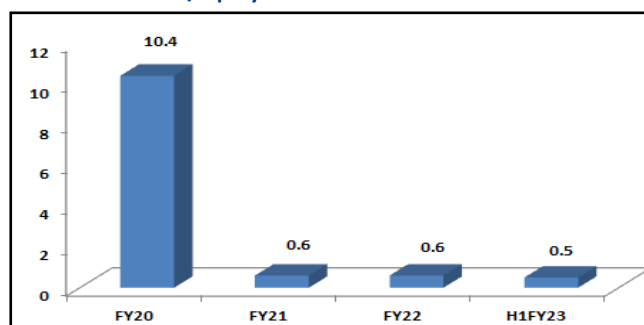
(iii) **Debt Restructuring Saga:** The company had initiated a greenfield capacity expansion plan at Chalisgaon (in 2014) for an approximate capex of Rs4,900mn funded by bank loans of Rs3,300mn, IPO proceeds of Rs700mn and the balance was bought in via internal accruals. Post the project commercialization in March 2018; the company faced difficulties in servicing the debt. On account of multiple defaults and in order to resolve the matter, in March 2021, BWRL alongwith the lending banks underwent a debt restructuring exercise through which the lenders have converted the unsustainable debt portion of Rs3,826mn into Compulsory Convertible Preference Shares (CCPS) at a coupon rate of 0.1% for a tenure of 20 years. These CCPS can be converted into equity shares any time after 13 years from the date of allotment; furthermore from 13-20 years from allotment date, 1/8th of the outstanding at the end of 12th year should be bought in by the promoters from the existing holders or converted into equity shares each year only after payment of the outstanding under the restructured loan only. The sustainable portion of debt considered for repayment is Rs2,250mn (to be repaid in 11.5 years' time span from FY21-32) bifurcated as Rs550mn working capital and balance Rs1,700mn as term loans. Of this Rs1,700mn, the company has already made an upfront payment of Rs250mn with further additional repayment of Rs150mn already executed. As on date, the sustainable portion of term loan stands at ~Rs1,300mn bearing a cost of debt at ~10.5%. Going forward, the company does not have any plans of debt-funded capex. However, BWRL is expected to avail additional working capital limits, in line with the resolution plan, to aid its incremental working capital requirement to increase its scale of operations. BWRL's debt coverage indicators remained weak during FY21 (at 0.3x) as company had implemented resolution plan on 31st March, 2021. However, in FY22 the same came in at 1.8x; while for 9MFY23, BWRL's ICR stood at 4.87x as against 2.40x in 9MFY22 (0.36x for 9MFY21 pre-restructuring). After the adoption of the restructuring plan in 2021, the company has been in a position to reduce the interest burden and thus invariably provide an uptick at the PAT levels in FY22 (post restructuring phase). Going forward, same is expected to show improvement with business stabilization and finance operations of the company.

**Exhibit 12: PAT (Rs in mn) v/s PAT Margins (%)**



Source: Annual Reports, Progressive Research

**Exhibit 13: Debt/Equity Ratio Trend**



Source: Q3FY23 PPT, Progressive Research

(iv) **Intensive Working Capital Requirements:** BWRL's operations are working capital intensive in nature. As per industry practice, BWRL opens LC for purchase of raw material and receives credit period of 15-30 days. The company generally maintains an inventory for 60-90 days whereas the collection period varies from 30-90 days, depending upon order book and expected demand from end customers. BWRL offers credit period of 30-60 days for government/semi-government clients, while 60 days to institutional clients in the domestic market. In the export market, BWRL operates on 2 models, (i) full payment once the order is placed and (ii) bifurcated as 50% advance payment while balance 50% once the goods reach the port.

(v) **Incentive Boosters:**

- **Package Scheme of Incentive (PSI) Mega Scheme:** In order to provide benefits to the less developed areas and encourage the industrial dispersion, the State Government in 1964 introduced Package Scheme of Incentives (PSI)/Industrial Promotion Subsidies in Maharashtra for new/expansion units to be set up in the developing regions of the state. Since then the scheme has seen amendments from time to time. In 2019, the State Government declared the New Industrial Policy-2019 in order to ensure sustained industrial growth. The incentives are in the form of power and interest subsidies, stamp duty and electricity duty exemption and subsidy on State GST paid. The new PSI scheme is said to be valid from 1st April 2019 up to 31st March 2024. For BWRL in specific, the Govt. of Maharashtra under the PSI scheme has granted an extension towards the incentive of sales tax deferral pursuant to which the sales tax attributable to the sales effected out of production for a period of 8 Years 9 Months from 01.05.2003 to 31.01.2012 is deferred (interest free). The deferred sales tax in this regard is based upon the sales tax returns. The amount for each year deferred is payable in 5 equal annual installments from FY15 to FY26. Post the utilisation of all the subsidies, the company would fall in the tax regime of ~25%.

### Financials (contd.):

- **Captive Power Consumption:** The company has entered into share purchase agreement and shareholders' agreement on 06th January, 2023 for an investment of Rs24.1mn constituting 26.72% (12,05,000 equity shares having FV of Rs10 each issued at premium of Rs9.99) in the paid up share capital of Mitcon Solar Alliance Ltd (MSAL). Post the acquisition, MSAL will become an associate of BWRL. MSAL is engaged in the business of power generation and sale. In order to comply with the regulatory requirement for captive power consumption under Indian electricity laws; the company will acquire and maintain 26.72% stake in MSAL throughout the term of the Power Supply Agreement, Share Purchase and Shareholders' Agreement. This is estimated to bring down the haphazard trend in power & fuel charges in the near term.

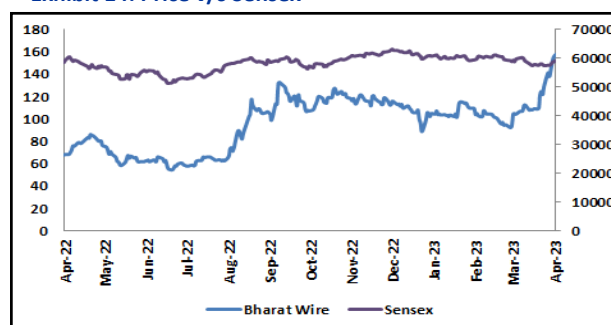
### Risks and Concerns:

- The company works in a **capital intensive industry** where profitability depends largely on the fixed costs in tandem to the sales volumes. These requirements if not met could impact the operations and financial position of the company
- **Raw material price fluctuations** would impact the company's performance. The company remains unaffected till the time there is a pass on to the customers possible
- Although there is **foreign currency fluctuation risk** (90% revenue contribution through exports), export sales are done by BWR Overseas Private Limited, the authorised dealers. Hence, risk of volatility in foreign exchange rates is partially mitigated
- Increasing competition across the industry
- The promoters has pledged shares accounting to ~44.62% as on date which were created purely for the purpose of restructuring and would continue to exist until the company clears off the debt burden from its books of accounts

### Outlook and Recommendations:

BWRL being an engineered product company caters to a wide array of products that serves the industrial applications. Wire rope is the primary product and constitutes almost 95% of the overall revenues for the company. The company's products are exported to over 50 countries (~90% of the overall revenues) and amongst the export destinations, Europe serves as the highest contributor at ~45%, while US stands at ~18-20%, South East Asia: ~15-20% and Middle East: ~15-20%. In the international market, the company executes orders entirely on the dealer distribution model whereas on the domestic side the same is catered via 3-4 well known OEMs. Considering the demand majorly from general engineering and shipping industry; the company intends to tap other geographies (apart from the existing ones) and thereby increase the share of value added products from the current contribution accounting for less than 5% to nearly 20% in the near term. The entire process of drawing a wire rope from the wire rod requires intensive technology and various regulatory accreditations which the company already has it all. In order to inch up further on the capacity utilisation at both the plants put together, the company would undertake a 25% debottlenecking which would require a maintenance capex of ~Rs100-150mn. This would lead to the much enhanced operations, increased volume capabilities and enhanced order book position (current order book stands at ~Rs2,000mn) for BWRL. After the entire debt restructuring saga that the company faced in the recent past, BWRL is in a position to generate profits, positive cash flows and improved ICR generations. Going forward, except for the general working capital requirements, the company doesn't have any additional debt funded capex plans. Overall, with government initiatives towards infrastructure as well as the capex laid by the private and the public participants fulfills the requirement of the construction and allied industries and consequently to the steel wire rope market thus providing the necessary push for players like BWRL. We thus initiate a Buy on the stock for a target price of Rs200 over a period of 12months.

Exhibit 14: Price v/s Sensex



Source: Ace Equity, Progressive Research

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