CHAIRMAN'S OVERVIEW

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

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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 2019-20, 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

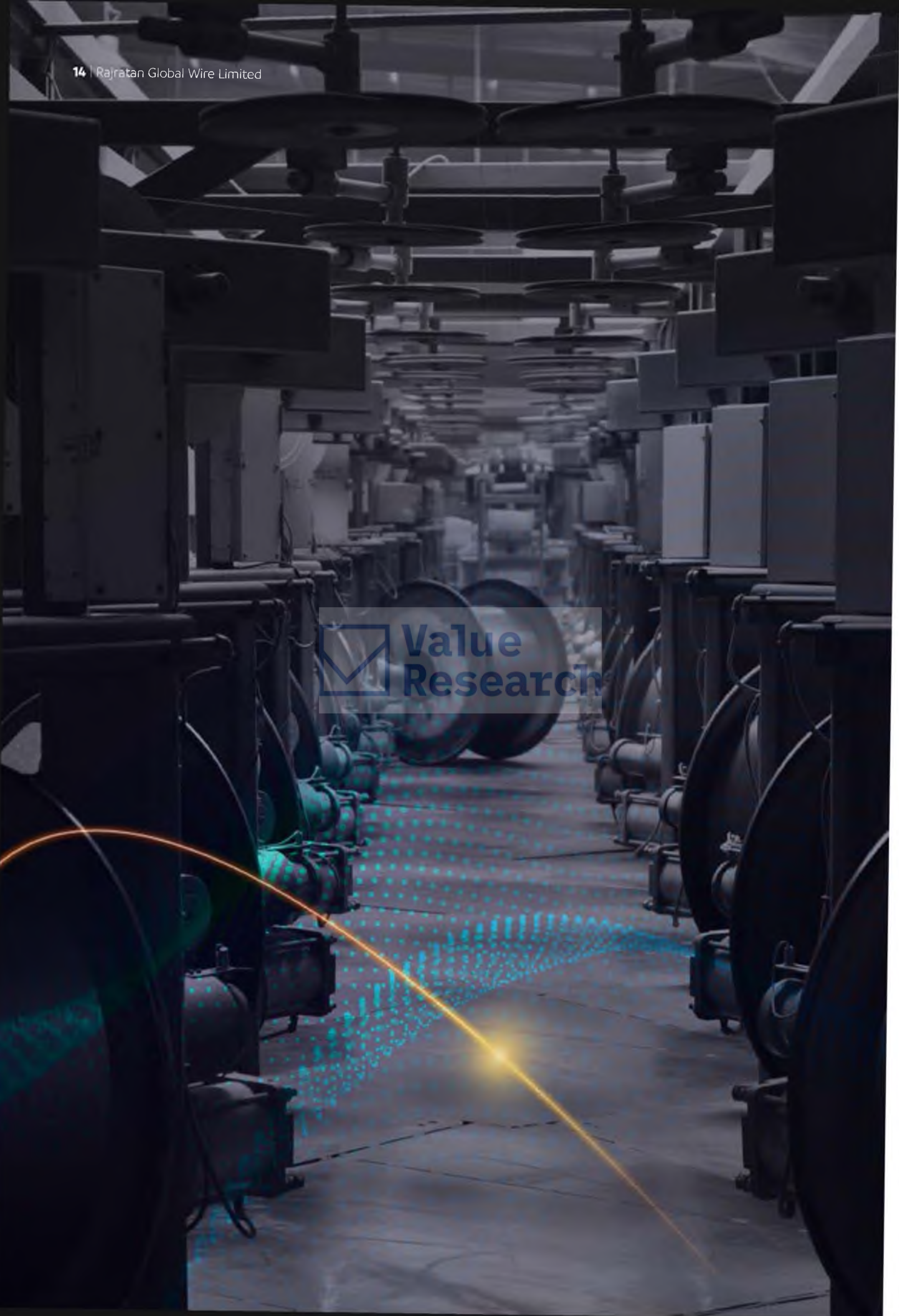
The sharp improvement in the health of the Indian tyre (and automobile) sector, starting from the second quarter, was the outcome of three structural shifts.

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