Management discussion and analysis

Review of the global economy

The global economy encountered one of its biggest challenges in 2020. Even as the global economy had been weakening for the previous two years, it was severely impacted by the outbreak of the Covid-19 pandemic starting from December 2019 and extending to a full-fledged global impact within the space of a couple months, the fastest such spread in recorded history.

As countries entered into various stages of lockdown, global trade and commerce declined and consumer sentiment was at a premium. The result is that the global economy de-grew at a rate of 3.5% compared to 2.9% growth recorded in 2019.

United States
The US economy de-grew 4.3% in 2020

Eurozone
Eurozone de-growth stood at 6.8% in 2020

United Kingdom
UK economic de-growth was estimated at around 9.8% in 2020

Emerging and developing Asia
Emerging and developing Asia de-grew 0.1% in 2020.

In 2020, the average price of Brent crude oil declined to USD 41.76 per barrel compared to USD 64.36 per barrel in 2019 (closing 2020 at USD 51.22 per barrel as against USD 67.77 per barrel on 31st December 2019).

(Source: Knoema, Countryeconomy, cnbc, icis)

Review of the Indian economy

According to the first advance estimate of World Bank, the Indian economy de-grew at a multi-year low of 8.5% in FY 2020-21, compared to a growth of 4.2% in FY 2019-20. The Indian economy de-grew 23.9% in the first quarter and 7.5% in the second quarter, while growing at 0.4% in the third quarter and estimated to grow at 2.5% in the fourth quarter.

This de-growth was the result of the complete lockdown that was announced in the last week of FY 2019-20 that extended into the first two months of FY 2020-21, the partial effects of which spilled over into the subsequent quarters. Even as there was a reasonable revival in consumer offtake across a number of fronts – realty and automobiles – the country's consumption engine continued to remain affected on account of a decline in incomes, consumer sentiment, propensity to save over spending and a willingness to downtrade.

India's nominal per capita net income was estimated at Rs. 1.27 lakhs compared with Rs. 1.35 lakhs in FY 2019-20. The slowdown and lockdown notwithstanding, India attracted USD 57 billion in Foreign Direct Investment in 2020 compared with $50.44 billion in 2019. Moreover, retail inflation declined from 5.91% in March 2020 to 5.52% in March 2021.

The gap between government expenditure and revenue was estimated at ~Rs. 12 trillion due to increased borrowings by the government in May 2020 to address the COVID-19 outbreak.

India jumped 14 places to 63 in the 2020 World Bank's Ease of Doing Business ranking and was the only country in the emerging market basket that received positive FPIs of USD 23.6 billion in 2020; the country ranked eighth among the world's top stock markets with a market capitalisation of USD 2.5 trillion in 2020.

The Indian government initiated structural reforms in agriculture, labour laws and medium-small enterprise segments. The labour reforms were intended to empower MSMEs increase employment, enhance labour productivity and wages.

The Government relaxed foreign direct investment (FDI) norms for sectors like defence, coal mining, contract manufacturing and single-brand retail trading.

The Union Cabinet approved the production-linked incentive (PLI) scheme for 10 sectors: pharmaceuticals, automobiles and auto components, telecom and networking products, advanced chemistry cell batteries, textile, food products, solar modules, white goods and specialty steel. These incentives could attract outsized investments, catalysing India's growth journey.

India's foreign exchange reserves continued to be in record setting mode – FY 2020-21 saw USD 101.5 billion dollars accretion in reserves, the steepest rise in foreign exchange reserves in any financial year; India's forex reserves were ranked third after Japan and China and can cover more than a year's import payments.

(Source: World Bank, NSO, Financial Express, Business Standard)

Outlook

The World Bank has projected the Indian economy to grow by 8.3% in FY2021-22, making it one of the fastest-growing major economies once again.

Global tyre industry overview

The global automotive tyre market was pegged at USD 112.16 billion in 2019. Moreover, global demand for tyres was estimated at 3,378.96 million units in 2020, registering a CAGR of ~4% between 2016 and 2020. This growth is expected to have been catalysed by the increasing demand for agricultural vehicle tyres in agrarian economies, projected recovery of the construction industry, growing demand for commercial vehicle tyres, increased government focus on smart transportation and investments in BRT systems and rising vehicle density, among other factors. The Asia-Pacific region accounted for >55% of demand due to technological advancements and key R&D investments by key market players. *(Source: Globe News Wire, Expert Market Research, PR News Wire)*

Outlook

The global automotive tyre market size is projected to reach a value of USD 154.4 billion by 2027, growing at a CAGR of ~4.1% between 2020 and 2027. Also, the demand for same is estimated to grow at the same rate between 2021-26 and reach a volume of 4111.02 million units by 2026.

Indian tyre industry overview

The year under review proved challenging for the Indian tyre industry due to a de-growth in the automotive sector during the year under review, the global economic slowdown and impact of the pandemic. The Indian tyre market reached a consumption of 177 million units and is estimated to have reached a value of ~USD 9- 9.5 billion in 2020. It was the fourth largest market for tyres after China, Europe and the United States. The domestic tyre demand was estimated to have de-grown by 4-6% in volume in FY 2020-21, lower than the growth rates of 5.5% and 4-6% in FY19 and FY 2019-20 respectively. Decline in vehicle production, rising cost of vehicle ownership, decreased rural demand, muted consumer sentiment and the economic slowdown were major factors responsible for the slowdown. The OE tyre demand stood at 33% of the replacement tyre demand in the Indian tyre market during the year under review.

The primary end-user segment of tyres, the Indian automobile industry, witnessed a growth of 6.71% CAGR during FY13-19 with 26.27 million vehicles sold whereas domestic automobile production increased at a CAGR of 6.96% during the same period. However, this growth halted since FY 2019-20, primarily due to the major issue of migration to the BS-VI, muted consumer sentiment due to the economic de-growth and effects of the outbreak of the novel coronavirus. Due to the impending effects of these factors, vehicle manufacturers in India sold 1,74,69,152 units in 2020 compared to 2,30,73,328 units in 2019, a de-growth of 24.29% - the lowest in nearly a decade.

However, demand for tyres, particularly from the farm and commercial sector was hardly affected mainly due to the productive monsoon season, which strengthened the rural economy. Increasing demand for two-wheelers

Thailand: The new centre of the tyre universe

- Accounts for ~37% of the world's raw rubber supply
- Largest rubber exporter in the world
- Produces almost every category of tyre
- Expansion of capacities by international tyre manufacturers
- Rising investments by international players
- The tyre market is projected to cross $5.6 billion mark by 2022
- The Thai government has plans to encourage an increase in tyre production from 5,30,000 tonnes per year to more than a million tonnes in the next couple of years
- The world's tenth largest tyre maker (and China's largest) Hagzhou Zhongce Rubber has built a new facility in Thailand, as did Linglong Tyre and Double Coin
- Thailand's government-operated Board of Investment announced it would be investing USD 100 million to build a major automotive tyre testing facility
- Most of the major global tyre players such as Bridgestone, Michelin, Sumitomo, Yokohama, Goodyear, etc., operate their production facilities in Thailand

(Source: www.tractionnews.com and www.techsciresearch.com) and tractors from the rural and semi-urban areas proved to be the saving grace for the Indian tyre industry during this challenging environment. The imposition of strict regulations on tyre imports by the government was seen as a welcome move by domestic tyre manufacturers. (Source: ICRA, Economic Times, Business Standard, Times of India, mobility foresights, Financial Express, Expert Market Research, SIAM)

Outlook

The Indian tyre market is projected to reach a consumption volume of 218 million units by 2026, growing at a CAGR of 3.6% between 2020 and 2026. The market could be driven by increased radialisation, especially in trucks and buses. The government's focus on infrastructural development is projected to drive the demand for automobile sales; the government's emphasis on incorporating electrical vehicles in the public transport system is expected to increase the demand for automobiles.

Favourable government initiatives

- Production-linked incentives (PLI) worth Rs. 57,042 crores were announced for the automobile and auto components sector, accounting for ~30% of the overall PLI outlay
- The government introduced the much-awaited scrappage policy for clearing out old and worn-out vehicles and is bound to catalyse the demand for automobiles over the foreseeable future
- The government has announced an outlay of Rs. 18,000 crores for public buses, which, in turn, could drive the demand for tyres
- The government proposed an outlay of Rs. 2,217 crores for reducing pollution in 42 urban centres, which could be used to increase awareness about electric vehicles
- The government imposed customs duty on certain auto parts to promote domestic manufacture, which would lead to increased value addition and localisation
- The government announced capital investments of Rs. 5.54 trillion for infrastructural development, which could catalyse automobile offtake
- Fame India Scheme II: The Government of India approved the Fame India Scheme II with an outlay of Rs. 10,000 crores for a period of 3 years starting from 1st April 2019. Out of total budgetary support, about 86% of fund has been allocated for Demand Incentive to create demand for EVs in the country. The second phase of the scheme aims to generate demand by supporting 7,000 e-buses, 5 lakhs e-three wheelers, 55,000 e-four wheeler passenger cars (including strong hybrid) and 10 lakhs e-2 wheelers.
- National automotive testing and R&D infrastructure project (NATRIP): The project had been set up at a total cost of USD 573 Mn in order to enable the industry to adopt and implement global performance standards. The aim of the project is to converge India's unparalleled strengths in IT and electronics with the automotive engineering sectors. This is also expected to result in the growth of the tyre sector in the country.

(Source: MakeinIndia, Heavyindustry.gov.in)

Opportunities

- India is expected to emerge as the world's third largest passenger vehicle market by 2026.
- The electric vehicle segment is expected to grow rapidly with estimated annual sales in India of 6.34 million units by 2027.
- Production Linked Incentives (PLI) worth Rs. 57,000 crores were proposed by the Central Government for the automotive sector, which could strengthen prospects for the end product and components (including tyres).
- A proposed 'green tax' on polluting cars and the implementation of a Vehicle Scrapping Policy could accelerate vehicle replacements.
- An increase is expected in exports by Indian tyre companies.
- The pandemic increased a priority for personal mobility modes, strengthening vehicle offtake

Threats

- Due to the capital-intensive and technology-intensive nature of the tyre industry, the entry of new entrants in tyre manufacture may be muted, affecting bead wire prospects
- Automobile pollution could shift commuters towards metro, monorails and trains, affecting vehicle use (and tyre offtake).
- Natural rubber (more than 33% cost of tyres) could remain volatile, affecting tyre sector viability
- The second surge of the pandemic could affect tyre offtake

Growth drivers

Infrastructural development: A significant growth has been witnessed in the construction of roads and highways over the past few years. Introduction of smart cities and highways is expected to act as a catalyst for the increase in demand for truck tyres.

Electric vehicles: The Government approved the FAME-II scheme with a fund requirement of Rs. 10,000 crores for FY20-22. Under this, they plan on introducing electrical vehicles into the public transport system, driving the demand for tyres.

Policy boost: Government initiatives like 'Make in India', 'NEMMP 2020' and 'Automotive Mission Plan 2026 are projected to strengthen prospects of the automobile sector.

FDI inflows: The total FDI equity inflow in the automobile sector stands at USD 25,395.47 million for the time spanning April 2000 to December 2020. This constitutes 4.87% of the total FDI inflow received across all sectors during this time.

Coronavirus pandemic: The Coronavirus outbreak hurt businesses, which could strengthen demand once its impact wanes.

Company review

Rajratan is one of the largest manufacturers of bead wire in India. The company's operations are spread across Pithampur (India) and Ratchaburi (Thailand). The company possessed an aggregate production capacity of 1,12,000 TPA at the close of FY 2020-21. The company's outperformance was the result of a contrarian strategic commitment: When most companies decided to downsize, Rajratan selected to expand capacity in its Indian plant. Rajratan also commissioned a new coating line to enhance capacity utilisation.

The company's success was achieved through a responsiveness to global and Indian market trends

- There was a challenging downtrend in the global bead wire business. The expansion in the Indian facility was completed in FY 2019-20 while the Thailand operations are at the cusp of an attractive production increase coupled with prospective capacity expansion thereafter.

- There is a need for a superior quality of bead wire in the world. Rajratan's manufacturing and quality-centric teams are driven by a priority to minimise process deviations, deliver the product right the first time and eliminate customer complaints. Manufacturing efficiency and volume in the Thailand plant strengthened during the year.

- There was an apprehension of bead wire realisations declining sharper than the decline in raw material costs, squeezing manufacturing margins. In India, the company strengthened its competitiveness by doubling manufacturing capacity (effective November 2019) and commissioning the world's largest bead wire coating line. In Thailand, the company focused on strengthening specific quality-critical processes. Manufacturing efficiency increased and the Thailand operations experienced a stock-out without compromising realisations.

- The bead wire manufacturer with the strongest customer relationships, lowest costs and superior quality will endure. The company strengthened projects to enhance quality, moderate costs and enhance market responsiveness. Rajratan's volumes increased even as the Indian automotive sector reported its most sluggish growth in years.

- In a global economic and automotive sector slowdown, bead wire companies with large debt on their Balance Sheets could be affected. The company generated 35% of its expansion outlay from accruals and 32.68% from government subsidies (to be received across seven years), de-risking the expansion. Rajratan's revenues and margins grew in FY 2020-21.

- There is a greater premium on being present in the right global geography. Rajratan has selected to manufacture bead wire out of India and Thailand, two of the most promising global locations based on a long-term demand outlook. Thailand enjoys attractive raw material availability for the manufacture of tyres. The company is the only bead wire manufacturer in Thailand; a proposed expansion could service additional demand.

Risk management

Raw material risk

Challenge: Rising prices and shortage in the availability of raw materials poses a risk to the company.

Mitigation: The Company has been working with select raw material suppliers. The Company has been able to offer these suppliers the advantage of significant purchase volumes in return for volume-based discounts. Besides, the company has been able to leverage the power of its brand to pass cost increases to customers.

Quality risk

Challenge: Inconsistent quality could lead to customer attrition.

Mitigation: The Company strengthened its quality management through the infusion of superior manufacturing technologies, moderating wire breakage and enhancing adhesion value.

Debt risk

Challenge: A high cost of debt could affect the viability of the business.

Mitigation: The Company funded nearly 35% of the doubling of its capacity (Indian operations) through accruals whereas the borrowed funds were sourced at an average rate of 8%, strengthening the viability of the project. The company's robust interest cover was a validation of its liquidity.

Customer relationship risk

Challenge: A break in customer engagement could translate into a revenue setback.

Mitigation: The Company's business model is based around customer-centricity and works closely with the technical teams of customer companies, customising its bead wire around their precise requirements. Besides, the company strengthened its service standards comprising on-time and in-full delivery, strengthening its customer relationship. The Company has not lost a single major customer in the last 5 years and derived 83% of its revenues from customers associated with the Company for five years or more.

Capital cost risk

Challenge: Fresh investments in the manufacture of bead wire could take an extended period to break even.

Mitigation: The Company has been engaged in bead wire manufacture for more than 25 years. The result is that its infrastructure and equipment was acquired at legacy costs, a long-term competitive advantage. This has empowered the company to enhance capacity at a cost lower than the prevailing greenfield average, a competitive moat that has restricted industry entrants. The Company's capacity doubling in India was carried out at 60% of the cost of commissioning a greenfield bead wire unit.

Product approval risk

Challenge: Product approvals by major tyre companies are usually lengthy, which can affect the profitability of the business in the interim.

Mitigation: The Company enjoys approvals (first-time and repeat) from prominent and prestigious tyre companies of India and Thailand, translating into a multi-year relationship.

Financial performance

Revenues: Revenue in FY 2020-21 at Rs. 54,654 lakhs increased by 14% compared to Rs. 48,021 lakhs in FY 2019-20.

Interest and finance costs: Inspite of increase in turnover by 14%, there is no increase in finance cost due to efficient working capital management.

Profit after tax: The Company registered a profit after tax of Rs. 5,313 lakhs in FY 2020-21 compared to Rs. 3,304 lakhs in the previous year.

Key numbers

Particulars	Standalone			Consolidated			Reason for Change
	FY 2020-21	FY 2019-20	Change in %	FY 2020-21	FY 2019-20	Change in %	
Debtors Turnover	4.54	4.67	-2.81	5.46	6.18	-11.65	–
Inventory Turnover	10.66	9.32	14.43	9.12	8.93	2.08	–
Interest coverage Ratio	6.23	4.59	35.73	5.95	4.26	39.58	Increased operating earnings
Current Ratio	1.88	1.39	34.55	1.28	0.97	31.43	Increased liquid assets
Debt Equity Ratio	0.46	0.59	-21.25	0.64	0.86	-25.69	Increase in shareholders' equity
Operating Profit Margin Ratio %	18.73	16.52	13.37	17.15	14.41	19.04	-
Net Profit margin % or sector specific equivalent Ratio as applicable	10.96	8.07	35.71	9.72	6.88	41.29	Reduction in finance cost and tax rates
Return on Net worth (%)	20.41	15.71	29.92	23.86	20.41	16.87	Better financial strength

Internal control systems and their adequacy

The Company's internal audit system has been continuously monitored and updated to ensure that assets are safeguarded, established regulations are complied with and pending issues are addressed promptly. The audit committee reviews reports presented by the internal auditors on a routine basis. The committee makes note of the audit observations and takes corrective actions, wherever necessary. It maintains constant dialogue with statutory and internal auditors to ensure that internal control systems are operating effectively.

Human resources

The Company believes that the quality of the employees is key to its success and is committed to equip them with skills, enabling them to seamlessly evolve with ongoing technological advancements. During the year, the Company organised training programmes in different areas such as technical skills, behavioural skills, business excellence, general management, advanced management, leadership skills, customer orientation, safety, values and code of conduct. The Company's employee strength stood at 600 as on 31st March 2021.

Cautionary statement

The management discussion and analysis report containing your Company's objectives, projections, estimates and expectation may constitute certain statements, which are forward looking within the meaning of applicable laws and regulations. The statements in this management discussion and analysis report could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operation include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in the governmental regulations, tax regimes, forex markets, economic developments within India and the countries with which the Company conducts business and other incidental factors.