7TH JULY 2023

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

DP WIRES LTD

WHAT WE LIKE

BENEFICIARY OF THE CAPEX BOOM

The company supplies Steel wires & Plastic films.

Some stats:

- **80%** of the demand for steel consumption came from Govt. the capital consumption drive in FY23
- Govt. Capex is expected to grow by **37%** in FY24.
- Approved supplier of the railways, Metro & Bullet train projects where the capex is expected to be the highest.

MARQUE CLIENTELE

Despite having a market cap of only 700 Crs, It has been able to win orders from big players like Hindalco Industries Ltd (Aditya Birla Group), Reliance Industries Ltd., Gannon Dunkerley & Co. Ltd., Larsen & Toubro Ltd., Navyuga Engg Co. Ltd., U.P. State Bridge Corporation Ltd., Vascon Engineers Limited and many more which is a testament of company's product quality.

STRATEGIC LOCATION ADVANTAGE

The company's plant is located centrally which allows it to

- Cater to northern & southern markets coupled with proximity to Delhi & Mumbai
- Centrally in Ratlam- Madhya Pradesh
- Export to Bangladesh & UAE through ports

This ensures lower costs, lower turnaround time & higher addressable market size.

DIVERSIFIED CUSTOMER BASE

It caters to a customer base of around 150-200 in a diversified end-user industry base which includes construction, infrastructure, auto sector (2-wheeler & 4-wheeler), oil and power industries, etc. which helps in reducing the risk of a slowdown in a particular sector and achieve higher growth.

STRONG COMPETITIVE POSITION

- The company is one of the only 3 suppliers in the LRPC strand wire market due to the product being specialized in nature.
- Further, the company's plant is completely backward integrated (except for sourcing raw materials).
- This makes it the preferred supplier for any new construction or railways-related projects.

THE STRONG HISTORICAL PERFORMANCE LED BY OTHER TRIGGERS

- ROCE & ROE of **30%** & **21%** in FY23.
- Wire capacity **3X** & plastic capacity **2X** in the last 5 years
- Debt/equity ~ **0.01**
- The company further increased its capacity in FY23 in light of higher demand from Govt capex programs (it has enough land area to do further brownfield capex at lower cost) & even exported the 1st batch of LRPC to the USA and Brazil markets.
- In light of all these events, one final trigger came when we discovered that the promoter has increased its shareholding from **70.8%** to **74.8%** in the Q4FY23 which can be a strong indication of good times in the coming year.

WHAT WE DON'T LIKE

RAW MATERIAL PRICE FLUCTUATION RISKS

Since The principal raw materials used for manufacturing steel wires and plastic sheets are steel billets and polyethylene propylene granules which are highly cyclical in nature.

FOREX FLUCTUATION RISKS

The company imports raw materials for steel wires from China and Japan, plastics from the United Arab Emirates, and other Middle East countries that are generally priced in foreign currency.

LACK OF PREDICTABLE REVENUE STREAM

The company's revenue comes from build-on-order basis contracts with no long-term contracts with its customers. Therefore, its revenue growth is highly correlated to the incremental projects/Capex taken by its customers.

LACK OF BARGAINING POWERS VS THE SUPPLIERS

Raw material is supplied by Reliance Industries Limited, JSW Steel Ltd., Mittal Corp Ltd., and Tata Steel Ltd. Since these firms are much larger than the company, it is likely that the company won't be able to procure the materials at a cheaper rate Vs any of its competitor.

HIGH COMPETITION

Some of the company's products are more commoditized in Nature facing competition from larger players like Tata Steel Limited (Wires Division), and Usha Martin (Wire Division).

NEAR-TERM MARGIN PRESSURE

The company's venturing into Trading HDPE has led to a significant decrease in margins from historical levels of 6-7% to 4%.Although this has led to Higher ROCE owing to a decrease in working capital employed, the quality of this revenue can be a major risk as it contributed majorly to the overall revenue growth of FY23. (Note: The figures below exclude unallocated expenses)

Segment	Revenue G%	Operating Margins		% of sales mix	
		2022	2023	2022	2023
Wires	12.3%	21.4%	18.5%	84%	47%
Plastics	-38.4%	14.2%	21.3%	2%	1%
Trading	618.4%	5.8%	2.8%	14%	52%
Overall	98.3%	19.0%	10.4%	100%	100%

LACK OF BARRIERS TO ENTRY

The steel wires manufacturing industry is highly fragmented with the presence of many small, medium, and large players due to limited entry barriers such as low capex and technology requirements.

LACK OF PRICING POWER

The company also caters to small regional buyers in price-sensitive markets, thus restricting premium pricing despite being an organized player.