

## FIBERWEB

# The Strange Case of Fiberweb

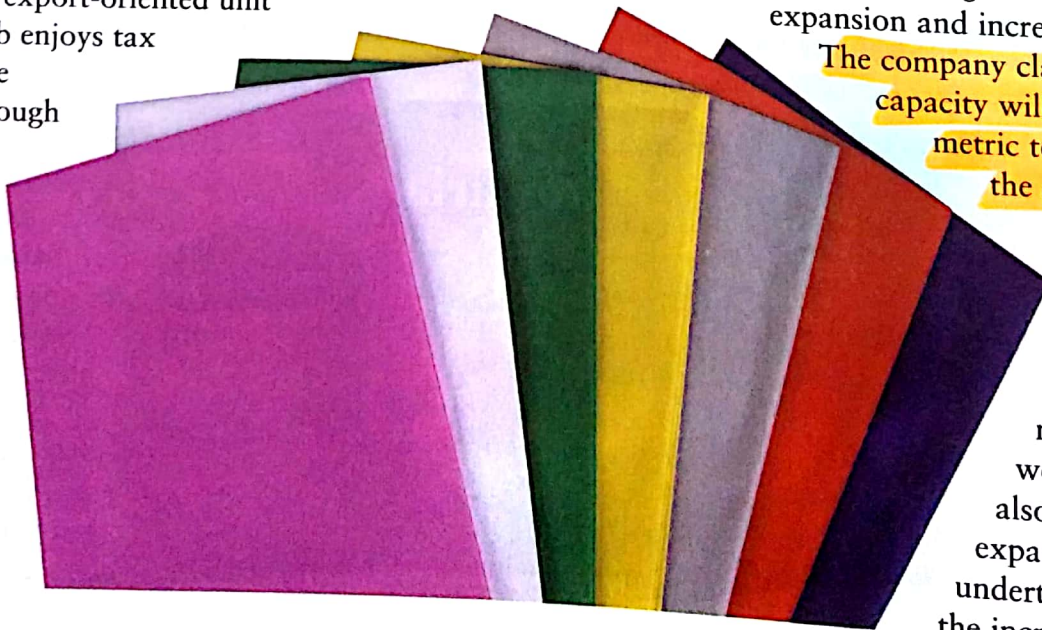
Established in 1985, Fiberweb is a 100% export-oriented spunbond non-woven fabric manufacturer. Once declared a sick unit by the Board for Industrial and Financial Reconstruction (BIFR), it has come out of the purview of BIFR and gained Star Export House status. Being an export-oriented unit (EOU), Fiberweb enjoys tax benefits from the government. Though the company is a 100% EOU, during a recent analysts' call, the management said 30% of its sales were domestic and 70% were from exports.

Fiberweb manufactures spunbond non-woven fabrics from polypropylene used in the hygiene industry, agriculture crop cover, soil cover, medical and industrial clothing and many other products like bags, pillow ticks and covers, bed-covers, curtains, tablecloth, garment interlining, etc. It also manufactures and exports garbage bags and carrier bags.

The company bagged an export order of Rs20.8 crore (US\$4.16 million) from the US in June 2017. The current order book stands at Rs126.52 crore.

In May 2017, the management announced an expansion and increase in capacity.

The company claims its production capacity will go up to 15,000 metric tonnes (MT), from the current 5,000MT, plus 2,500MT leased capacity by FY17-18. A plant of 2,000MT capacity for the melt blown non-woven product will also be set up. This expansion has been undertaken to cater for the increasing export orders

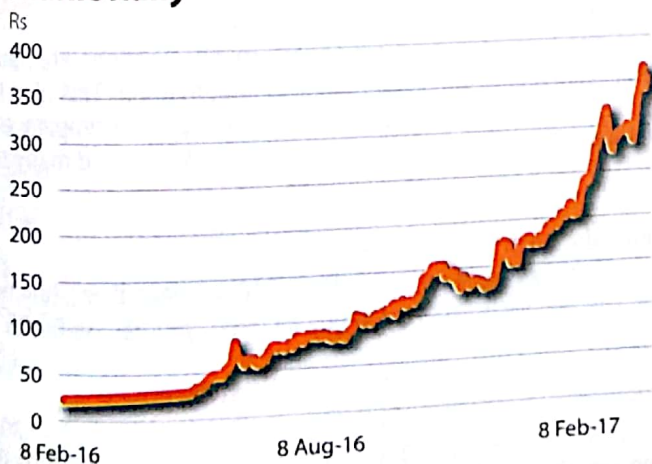


from the US. The company claims to be supplying to the US through the buying agent Lowes, which supplies to Wal-Mart, Home Depot and other stores. Fiberweb claims that it will now also be exploring the UK, Europe, Australia, New Zealand and South African markets, where it wasn't able to meet demand because of capacity constraints.

There are many red flags about the company. While it holds investor conferences to announce quarterly results, it rarely discloses any useful information. For instance, while it claims it has many clients in USA, it has repeatedly refused to name the clients, or mentioned how much sales can be expected from new clients. A recent interaction with analysts is given above.

It is perplexing why a company cannot name its clients when it claiming it is adding additional capacity to meet increasing demand. The new capacity of 2,000MT for the melt blown products is expected to fetch a revenue of Rs50 crore. The total expansion is

### Manic Rally



Abhinav G.:

Okay. And the way you said that domestic clients like Johnson & Johnson, so can you just name a few of the U.S. clients, from which we are getting our business?

Pravin Sheth:

That is something which we are unable. But I will tell you one thing that one of our biggest client is lowest who supplies to the Wal-Mart but furthermore, I will not be able to tell the name of the client because that is something like a trade secret which you will appreciate that we would not like because there are other competitors also. So, better we avoid that.

Krishna Jonnalagadda:

Okay. Is there any international clients added like Johnson & Johnson this quarter?

Pravin Sheth:

Sorry.

Krishna Jonnalagadda:

Is there any international clients added this quarter?

Pravin Sheth:

Yes. In USA, we have added about 7 - 8 clients.

Krishna Jonnalagadda:

Good. What is the revenue expectations from these clients?

Pravin Sheth:

See, these are the clients which are actually we are supply them the trading material from not our own production, our own production our clients we are even not able to supply them the requirement.

expected to bring an incremental revenue of about Rs170 crore, according to the management.

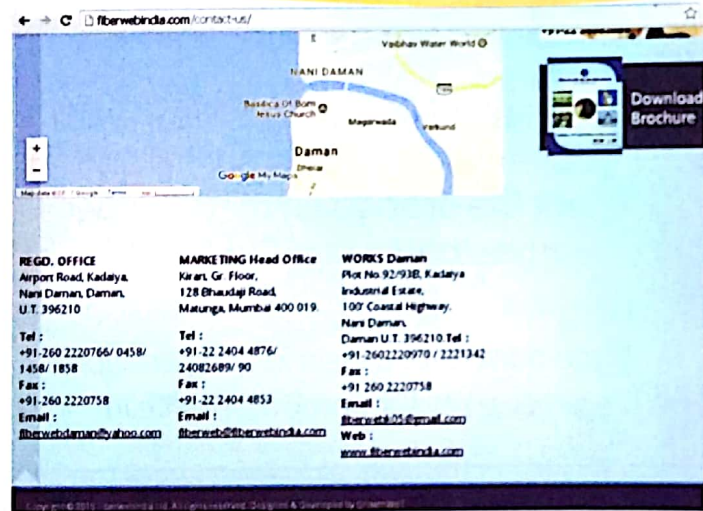
In the March 2017 quarter, the sales increased 138% y-o-y (year-on-year) from Rs18 crore in the March 2016 quarter to Rs42 crore in the March 2017 quarter. In the June 2017 quarter the sales increased 149% y-o-y from Rs13 crore in the June 2016 quarter to

Rs32 crore in the June 2017 quarter. Profit increased 50% y-o-y from Rs3.4 crore in the March 2016 quarter to Rs5.2 crore in the March 2017 quarter. Profit increased 102% y-o-y from Rs2.32 crore in the June 2016 quarter to Rs4.68 crore in the June 2017 quarter. The company attributed the growth in top-line to the new Dubai subsidiary for trading, Sheth Nonwovens, and higher contribution from the value added products.

Despite making a profit before tax, the company is not paying any taxes. The company made a profit before tax of Rs7.65 crore in the June 2017 quarter. However, it paid no tax for the quarter. The expenses increased 352% y-o-y from Rs10 crore in the June 2016 quarter to Rs46 crore in the June 2017 quarter. The reason for such drastice increase in expenses is not known. Employee costs constitute only 2% of the total expenses. This is unheard of. In fact, employee expenses fell 2% y-o-y for the June 2017 quarter and e manufacturing expenses, which constituted 6% of the total expenses, fell 23% y-o-y. This is no sign of a company on a strong growth path. The tremendous increase—of 512% y-o-y in the raw materials cost in the June 2017 quarter—is very intriguing. During the analyst conference call, the management attributed the increase to the trading activity undertaken in UAE which was not there in the previous quarter and the increase in raw materials prices. The website of the company claims that the main raw material,

polypropylene, is imported from 'world-class renowned producer Exxonmobil Co. USA'. The company has also no finance costs in the June 2017 quarter.

In FY15-16, the company had a negative net worth of Rs60.05 crore which got transformed to a positive net worth of Rs73.74 crore in FY16-17. The company repaid all its long-term borrowings and the borrowings became



NIL in FY16-17 from Rs103.56 crore in FY15-16. The sudden turnaround of the company is drawing attention to it. During the analyst conference call, the management said it expects the revenue to grow 20% to 25% in FY17-18 and profit to grow 25%-30%.

**Reducing Promoter Stake**

What has raised eyebrows is the decrease in promoter shareholding which has fallen from 66.16% in the September 2016 quarter to 56.64% in the June 2017 quarter. On being questioned about this, the management gave a vague response.

A few questions bother us about the company and its past. Fiberweb was earlier called PVD Plast Mould Industries Ltd. As per www.watchoutinvestor.com, PVD Plast Mould did not submit promoter shareholding for the December 2009 quarter to the Bombay Stock Exchange. During the analyst conference call recently, the management said it was

**Prateek Gandhi:**

Okay. The last question, sir I was just looking at the shareholding pattern, is there some promoter selling going on?

**Pravin Sheth:**

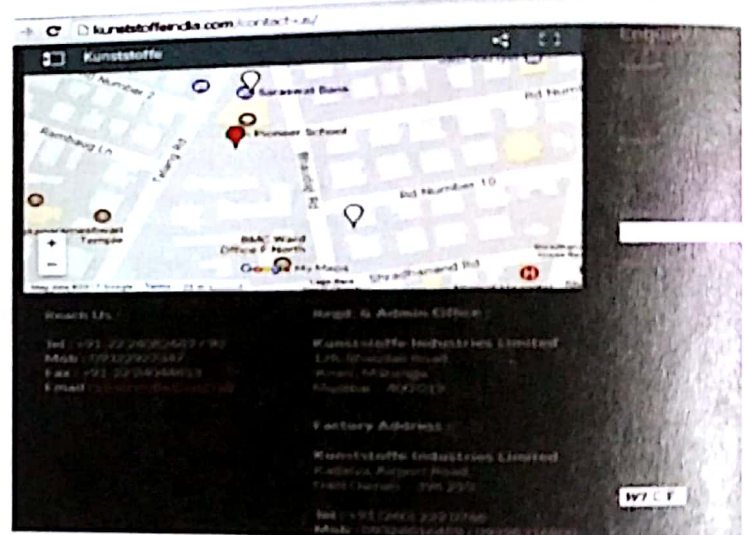
You should see the promoters holding only from my family point of view. If you compare the promoters holding which was there in the year 2013 and 2017 it has doubled actually because of the fresh buying or taking of the share has increased. Now the other people whom the shares are given they are termed as acting in concert with the promoters. But they are just because they were given the preferential shares that is why they are acting in concern and plus there is strategic investor. Now, we do not have control over them. But in totality, our shareholding much better than what it was earlier.

looking to list on the National Stock Exchange soon.

**Fiberweb and Kunststoffe Connection**

Moneylife published an article "Unquoted: Kunststoffe Industries" (issue

dated 26 December 2013), where we wrote about the share price of Kunststoffe Industries zooming 251% in six months, but regulators couldn't care less about the



facts staring in their face. Kunststoffe Industries is supposedly into 'polymer processing' and has a plant

**June 2017 Quarter**

Fiberweb (India)	Shareholding %	Kunststoffe Industries	Shareholding %
Bhavesh P Sheth	3.11	Bhavesh P Sheth	0.04
Unnati Pravin Sheth	10.14	Unnati Pravin Sheth	3.95
Pravin V Sheth	22.27	Pravin V Sheth	12.7
Soniya Pravin Sheth	0.02	Soniya Pravin Sheth	4.47
Gayatri Pipes And Fittings Private Limited	16.8	Gayatri Pipes And Fittings Private Limited	9.43

## STOCK WATCH

in Daman. In 2007, it was declared sick by the BIFR. Earlier, in 2006, it had been issued a demand notice by Mumbai Debts Recovery Tribunal to pay over Rs1 crore to Bank of Baroda. A draft rehabilitation scheme was prepared, which was not cleared, according to the company's 2012 annual report. It had also not complied with reporting on shareholding pattern norms since December 2008. Yet, it continues to be listed, with poor fundamentals.

On probing, we noticed the address of the offices of Fiberweb and Kunststoffe are the same. These screenshots of the addresses on the websites of both the companies are given on page 46. What is worth noting

is the factory and commercial addresses for both the companies are the same.

The promoters of the two companies are also the same, in a few cases as per the promoter shareholding on the shareholding structure on the Bombay Stock Exchange website. The common promoters of the two companies are given on page 46.

The Fiberweb stock has been on a tear since February 2016. It moved from around Rs20 on 8 February 2016 to a high of over Rs364 in March 2017. It has cooled off a bit and is quoting at around Rs300 now. We have sent a questionnaire to the management but have not heard from them. ■