

Garware Wall Ropes

Performance Highlights

Quarterly Data

(₹cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq
Revenue	232	214	8.5	225	3.3
EBITDA	40	26	50.9	31	29.4
Margin (%)	17.2	12.4	483bp	13.7	347bp
Adj. PAT	26	15	69.2	20	31.6

Source: Company, Angel Research

Garware Wall Ropes (GWRL)' 2QFY2017 results outperformed our estimates on the bottom-line front, while the top-line was in line with our estimates. On the operating front, the company reported margin improvement, primarily on account of lower raw material costs and other expenditures. Further, on the bottom-line front, the company reported strong growth on account of a favorable operating performance.

Top-line grew by ~9%: The company's top-line grew by ~9% yoy to ₹232cr (estimated ₹230cr). Healthy growth in revenue was mainly due to growth of 11% yoy in the Synthetic cordage segment to ₹195cr. However, Fibre & Industrial products segment reported de-growth of ~8% yoy to ₹36cr. Further, the company has seen strong growth in fisheries and aquaculture business, during the quarter.

Strong operating performance boosts profitability: On the operating front, the company reported margin improvement (up by 483bp yoy to 17.2%), primarily on account of decline in raw material costs and other expenditures, during the quarter. The reported net profit grew by ~69% yoy to ₹26cr on account of the strong operating performance.

Outlook and valuation: Going ahead, we expect GWRL to report a healthy top-line in anticipation of strong domestic as well as export sales. On the domestic front, we expect demand to pick up with an expected growth in the agriculture and fisheries segments in the country. Further, we expect the company to continue reporting strong numbers on back of higher demand for aquaculture and sports products globally and also with the company tapping new geographies. Hence, **we recommend an Accumulate rating on the stock with a target price of ₹618.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	784	828	873	938
% chg	14.0	5.5	5.5	7.5
Net profit	43	62	77	82
% chg	61.5	43.7	24.3	6.6
EBITDA margin (%)	10.4	12.7	14.3	14.3
EPS (₹)	19.7	28.3	35.1	37.5
P/E (x)	28.0	19.4	15.6	14.7
P/BV (x)	3.8	3.3	2.7	2.3
RoE (%)	13.8	16.8	17.5	15.9
RoCE (%)	19.3	23.2	24.0	22.4
EV/Sales (x)	1.6	1.4	1.3	1.2
EV/EBITDA (x)	15.1	10.8	9.0	8.3

Source: Company, Angel Research, Note: CMP as of November 15, 2016

ACCUMULATE

CMP	₹550
Target Price	₹618

Investment Period	12 months
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Stock Info

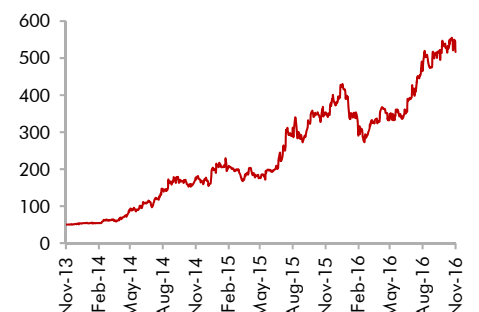
Sector	Textiles
Market Cap (₹ cr)	1,305
Net Debt (₹ cr)	(62)
Beta	1.0
52 Week High / Low	567/270
Avg. Daily Volume	4,637
Face Value (₹)	10
BSE Sensex	26,305
Nifty	8,108
Reuters Code	GRWL.BO
Bloomberg Code	GWWR@IN

Shareholding Pattern (%)

Promoters	50.6
MF / Banks / Indian FIs	6.1
FII / NRIs / OCBs	4.1
Indian Public / Others	39.2

Abs. (%)	3m	1yr	3yr
Sensex	9.7	50.7	919.2
GWRL	33.3	59.9	30.9

3-year price chart



Source: Company, Angel Research

Amarjeet S Maurya

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

Exhibit 1: Quarterly performance

Y/E March (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq	1HFY17	1HFY16	% chg
Net Sales	232	214	8.5	225	3.3	458	454	0.9
Consumption of RM	86	83	3.4	88	(2.4)	173.3	197	(12.0)
(% of Sales)	36.8	38.6		39.0		37.9	43.4	
Staff Costs	26	22	19.6	26	(0.1)	52	45	16.9
(% of Sales)	11.3	10.2		11.7		11.5	9.9	
Operating Expense	81	83	(2.9)	80	0.6	161	159	1.0
(% of Sales)	34.7	38.8		35.7		35.2	35.1	
Total Expenditure	193	188	2.5	194	(0.9)	387	401	(3.6)
Operating Profit	40	26	50.9	31	29.4	71	52	35.1
OPM (%)	17.2	12.4	483bp	13.7	347bp	15.5	11.6	
Interest	2	2	(23.8)	1	10.9	3	4	(21.8)
Depreciation	4	3	8.6	3	1.4	7	6	8.9
Other Income	3.3	0.3	882.4	2.5	35.2	6	1	453.3
PBT	38	21	78.0	28	34.3	67	43	54.4
(% of Sales)	16.4	10.0		12.6		14.5	9.5	
Provision for Taxation	12	6	100.2	9	40.4	21	13	58.5
(% of PBT)	31.8	28.3		30.4		31.2	30.4	
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	26	15	69.2	19.8	31.6	46	30	52.6
PATM (%)	11.2	7.2		8.8		10.0	6.6	

Source: Company, Angel Research

Top-line grew by ~9%

The company's top-line grew by ~9% yoy to ₹232cr (estimated ₹230cr). Healthy growth in revenue was mainly due to growth of 11% yoy in the Synthetic cordage segment to ₹195cr. However, Fibre & Industrial products segment reported de-growth of ~8% yoy to ₹36cr. Further, the company has seen strong growth in fisheries and aquaculture business, during the quarter.

Exhibit 2: Top-line growth trend

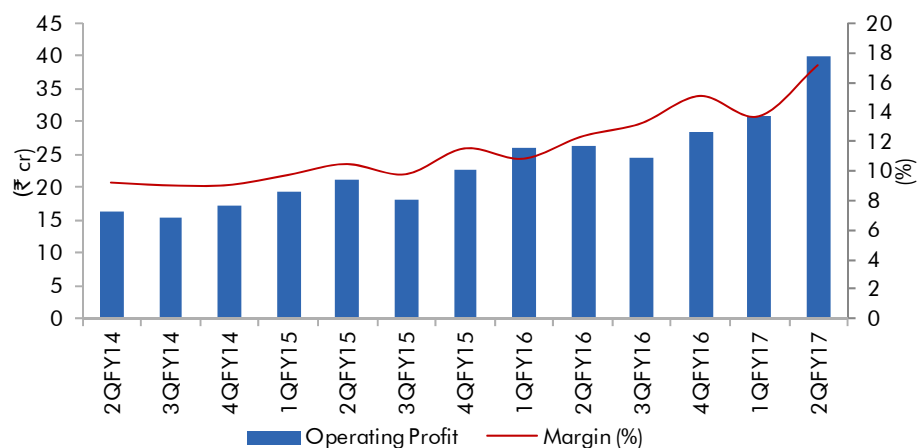


Source: Company, Angel Research

Operating margin expansion due to falling material prices

On the operating front, the company reported margin improvement (up by 483bp yoy to 17.2%), primarily on account of decline in raw material costs and other expenditures, during the quarter.

Exhibit 3: Operating profit and margin trend

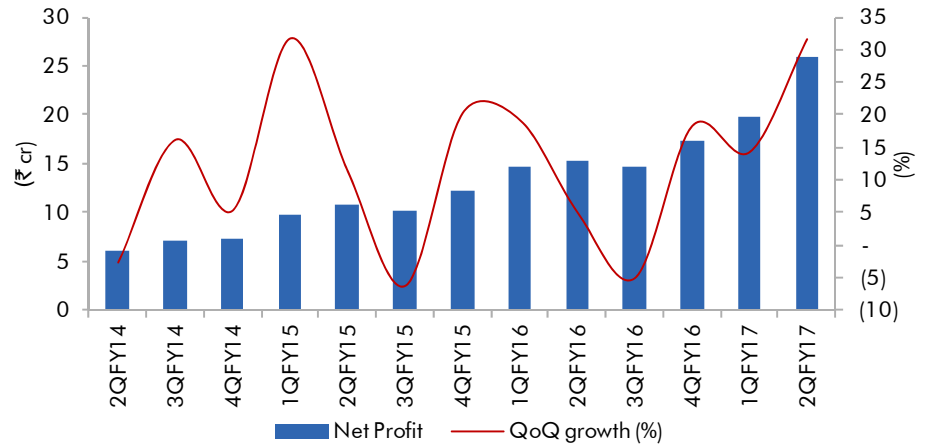


Source: Company, Angel Research

PAT grew by ~69% yoy

The reported net profit grew by ~69% yoy to ₹26cr on account of the strong operating performance.

Exhibit 4: Net Profit and growth trend



Source: Company, Angel Research

Investment rationale

Higher exports to accelerate top-line growth

We expect GWRL to report a healthy top-line CAGR of ~7% over FY2016-18E on back of higher growth in exports. Over the last seven years, the company has reported a CAGR of ~16% in export sales to ₹412cr (for FY2016). The percentage of exports to total sales has increased from 32.5% to 50% over the same period. Exports predominately comprise of fishing and aquaculture offerings and of sports goods. Going forward, we expect the company to continue to report strong numbers on the export front on back of higher demand for aquaculture and sports products globally. The company has export presence in 72 countries, mainly in the US, Canada and across Europe. It is now planning to strengthen its presence in Africa through agricultural offerings. Thus, we expect the company to post export sales CAGR of ~7% over FY2016-18E. The Management is targeting to increase export business' contribution to about 65% of turnover in the next couple of years.

Lower raw material prices and higher export contribution to enhance margins

In the last six years, despite of volatility in raw material prices, the company has maintained its operating margin in the range of 10-11%. In FY2016, the company witnessed an improvement in its operating margin by 235bp. Going forward, we believe that the company would be able to increase its margins owing to (a) easing raw material prices including that of high density polyethylene, polyethylene, nylon etc. which are crude based raw materials, and (b) higher contribution of exports which is a high margin business.

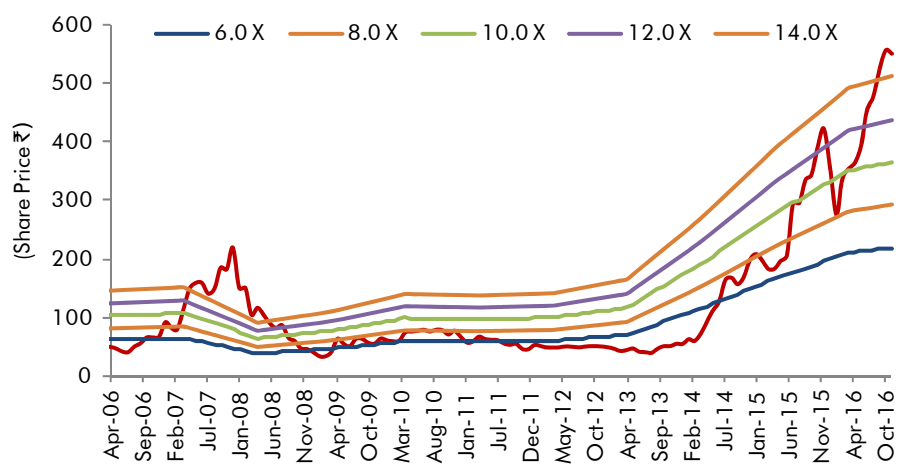
Continuous debt repayment and improving return ratios

The company is continuously generating higher cash flows, which has resulted in debt reduction and improvement in its ROE. The company has been consistently repaying debt over the past five years, resulting in debt having come down from ~₹140cr in FY2012 to ₹30cr in FY2016. Going forward, we believe the company will continue repaying debt with strong cash flows, which in turn will lead to reduction in interest cost (interest cost has reduced from ~₹17cr in FY2012 to ~₹9cr in FY2016). A lower interest expense in turn will lead to higher profitability for the company. Further, the company's ROE has improved from 9.6% in FY2012 to 16.8% in FY2016.

Outlook and valuation

Going ahead, we expect GWRL to report a healthy top-line in anticipation of strong domestic as well as export sales. On the domestic front, we expect demand to pick up with an expected growth in the agriculture and fisheries segments in the country. Further, we expect the company to continue reporting strong numbers on back of higher demand for aquaculture and sports products globally and also with the company tapping new geographies. **Hence, we recommend an Accumulate rating on the stock with a target price of ₹618.**

Exhibit 5: One-year forward P/E band



Source: Company, Angel Research

Company Background

Garware Wall Ropes Ltd (GWRL) is an ISO 9001:2008 certified company. Established in 1976, the company is a leading player in technical textiles, specializing in providing customized solutions to the cordage and infrastructure industry worldwide. The company is a global player and known for its innovation in the field of fisheries, aquaculture, shipping, sports, agriculture, coated fabrics and geosynthetics. GWRL's products are manufactured in its state-of-art facilities at Wai and Pune (both in Maharashtra, India) and are marketed in more than 75 countries worldwide.

Profit & Loss Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Total operating income	604	688	784	828	873	938
% chg	4.0	13.9	14.0	5.5	5.5	7.5
Total Expenditure	541	622	703	722	748	804
Cost of Materials	263	316	363	343	387	414
Personnel Expenses	81	64	84	93	100	109
Others Expenses	197	242	255	286	262	282
EBITDA	63	65	81	105	125	134
% chg	(1.1)	3.9	24.6	29.6	18.4	7.5
(% of Net Sales)	10.4	9.5	10.4	12.7	14.3	14.3
Depreciation & Amortisation	16	14	12	13	14	15
EBIT	47	51	69	92	110	119
% chg	(2.2)	9.4	35.5	33.9	19.6	7.8
(% of Net Sales)	7.7	7.4	8.8	11.2	12.6	12.7
Interest & other Charges	14	13	10	9	6	4
Other Income	1	1	2	3	7	4
(% of PBT)	4.1	2.6	3.0	4.0	6.3	3.4
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	33	39	61	87	111	119
% chg	4.2	17.0	54.9	43.9	28.0	6.6
Prior Period & Extraord. Exps./ (Inc.)	-	-	-	-	-	-
PBT (reported)	33	39	61	87	111	119
Tax	9	12	17	25	35	37
(% of PBT)	26.1	31.8	28.9	28.9	31.0	31.0
PAT (reported)	25	27	43	62	77	82
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	25	27	43	62	77	82
ADJ. PAT	25	27	43	62	77	82
% chg	2.7	8.1	61.5	43.7	24.3	6.6
(% of Net Sales)	4.1	3.9	5.5	7.5	8.8	8.7
Basic EPS (₹)	11.3	12.2	19.7	28.3	35.1	37.5
Fully Diluted EPS (₹)	11.3	12.2	19.7	28.3	35.1	37.5
% chg	2.7	8.1	61.5	43.7	24.3	6.6

Balance Sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	24	22	22	22	22	22
Reserves & Surplus	243	254	291	347	418	494
Shareholders Funds	267	276	313	369	440	516
Minority Interest	-	-	-	-	-	-
Total Loans	110	71	45	30	20	15
Deferred Tax Liability	19	21	21	21	21	21
Total Liabilities	397	368	379	420	481	552
APPLICATION OF FUNDS						
Gross Block	339	351	371	391	411	431
Less: Acc. Depreciation	185	198	211	224	238	253
Net Block	154	153	160	167	173	178
Capital Work-in-Progress	0	7	7	7	7	7
Investments	9	9	9	9	9	9
Current Assets	399	430	519	615	679	749
Inventories	122	127	137	127	139	149
Sundry Debtors	140	143	182	199	215	231
Cash	20	9	11	83	92	101
Loans & Advances	104	138	175	191	207	235
Other Assets	13	13	13	15	26	33
Current liabilities	167	232	318	380	389	392
Net Current Assets	232	198	201	235	291	357
Deferred Tax Asset	1	1	1	1	1	1
Total Assets	397	368	379	420	481	552

Cashflow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	33	39	61	87	111	119
Depreciation	16	14	12	13	14	15
Change in Working Capital	(21)	19	(1)	38	(46)	(58)
Interest / Dividend (Net)	13	15	10	9	6	4
Direct taxes paid	(8)	(5)	(17)	(25)	(35)	(37)
Others	(0)	-	-	-	-	-
Cash Flow from Operations	34	82	64	121	51	44
(Inc.)/ Dec. in Fixed Assets	1	(20)	(20)	(20)	(20)	(20)
(Inc.)/ Dec. in Investments	(0)	(0)	0	-	-	-
Cash Flow from Investing	2	(20)	(20)	(20)	(20)	(20)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(17)	(51)	(27)	(15)	(10)	(5)
Dividend Paid (Incl. Tax)	(7)	(7)	(6)	(6)	(6)	(6)
Interest / Dividend (Net)	(15)	(16)	(10)	(9)	(6)	(4)
Cash Flow from Financing	(39)	(74)	(43)	(29)	(22)	(15)
Inc./ (Dec.) in Cash	(3)	(11)	2	72	9	9
Opening Cash balances	24	20	9	11	83	92
Closing Cash balances	20	9	11	83	92	101

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	48.8	45.1	28.0	19.4	15.6	14.7
P/CEPS	29.4	29.3	21.7	16.0	13.2	12.4
P/BV	4.5	4.4	3.8	3.3	2.7	2.3
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5	0.5
EV/Sales	2.1	1.8	1.6	1.4	1.3	1.2
EV/EBITDA	20.4	19.2	15.1	10.8	9.0	8.3
EV / Total Assets	2.3	2.1	1.8	1.4	1.3	1.2
Per Share Data (₹)						
EPS (Basic & fully diluted)	11.3	12.2	19.7	28.3	35.1	37.5
EPS (Adjusted)	11.3	12.2	19.7	28.3	35.1	37.5
Cash EPS	18.7	18.8	25.3	34.3	41.7	44.4
DPS	2.7	2.7	2.7	2.7	2.7	2.7
Book Value	122.1	126.1	143.0	168.6	201.0	235.8
Returns (%)						
ROCE	12.3	14.7	19.3	23.2	24.0	22.4
Angel ROIC (Pre-tax)	13.4	15.5	20.4	30.1	30.8	28.3
ROE	9.2	9.7	13.8	16.8	17.5	15.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	2.0	2.1	2.1	2.1	2.2
Inventory / Sales (days)	74	67	64	56	58	58
Receivables (days)	85	76	85	88	90	90
Payables (days)	35	34	36	37	35	34
WC cycle (ex-cash) (days)	124	109	113	107	113	114

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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Disclosure of Interest Statement

Garware Wall Ropes

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)