

Garware Wall Ropes

Performance Highlights

Quarterly Data

(₹cr)	3QFY17	3QFY16	% yoy	2QFY17	% qoq
Revenue	195	186	4.9	232	(16.2)
EBITDA	30	25	20.2	40	(26.1)
Margin (%)	15.2	13.2	193bp	17.2	(202bp)
Adj. PAT	18	15	22.4	26	(31.3)

Source: Company, Angel Research

For 3QFY2017 Garware Wall Ropes (GWRL) posted results which 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 other expenditures. Further, on the bottom-line front, the company reported strong growth on account of a favorable operating performance.

Top-line grew by ~5%: The company's top-line grew by ~5% yoy to ₹195cr mainly due to growth of 6% yoy in the Synthetic cordage segment to ₹165cr. However, Fibre & Industrial products segment reported de-growth of ~4% yoy to ₹33cr. Further, the company has seen strong growth in fisheries and aquaculture business during the quarter.

Profitability boosted by strong operating performance: On the operating front, the company reported margin improvement (up 193bp yoy to 15.2%), primarily on account of decline in other expenditures during the quarter. The reported net profit grew by ~22% yoy to ₹18cr 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 the back of higher demand for aquaculture and sports products globally coupled with with the company tapping new geographies. Hence, we recommend a Buy rating on the stock with a target price of ₹710.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	784	828	863	928
% chg	14.0	5.5	4.3	7.6
Net profit	43	62	80	86
% chg	61.5	43.7	28.7	8.4
EBITDA margin (%)	10.4	12.7	15.1	15.2
EPS (₹)	19.7	28.3	36.4	39.4
P/E (x)	31.2	21.7	16.9	15.6
P/BV (x)	4.3	3.6	3.0	2.6
RoE (%)	13.8	16.8	18.0	16.5
RoCE (%)	19.3	23.2	24.9	23.3
EV/Sales (x)	1.7	1.5	1.4	1.3
EV/EBITDA (x)	16.8	12.2	9.5	8.6

Source: Company, Angel Research, Note: CMP as of February 15, 2017

BUY

CMP	₹614
Target Price	₹710

Investment Period	12 months
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Stock Info

Sector	Textiles
Market Cap (₹ cr)	1,432
Net Debt (₹ cr)	-62
Beta	1.0
52 Week High / Low	650/270
Avg. Daily Volume	3,310
Face Value (₹)	10
BSE Sensex	28,156
Nifty	8,725
Reuters Code	GRWL.BO
Bloomberg Code	GWWR@IN

Shareholding Pattern (%)

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

Abs. (%)	3m	1yr	3yr
Sensex	7.0	19.5	37.6
GWRL	9.8	89.9	998.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

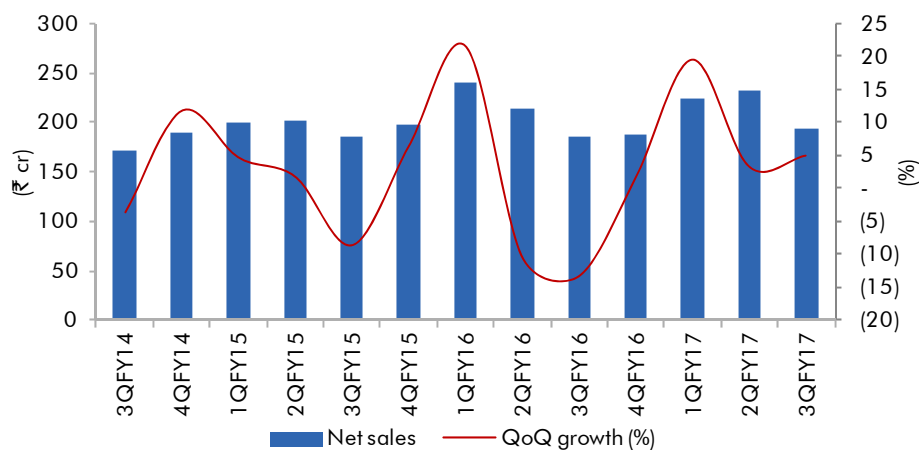
Y/E March (₹ cr)	3QFY17	3QFY16	% yoy	2QFY17	% qoq	9MFY17	9MFY16	% chg
Net Sales	195	186	4.9	232	(16.2)	652	639	2.0
Consumption of RM	77	71	8.3	86	(10.3)	250	268	(6.6)
(% of Sales)	39.4	38.2		36.8		38.3	41.9	
Staff Costs	26	23	11.6	26	(1.9)	78	68	15.1
(% of Sales)	13.2	12.4		11.3		12.0	10.6	
Operating Expense	63	67	(6.6)	81	(22.3)	224	227	(1.2)
(% of Sales)	32.2	36.2		34.7		34.3	35.4	
Total Expenditure	165	161	2.6	193	(14.2)	552	562	(1.8)
Operating Profit	30	25	20.2	40	(26.1)	100	77	30.4
OPM (%)	15.2	13.2		17.2		15.4	12.0	
Interest	1	3	(48.6)	2	(11.7)	5	7	(32.8)
Depreciation	4	3	8.9	4	0.9	11	10	9.0
Other Income	1.4	1.2	18.3	3.3	(57.5)	7	2	219.9
PBT	26	20	31.8	38	(31.9)	93	63	47.3
(% of Sales)	13.3	10.6		16.4		14.2	9.8	
Provision for Taxation	8	5	58.6	12	(33.3)	29	18	58.6
(% of PBT)	31.2	25.9		31.8		31.2	29.0	
Minority Interest								
Reported PAT	18	15	22.4	26	(31.3)	64	45	42.7
PATM (%)	9.2	7.9		11.2		9.8	7.0	

Source: Company, Angel Research

Top-line grew by ~5%

The company's top-line grew by ~5% yoy to ₹195cr mainly due to growth of 6% yoy in the Synthetic cordage segment to ₹165cr. However, Fibre & Industrial products segment reported de-growth of ~4% yoy to ₹33cr. Further, the company has seen strong growth in fisheries and aquaculture business during the quarter.

Exhibit 2: Top-line growth trend

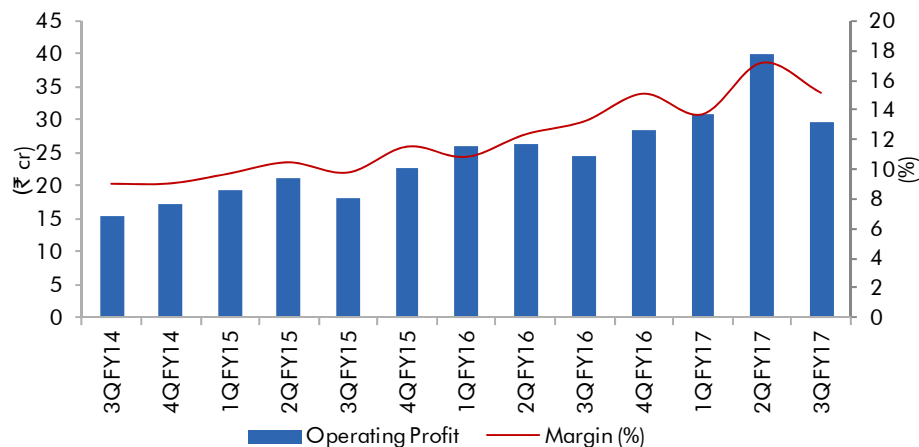


Source: Company, Angel Research

Lower other expenditure drives operating margin expansion

On the operating front, the company reported margin improvement (up 193bp yoy to 15.2%), primarily on account of decline in other expenditures, during the quarter.

Exhibit 3: Operating profit and margin trend

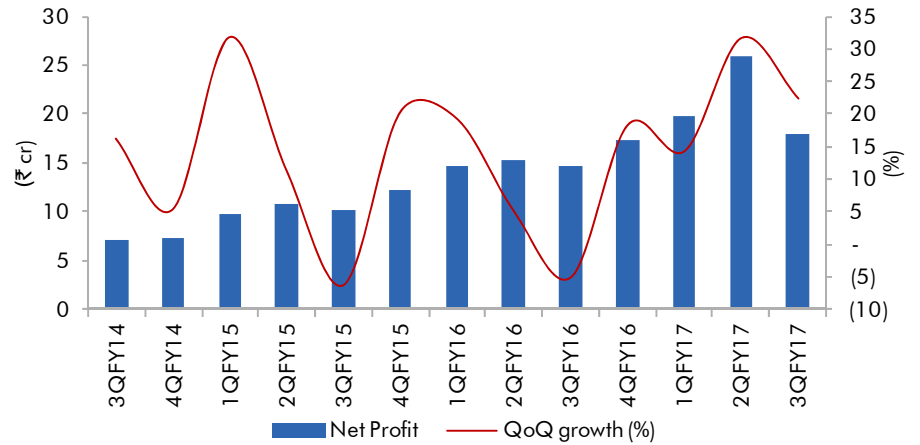


Source: Company, Angel Research

PAT grew by ~22% yoy

The reported net profit grew by ~22% yoy to ₹18cr 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 ~6% 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 the 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 ~6% over FY2016-18E. The Management is targeting to increase contribution of export business 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 the 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, nylon, etc., which are crude based raw materials, and (b) higher contribution from exports, which is a high margin business.

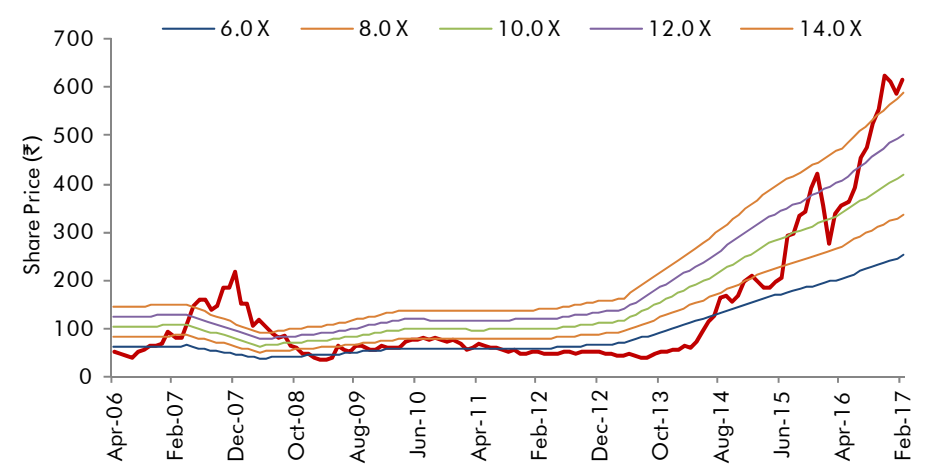
Continuous debt repayment and improving return ratios

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 the back of higher demand for aquaculture and sports products globally coupled with the company tapping new geographies. **Hence, we recommend a Buy rating on the stock with a target price of ₹710.**

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	863	928
% chg	4.0	13.9	14.0	5.5	4.3	7.6
Total Expenditure	541	622	703	722	733	787
Cost of Materials	263	316	363	343	336	367
Personnel Expenses	81	64	84	93	104	114
Others Expenses	197	242	255	286	293	306
EBITDA	63	65	81	105	130	141
% chg	(1.1)	3.9	24.6	29.6	23.6	8.3
(% of Net Sales)	10.4	9.5	10.4	12.7	15.1	15.2
Depreciation & Amortisation	16	14	12	13	15	16
EBIT	47	51	69	92	115	125
% chg	(2.2)	9.4	35.5	33.9	24.6	8.7
(% of Net Sales)	7.7	7.4	8.8	11.2	13.3	13.5
Interest & other Charges	14	13	10	9	6	4
Other Income	1	1	2	3	8	6
(% of PBT)	4.1	2.6	3.0	4.0	6.8	4.7
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	33	39	61	87	117	127
% chg	4.2	17.0	54.9	43.9	34.5	8.4
Prior Period & Extraord. Exps./ (Inc.)	-	-	-	-	-	-
PBT (reported)	33	39	61	87	117	127
Tax	9	12	17	25	37	41
(% of PBT)	26.1	31.8	28.9	28.9	32.0	32.0
PAT (reported)	25	27	43	62	80	86
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	25	27	43	62	80	86
ADJ. PAT	25	27	43	62	80	86
% chg	2.7	8.1	61.5	43.7	28.7	8.4
(% of Net Sales)	4.1	3.9	5.5	7.5	9.2	9.3
Basic EPS (₹)	11.3	12.2	19.7	28.3	36.4	39.4
Fully Diluted EPS (₹)	11.3	12.2	19.7	28.3	36.4	39.4
% chg	2.7	8.1	61.5	43.7	28.7	8.4

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	421	501
Shareholders Funds	267	276	313	369	443	523
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	484	559
APPLICATION OF FUNDS						
Gross Block	339	351	371	391	411	431
Less: Acc. Depreciation	185	198	211	224	239	255
Net Block	154	153	160	167	172	176
Capital Work-in-Progress	0	7	7	7	7	7
Investments	9	9	9	9	9	9
Current Assets	399	430	519	615	694	773
Inventories	122	127	137	127	137	148
Sundry Debtors	140	143	182	199	213	229
Cash	20	9	11	83	113	132
Loans & Advances	104	138	175	191	205	232
Other Assets	13	13	13	15	26	32
Current liabilities	167	232	318	380	399	407
Net Current Assets	232	198	201	235	294	366
Deferred Tax Asset	1	1	1	1	1	1
Total Assets	397	368	379	420	484	559

Cashflow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	33	39	61	87	117	127
Depreciation	16	14	12	13	15	16
Change in Working Capital	(21)	19	(1)	38	(29)	(53)
Interest / Dividend (Net)	13	15	10	9	6	4
Direct taxes paid	(8)	(5)	(17)	(25)	(37)	(41)
Others	(0)	-	-	-	-	-
Cash Flow from Operations	34	82	64	121	72	54
(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	30	18
Opening Cash balances	24	20	9	11	83	113
Closing Cash balances	20	9	11	83	113	132

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	56.0	54.5	50.4	31.2	21.7	16.9
P/CEPS	33.6	32.8	32.7	24.2	17.9	14.2
P/BV	5.4	5.0	4.9	4.3	3.6	3.0
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4	0.4
EV/Sales	2.5	2.4	2.0	1.7	1.5	1.4
EV/EBITDA	22.8	22.7	21.4	16.8	12.2	9.5
EV / Total Assets	2.5	2.5	2.3	2.0	1.6	1.4
Per Share Data (₹)						
EPS (Basic & fully diluted)	11.0	11.3	12.2	19.7	28.3	36.4
EPS (Adjusted)	11.0	11.3	12.2	19.7	28.3	36.4
Cash EPS	18.3	18.7	18.8	25.3	34.3	43.4
DPS	2.7	2.7	2.7	2.7	2.7	2.7
Book Value	114.5	122.1	126.1	143.0	168.6	202.3
Returns (%)						
ROCE	12.2	12.3	14.7	19.3	23.2	24.9
Angel ROIC (Pre-tax)	13.3	13.4	15.5	20.4	30.1	33.8
ROE	9.6	9.2	9.7	13.8	16.8	18.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.7	1.8	2.0	2.1	2.1	2.1
Inventory / Sales (days)	78	74	67	64	56	58
Receivables (days)	94	85	76	85	88	90
Payables (days)	34	35	34	36	37	35
WC cycle (ex-cash) (days)	138	124	109	113	107	113

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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)