

Garware Wall Ropes

Performance Highlights

Quarterly Data

(₹ cr)	4QFY16	4QFY15	% yoy	3QFY16	% qoq
Revenue	188	197	(4.3)	186	1.5
EBITDA	28	23	25.2	25	15.8
Margin (%)	15.1	11.5	356bp	13.2	186bp
Adj. PAT	17	12	41.0	15	18.3

Source: Company, Angel Research

Garware Wall Ropes (GWRL)' 4QFY2016 results outperformed our estimates on the bottom-line front. The company's top-line for the quarter de-grew by ~4% yoy. On the operating front, the company reported margin improvement, primarily on account of lower raw material costs. Further, on the bottom-line front, the company reported strong growth on account of a favorable operating performance.

Volumes grew but price cut dragged the overall top-line: The company's top-line de-grew by ~4% yoy to ₹188cr (below our estimate of ₹205cr). The revenue underperformance was mainly due to lower growth of 1% yoy to ₹153cr in the Synthetic cordage segment and de-growth of ~22% yoy to ₹40cr in the Fibre & Industrial products segment.

Strong operating performance boosts profitability: On the operating front, the company reported margin improvement (up by 356bp yoy to 15.1%), primarily on account of lower raw material costs by 981bp yoy as a percentage of sales as prices of its key raw materials, ie high density polyethylene, polyethylene etc declined during the quarter. The reported net profit grew by ~41% yoy to ₹17.3cr (outperforming our estimate of ₹12cr) 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 a Buy rating on the stock with a target price of ₹460.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	784	828	898	997
% chg	14.0	5.5	8.5	11.1
Net profit	43	62	64	72
% chg	61.5	43.7	2.6	13.3
EBITDA margin (%)	10.4	12.7	11.9	11.7
EPS (₹)	19.7	28.3	29.0	32.9
P/E (x)	18.3	12.7	12.4	11.0
P/BV (x)	2.5	2.1	1.8	1.6
RoE (%)	13.8	16.8	14.9	14.6
RoCE (%)	19.3	23.2	20.7	20.0
EV/Sales (x)	1.0	0.9	0.8	0.7
EV/EBITDA (x)	10.0	6.9	6.7	5.9

Source: Company, Angel Research, Note: CMP as of May 27, 2016

BUY

CMP	₹362
Target Price	₹460

Investment Period	12 months
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Stock Info

Sector	Textiles
Market Cap (₹ cr)	853
Net Debt (₹ cr)	-62
Beta	1.0
52 Week High / Low	438/187
Avg. Daily Volume	4,788
Face Value (₹)	10
BSE Sensex	26,654
Nifty	8,157
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	15.1	2.0	32.2
GWRL	29.2	(3.0)	713.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

Y/E March (₹ cr)	4QFY16	4QFY15	% yoy	3QFY16	% qoq	FY2016	FY2015	% chg
Net Sales	188	197	(4.3)	186	1.5	828	784	5.5
Consumption of RM	75	98	(23.2)	71	6.1	343	363	(5.6)
(% of Sales)	39.9	49.7		38.2		41.4	46.3	
Staff Costs	25	16	55.8	23	8.2	93	84	10.2
(% of Sales)	13.2	8.1		12.4		11.2	10.7	
Operating Expense	60	60	(0.8)	67	(10.9)	286	255	12.2
(% of Sales)	31.8	30.6		36.2		34.6	32.5	
Total Expenditure	160	174	(8.2)	161	(0.7)	722	703	2.8
Operating Profit	28	23	25.2	25	15.8	105	81	29.4
OPM (%)	15.1	11.5		13.2		12.7	10.4	
Interest	2	3	(39.3)	3	(29.7)	9	10	(14.8)
Depreciation	3	3	15.3	3	5.0	13	12	5.7
Other Income	1.2	0.4	193.0	1.2	(0.1)	3	2	102.3
PBT	24	17	43.4	20	23.1	87	61	43.9
(% of Sales)	12.9	8.6		10.6		10.5	7.7	
Provision for Taxation	7	5	49.9	5	36.6	25	17	44.2
(% of PBT)	28.7	27.5		25.9		28.9	28.9	
Minority Interest								
Reported PAT	17	12	41.0	15	18.3	62	43	43.7
PATM	9.2	6.2		7.9		7.5	5.5	

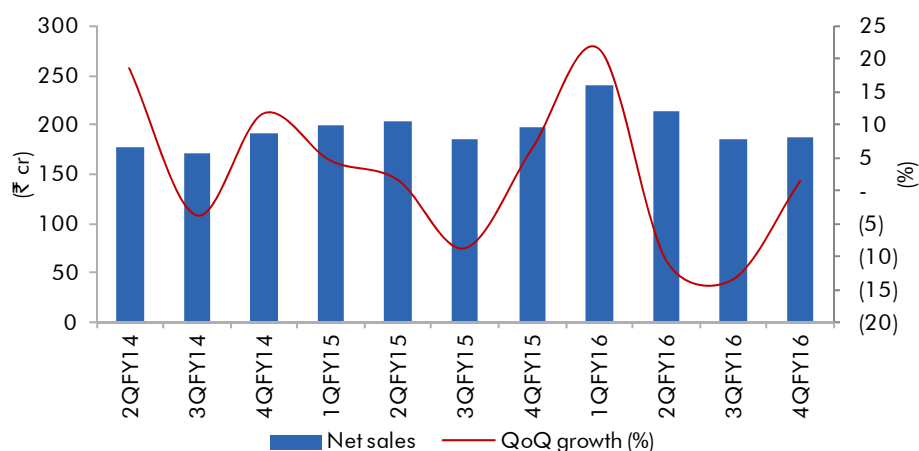
Source: Company, Angel Research

Volumes grew but price cut dragged overall top-line

The company's top-line de-grew by ~4% yoy to ₹188cr (below our estimate of ₹205cr). The revenue underperformance was mainly due to lower growth of 1% yoy to ₹153cr in the Synthetic cordage segment and de-growth of ~22% yoy to ₹40cr in the Fibre & Industrial products segment.

Going forward, we expect the company to report healthy numbers on back of higher anticipated demand for aquaculture and sports products globally and also with the company tapping new geographies.

Exhibit 2: Top-line growth trend

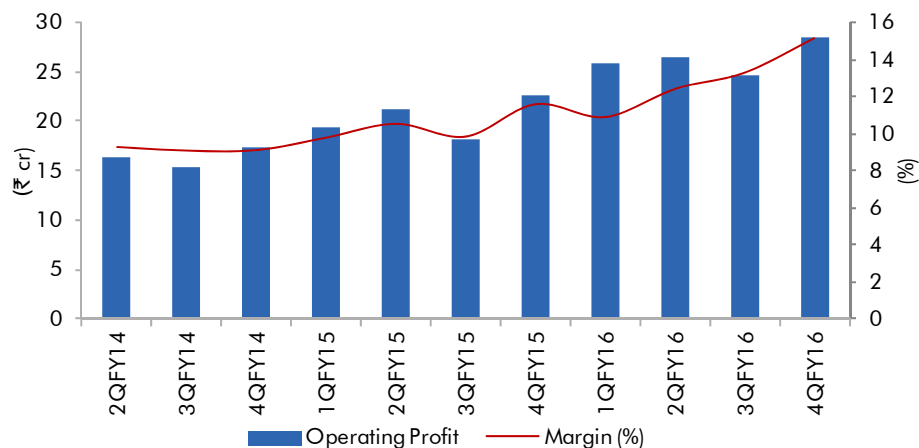


Source: Company, Angel Research

Operating margin expansion due to falling material prices

On the operating front, the company reported margin improvement (up by 356bp yoy to 15.1%), primarily on account of lower raw material costs by 981bp yoy as a percentage of sales as prices of its key raw materials, ie high density polyethylene, polyethylene etc declined during the quarter.

Exhibit 3: Operating profit and margin trend

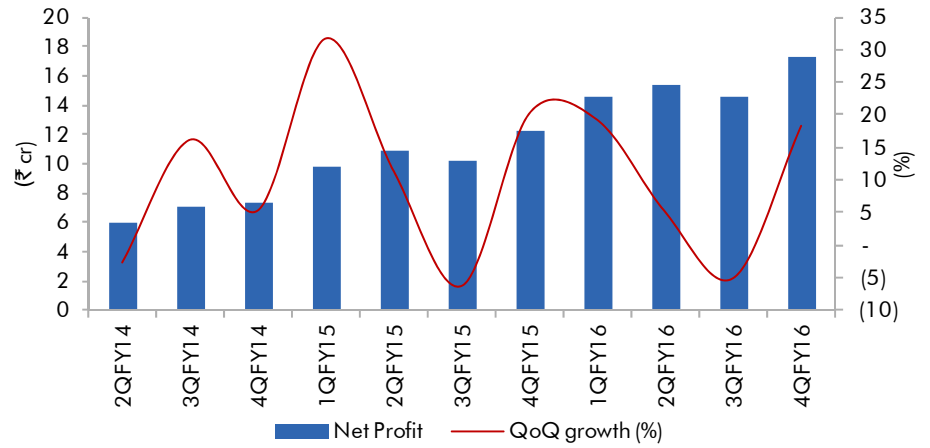


Source: Company, Angel Research

PAT grew ~41% yoy

The reported net profit grew by ~41% yoy to ₹17.3cr (outperforming our estimate of ₹12cr) 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 ~10% over FY2016-18E, on the 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 report export sales CAGR of ~13% 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.

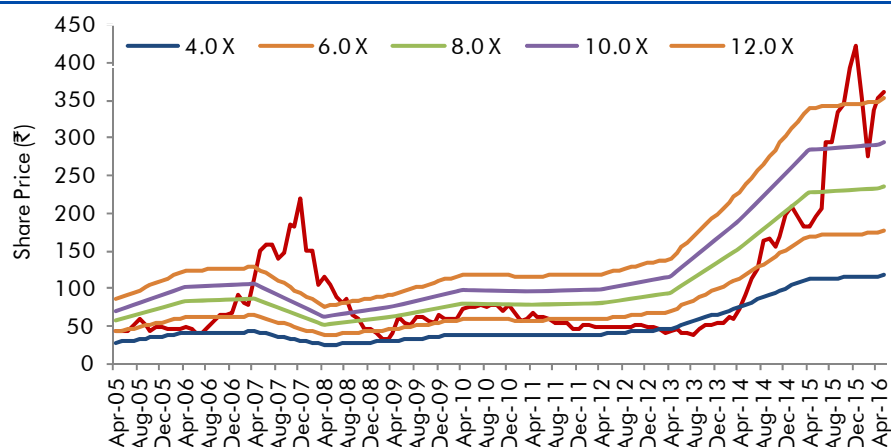
Continuous debt repayment and improving return ratios

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 a Buy rating on the stock with a target price of ₹460.**

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	898	997
% chg	4.0	13.9	14.0	5.5	8.5	11.1
Total Expenditure	541	622	703	722	791	881
Cost of Materials	263	316	363	343	407	452
Personnel Expenses	81	64	84	93	102	116
Others Expenses	197	242	255	286	282	313
EBITDA	63	65	81	105	107	117
% chg	(1.1)	3.9	24.6	29.6	1.4	9.2
(% of Net Sales)	10.4	9.5	10.4	12.7	11.9	11.7
Depreciation & Amortisation	16	14	12	13	14	15
EBIT	47	51	69	92	92	102
% chg	(2.2)	9.4	35.5	33.9	0.1	9.8
(% of Net Sales)	7.7	7.4	8.8	11.2	10.3	10.2
Interest & other Charges	14	13	10	9	6	4
Other Income	1	1	2	3	3	4
(% of PBT)	4.1	2.6	3.0	4.0	3.4	3.9
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	33	39	61	87	89	101
% chg	4.2	17.0	54.9	43.9	2.7	13.3
Prior Period & Extraord. Exps./ (Inc.)	-	-	-	-	-	-
PBT (reported)	33	39	61	87	89	101
Tax	9	12	17	25	26	29
(% of PBT)	26.1	31.8	28.9	28.9	29.0	29.0
PAT (reported)	25	27	43	62	64	72
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	25	27	43	62	64	72
ADJ. PAT	25	27	43	62	64	72
% chg	2.7	8.1	61.5	43.7	2.6	13.3
(% of Net Sales)	4.1	3.9	5.5	7.5	7.1	7.2
Basic EPS (₹)	11.3	12.2	19.7	28.3	29.0	32.9
Fully Diluted EPS (₹)	11.3	12.2	19.7	28.3	29.0	32.9
% chg	2.7	8.1	61.5	43.7	2.6	13.3

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	405	471
Shareholders Funds	267	276	313	369	426	492
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	468	529
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	674	779
Inventories	122	127	137	127	140	158
Sundry Debtors	140	143	182	199	216	240
Cash	20	9	11	83	86	101
Loans & Advances	104	138	175	191	213	249
Other Assets	13	13	13	15	18	30
Current liabilities	167	232	318	380	396	445
Net Current Assets	232	198	201	235	277	333
Deferred Tax Asset	1	1	1	1	1	1
Total Assets	397	368	379	420	468	529

Cashflow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	33	39	61	87	89	101
Depreciation	16	14	12	13	14	15
Change in Working Capital	(21)	19	(1)	38	(39)	(42)
Interest / Dividend (Net)	13	15	10	9	6	4
Direct taxes paid	(8)	(5)	(17)	(25)	(26)	(29)
Others	(0)	-	-	-	-	-
Cash Flow from Operations	34	82	64	121	45	50
(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	3	15
Opening Cash balances	24	20	9	11	83	86
Closing Cash balances	20	9	11	83	86	101

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	31.9	29.5	18.3	12.7	12.4	11.0
P/CEPS	19.2	19.2	14.2	10.5	10.1	9.0
P/BV	2.9	2.9	2.5	2.1	1.8	1.6
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8	0.8
EV/Sales	1.4	1.2	1.0	0.9	0.8	0.7
EV/EBITDA	13.8	12.9	10.0	6.9	6.7	5.9
EV / Total Assets	1.5	1.4	1.2	0.9	0.8	0.7
Per Share Data (₹)						
EPS (Basic & fully diluted)	11.3	12.2	19.7	28.3	29.0	32.9
EPS (Adjusted)	11.3	12.2	19.7	28.3	29.0	32.9
Cash EPS	18.7	18.8	25.3	34.3	35.6	39.8
DPS	2.7	2.7	2.7	2.7	2.7	2.7
Book Value	122.1	126.1	143.0	168.6	194.9	225.1
Returns (%)						
ROCE	12.3	14.7	19.3	23.2	20.7	20.0
Angel ROIC (Pre-tax)	13.4	15.5	20.4	30.1	26.3	25.5
ROE	9.2	9.7	13.8	16.8	14.9	14.6
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	2.0	2.1	2.1	2.2	2.3
Inventory / Sales (days)	74	67	64	56	57	58
Receivables (days)	85	76	85	88	88	88
Payables (days)	35	34	36	37	38	38
WC cycle (ex-cash) (days)	124	109	113	107	107	108

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Disclosure of Interest Statement	Garware Wall Ropes
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

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%)
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