

Garware Wall Ropes

Performance Highlights

Quarterly Data

(₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq
Revenue	186	185	0.2	214	(13.4)
EBITDA	25	18	35.7	26	(7.2)
Margin (%)	13.2	9.8	(346bp)	12.4	(88bp)
Adj. PAT	15	10	43.3	15	(5.0)

Source: Company, Angel Research

Garware Wall Ropes (GWRL)' 3QFY2016 results outperformed our estimates on the bottom-line front. The company's top-line for the quarter grew by a subdued 0.2% 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.

Subdued top-line growth: The company's top-line grew by ~0.2% yoy to ~₹186cr (which is below our estimates of ~₹197cr), mainly due to de-growth in the Synthetic Cordage segment (by ~2% yoy to ₹155cr). The Fibre & Industrial Products segment reported a growth of ~6% yoy to ₹35cr.

Strong operating performance boosts profitability: On the operating front, the company reported margin improvement (up by 346bp yoy to 13.2%), primarily on account of lower raw material costs (key raw material for GWRL are high density polyethylene, polyethylene etc) and other expenses. Raw material costs as a percentage of sales declined by 719bp yoy, during the quarter. The reported net profit grew by ~43% yoy to ₹14.6cr (our estimate was of ₹11.2cr) on account of the strong operating performance.

Outlook and valuation: Going ahead, we expect GWRL to report a top-line CAGR of ~9% over FY2015-17E to ~₹936cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~22% CAGR over FY2015-17E on account of expansion in operating margin (due to lower material prices and higher exports, which is a high margin business). Further, the company has reduced its debt significantly which will lead to cost savings. **Hence, we recommend a Buy rating on the stock with a target price of ₹467.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	688	784	844	936
% chg	13.9	14.0	7.7	10.9
Net profit	27	43	57	64
% chg	8.1	61.5	31.8	12.5
EBITDA margin (%)	9.5	10.4	11.9	11.6
EPS (₹)	12.2	19.7	25.9	29.2
P/E (x)	23.9	14.8	11.2	10.0
P/BV (x)	2.3	2.0	1.8	1.5
RoE (%)	9.7	13.8	15.6	15.1
RoCE (%)	14.7	19.3	22.1	21.3
EV/Sales (x)	1.0	0.8	0.8	0.7
EV/EBITDA (x)	10.6	8.1	6.4	5.7

Source: Company, Angel Research, Note: CMP as of February 12, 2016

BUY

CMP	₹291
Target Price	₹467

Investment Period	12 months
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Stock Info

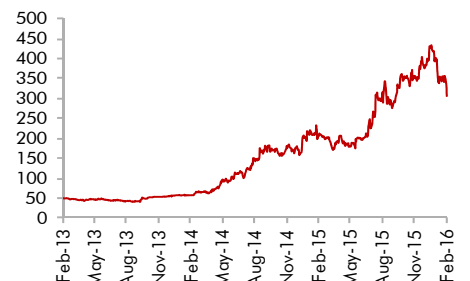
Sector	Textiles
Market Cap (₹ cr)	695
Net Debt (₹ cr)	24
Beta	1.0
52 Week High / Low	387/165
Avg. Daily Volume	10,865
Face Value (₹)	10
BSE Sensex	22,986
Nifty	6,981
Reuters Code	GRWL.BO
Bloomberg Code	GWWR@IN

Shareholding Pattern (%)

Promoters	50.6
MF / Banks / Indian Fls	2.3
FII / NRIs / OCBs	1.2
Indian Public / Others	45.9

Abs. (%)	3m	1yr	3yr
Sensex	(10.5)	(19.6)	17.9
GWRL	(14.3)	(14.3)	543.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

Y/E March (₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq	9MFY16	9MFY15	% chg
Net Sales	186	185	0.2	214	(13.4)	639	587	8.8
Consumption of RM	71	84	(15.6)	83	(14.3)	268	265	1.2
(% of Sales)	38.2	45.4		38.6		41.9	45.1	
Staff Costs	23	16	47.8	22	5.0	68	77	(11.8)
(% of Sales)	12.4	8.4		10.2		10.6	13.1	
Operating Expense	67	67.47	(0.5)	83	(19.3)	227	187	21.2
(% of Sales)	36.2	36.4		38.8		35.4	31.8	
Total Expenditure	161	167	(3.6)	188	(14.3)	562	529	6.4
Operating Profit	25	18	35.7	26	(7.2)	77	59	31.1
OPM (%)	13.2	9.8		12.4		12.0	10.0	
Interest	3	2	59.4	2	31.0	7	7	(3.5)
Depreciation	3	3	5.2	3	0.7	10	9	2.8
Other Income	1.2	0.1	901.8	0.339	255.2	2	1	75.0
PBT	20	13	47.4	21	(8.1)	63	44	44.0
(% of Sales)	10.6	7.2		10.0		9.8	7.4	
Provision for Taxation	5	3	60.4	6	(15.9)	18	13	42.1
(% of PBT)	25.9	23.8		28.3		29.0	29.4	
Minority Interest								
Reported PAT	15	10	43.3	15	(5.0)	45	31	44.8
PATM	7.9	5.5		7.2		7.0	5.2	

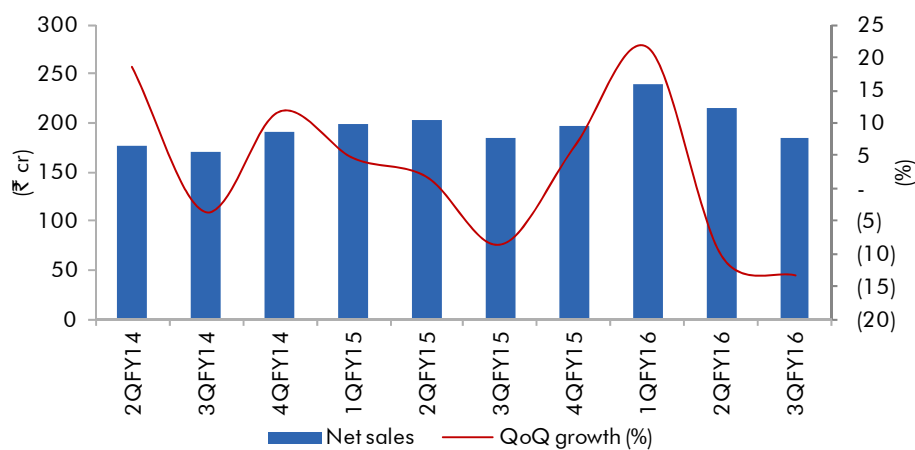
Source: Company, Angel Research

Top-line grows 6% yoy

The company's top-line grew by ~0.2% yoy to ~₹186cr (which is below our estimates of ~₹197cr), mainly due to de-growth in the Synthetic Cordage segment (by ~2% yoy to ₹155cr). The Fibre & Industrial Products segment reported a growth of ~6% yoy to ₹35cr.

Going forward, we expect the company to continue reporting strong 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

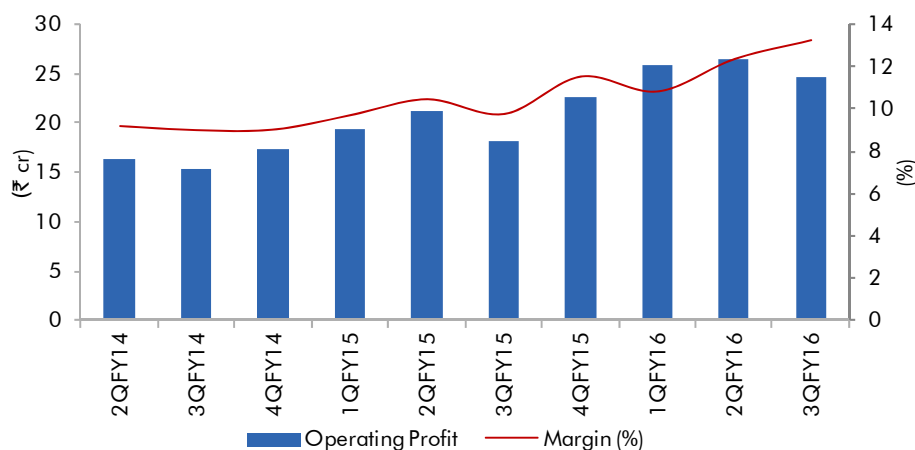


Source: Company, Angel Research

Operating margin expansion due to falling material prices

On the operating front, the company reported margin improvement by 346bp yoy to 13.2%, primarily on account of lower raw material costs (key raw materials for GWRL are high density polyethylene, polyethylene etc; raw material costs as a % of sales corrected by 719bp yoy) and employee expenses.

Exhibit 3: Operating profit and margin trend

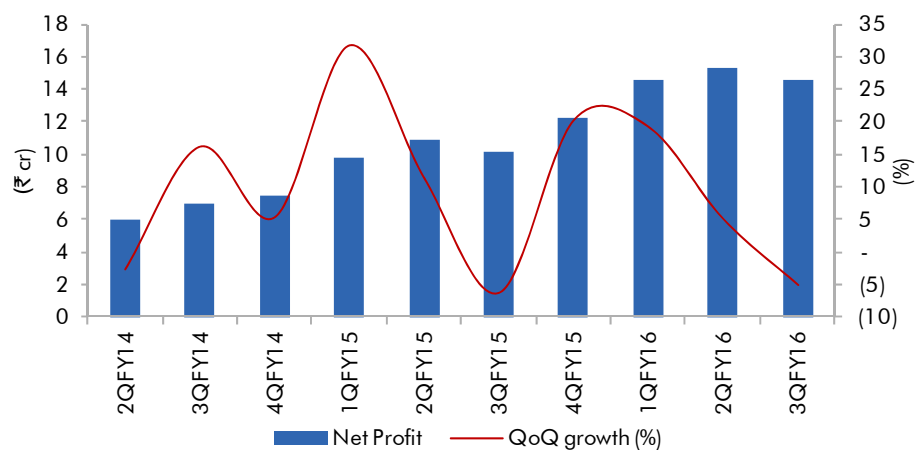


Source: Company, Angel Research

PAT grew ~43% yoy

The reported net profit grew by ~43% yoy to ~₹14.6cr (our estimate was of ~₹11.2cr) 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 ~9% over FY2015-17E, on the back of higher growth in exports. Over the last seven years, the company has reported a CAGR of ~20% in export sales to ₹391cr (for FY2015). 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 ~16% over FY2015-17E. 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 FY2015, the company witnessed an improvement in its operating margin by 90bp. 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.

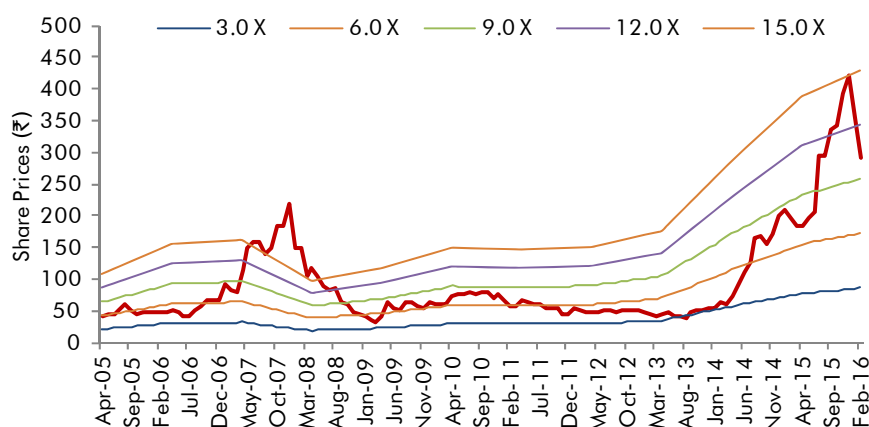
Continuous debt repayment and improving return ratios

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 four years, resulting in debt having come down from ~₹140cr in FY2012 to ₹45cr in FY2015. 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 FY2010 to ~₹10cr in FY2015). 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 13.8% in FY2015.

Outlook and valuation

Going ahead, we expect GWRL to report a top-line CAGR of ~9% over FY2015-17E to ~₹936cr owing to strong domestic as well as export sales. On the bottom-line front, we expect the company to report ~22% CAGR over FY2015-17E on account of expansion in operating margin (due to lower material prices and higher exports, which is a high margin business). Further, the company has reduced its debt significantly which will lead to cost savings. **Hence, we recommend a Buy rating on the stock with a target price of ₹467.**

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 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)	FY12	FY13	FY14	FY15	FY16E	FY17E
Total operating income	580	604	688	784	844	936
% chg	15.9	4.0	13.9	14.0	7.7	10.9
Total Expenditure	517	541	622	703	744	828
Cost of Materials	250	263	316	363	380	429
Personnel Expenses	79	81	64	84	93	105
Others Expenses	187	197	242	255	272	294
EBITDA	64	63	65	81	100	109
% chg	15.7	(1.1)	3.9	24.6	23.0	8.5
(% of Net Sales)	11.0	10.4	9.5	10.4	11.9	11.6
Depreciation & Amortisation	16	16	14	12	13	14
EBIT	48	47	51	69	87	94
% chg	18.6	(2.2)	9.4	35.5	26.3	8.1
(% of Net Sales)	8.2	7.7	7.4	8.8	10.3	10.1
Interest & other Charges	17	14	13	10	9	6
Other Income	1	1	1	2	3	3
(% of PBT)	3.5	4.1	2.6	3.0	3.1	3.3
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	32	33	39	61	81	91
% chg	2.8	4.2	17.0	54.9	33.9	12.5
Prior Period & Extraord. Exps./ (Inc.)	-	-	-	-	-	-
PBT (reported)	32	33	39	61	81	91
Tax	8	9	12	17	24	27
(% of PBT)	25.1	26.1	31.8	28.9	30.0	30.0
PAT (reported)	24	25	27	43	57	64
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	24	25	27	43	57	64
ADJ. PAT	24	25	27	43	57	64
% chg	(1.7)	2.7	8.1	61.5	31.8	12.5
(% of Net Sales)	4.1	4.1	3.9	5.5	6.7	6.8
Basic EPS (₹)	11.0	11.3	12.2	19.7	25.9	29.2
Fully Diluted EPS (₹)	11.0	11.3	12.2	19.7	25.9	29.2
% chg	(1.7)	2.7	8.1	61.5	31.8	12.5

Balance Sheet

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS						
Equity Share Capital	24	24	22	22	22	22
Reserves & Surplus	227	243	254	291	342	400
Shareholders Funds	250	267	276	313	364	422
Minority Interest	-	-	-	-	-	-
Total Loans	140	110	71	45	30	20
Deferred Tax Liability	18	19	21	21	21	21
Total Liabilities	409	397	368	379	415	463
APPLICATION OF FUNDS						
Gross Block	336	339	351	371	391	411
Less: Acc. Depreciation	170	185	198	211	224	238
Net Block	167	154	153	160	167	173
Capital Work-in-Progress	3	0	7	7	7	7
Investments	9	9	9	9	9	9
Current Assets	394	399	430	519	596	680
Inventories	123	122	127	137	150	169
Sundry Debtors	150	140	143	182	199	223
Cash	24	20	9	11	21	26
Loans & Advances	87	104	138	175	211	243
Other Assets	10	13	13	13	15	19
Current liabilities	164	167	232	318	367	408
Net Current Assets	230	232	198	201	230	272
Deferred Tax Asset	-	1	1	1	1	1
Total Assets	409	397	368	379	415	463

Cashflow Statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	32	33	39	61	81	91
Depreciation	16	16	14	12	13	14
Change in Working Capital	(6)	(21)	19	(1)	(19)	(37)
Interest / Dividend (Net)	16	13	15	10	9	6
Direct taxes paid	(6)	(8)	(5)	(17)	(24)	(27)
Others	0	(0)	-	-	-	-
Cash Flow from Operations	52	34	82	64	59	47
(Inc.)/ Dec. in Fixed Assets	(30)	1	(20)	(20)	(20)	(20)
(Inc.)/ Dec. in Investments	(0)	(0)	(0)	0	-	-
Cash Flow from Investing	(29)	2	(20)	(20)	(20)	(20)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	23	(17)	(51)	(27)	(15)	(10)
Dividend Paid (Incl. Tax)	(7)	(7)	(7)	(6)	(6)	(6)
Interest / Dividend (Net)	(16)	(15)	(16)	(10)	(9)	(6)
Cash Flow from Financing	(1)	(39)	(74)	(43)	(29)	(22)
Inc./(Dec.) in Cash	22	(3)	(11)	2	10	5
Opening Cash balances	2	24	20	9	11	21
Closing Cash balances	24	20	9	11	21	26

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	26.5	25.8	23.9	14.8	11.2	10.0
P/CEPS	15.9	15.5	15.5	11.5	9.1	8.1
P/BV	2.5	2.4	2.3	2.0	1.8	1.5
Dividend yield (%)	0.9	0.9	0.9	0.9	0.9	0.9
EV/Sales	1.3	1.2	1.0	0.8	0.8	0.7
EV/EBITDA	11.7	11.4	10.6	8.1	6.4	5.7
EV / Total Assets	1.3	1.3	1.1	0.9	0.8	0.7
Per Share Data (₹)						
EPS (Basic & fully diluted)	11.0	11.3	12.2	19.7	25.9	29.2
EPS (Adjusted)	11.0	11.3	12.2	19.7	25.9	29.2
Cash EPS	18.3	18.7	18.8	25.3	31.8	35.8
DPS	2.7	2.7	2.7	2.7	2.7	2.7
Book Value	114.5	122.1	126.1	143.0	166.3	192.7
Returns (%)						
ROCE	12.2	12.3	14.7	19.3	22.1	21.3
Angel ROIC (Pre-tax)	13.3	13.4	15.5	20.4	23.9	23.2
ROE	9.6	9.2	9.7	13.8	15.6	15.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.7	1.8	2.0	2.1	2.2	2.3
Inventory / Sales (days)	78	74	67	64	65	66
Receivables (days)	94	85	76	85	86	87
Payables (days)	34	35	34	36	37	38
WC cycle (ex-cash) (days)	138	124	109	113	114	115

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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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