

Garware Wall Ropes

Performance Highlights

Quarterly Data

(₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq
Revenue	225	239	(6.0)	188	19.5
EBITDA	31	26	19.1	28	8.5
Margin (%)	13.7	10.8	288bp	15.1	(138bp)
Adj. PAT	20	15	35.2	17	14.3

Source: Company, Angel Research

Garware Wall Ropes (GWRL)' 1QFY2017 results outperformed our estimates on the bottom-line front while the top-line disappointed as it de-grew by ~6% 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 ~6% yoy to ₹225cr (below our estimate of ₹256cr). The revenue underperformance was mainly due to de-growth of 8% yoy in the Synthetic cordage segment to ₹185cr and flat growth of ~1% yoy in the Fibre & Industrial products segment to ₹49cr.

Strong operating performance boosts profitability: On the operating front, the company reported margin improvement (up by 288bp yoy to 13.7%), primarily on account of decline in raw material costs as a percentage of sales by 875bp yoy as prices of its key raw materials i.e. high density polyethylene, polyethylene etc declined during the quarter. The reported net profit grew by ~35% yoy to ₹20cr (outperforming our estimate of ₹15cr) 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 ₹524.**

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	68	76
% chg	61.5	43.7	9.3	13.0
EBITDA margin (%)	10.4	12.7	12.9	13.1
EPS (₹)	19.7	28.3	30.9	34.9
P/E (x)	23.8	16.5	15.1	13.4
P/BV (x)	3.3	2.8	2.4	2.0
RoE (%)	13.8	16.8	15.7	15.2
RoCE (%)	19.3	23.2	21.8	20.9
EV/Sales (x)	1.3	1.2	1.1	1.0
EV/EBITDA (x)	12.9	9.1	8.3	7.5

Source: Company, Angel Research, Note: CMP as of August 10, 2016

BUY

CMP	₹468
Target Price	₹524

Investment Period	12 months
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Stock Info

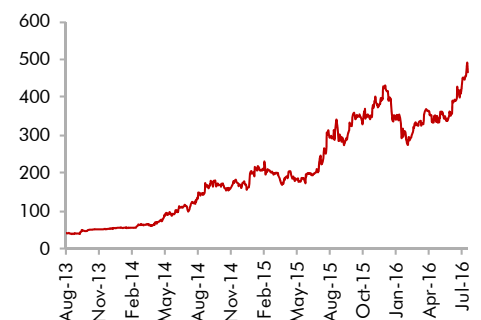
Sector	Textiles
Market Cap (₹ cr)	1,024
Net Debt (₹ cr)	-62
Beta	1.0
52 Week High / Low	514/260
Avg. Daily Volume	4,788
Face Value (₹)	10
BSE Sensex	27,775
Nifty	8,575
Reuters Code	GRWL.BO
Bloomberg Code	GWWR@IN

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	7.8	(1.2)	46.6
GWRL	33.3	59.9	1055.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

Y/E March (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq	FY2016	FY2015	% chg
Net Sales	225	239	(6.0)	188	19.5	828	784	5.5
Consumption of RM	88	114	(23.2)	75	16.6	343	363	(5.6)
(% of Sales)	39.0	47.7		39.9		41.4	46.3	
Staff Costs	26	23	14.3	25	5.4	93	84	10.2
(% of Sales)	11.7	9.6		13.2		11.2	10.7	
Operating Expense	80	76	5.3	60	34.1	286	255	12.2
(% of Sales)	35.7	31.9		31.8		34.6	32.5	
Total Expenditure	194	213	(9.0)	160	21.4	722	703	2.8
Operating Profit	31	26	19.1	28	8.5	105	81	29.4
OPM (%)	13.7	10.8		15.1		12.7	10.4	
Interest	1	2	(18.8)	2	(25.4)	9	10	(14.8)
Depreciation	3	3	9.1	3	1.4	13	12	5.7
Other Income	2.5	0.7	243.1	1.2	105.6	3	2	102.3
PBT	28	22	31.1	24	17.1	87	61	43.9
(% of Sales)	12.6	9.1		12.9		10.5	7.7	
Provision for Taxation	9	7	22.7	7	24.0	25	17	44.2
(% of PBT)	30.4	32.5		28.7		28.9	28.9	
Minority Interest								
Reported PAT	19.76	14.6	35.2	17	14.3	62	43	43.7
PATM	8.8	6.1		9.2		7.5	5.5	

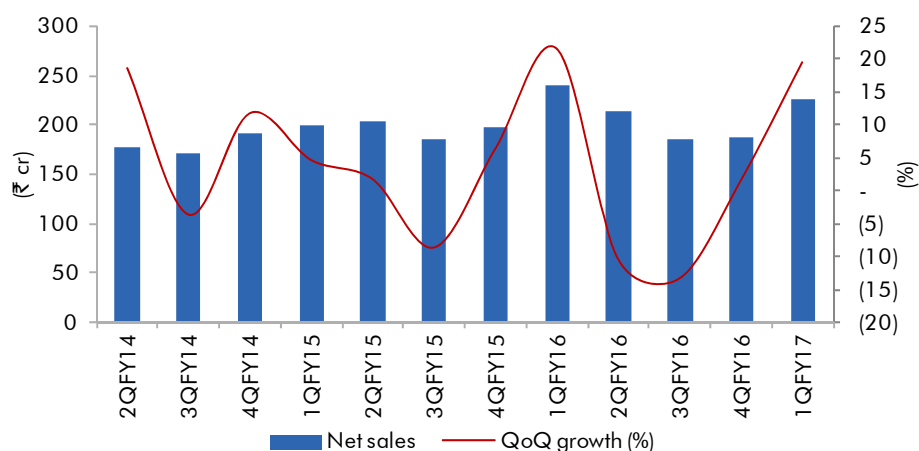
Source: Company, Angel Research

Volumes grew but price cut dragged overall top-line

The company's top-line de-grew by ~6% yoy to ₹225cr (below our estimate of ₹256cr). The revenue underperformance was mainly due to de-growth of 8% yoy in the Synthetic cordage segment to ₹185cr and flat growth of ~1% yoy in the Fibre & Industrial products segment to ₹49cr.

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

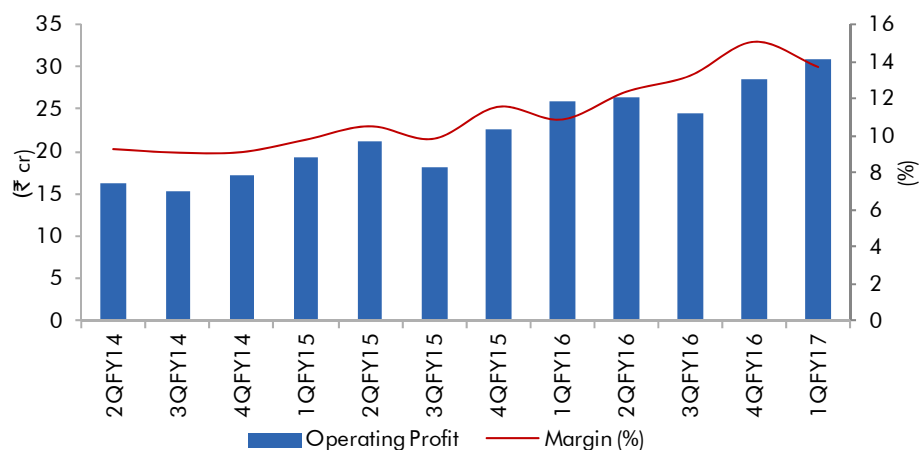


Source: Company, Angel Research

Operating margin expansion due to falling material prices

On the operating front, the company reported margin improvement (up by 288bp yoy to 13.7%), primarily on account of decline in raw material costs as a percentage of sales by 875bp yoy as prices of its key raw materials i.e. high density polyethylene, polyethylene etc declined during the quarter.

Exhibit 3: Operating profit and margin trend

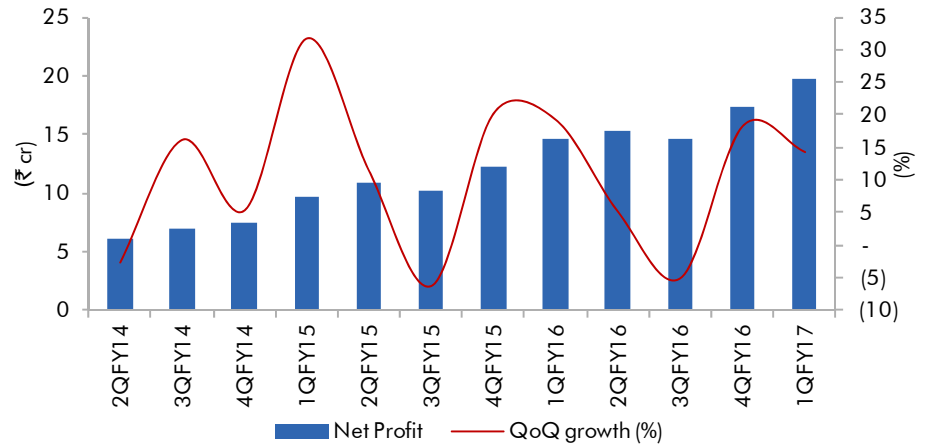


Source: Company, Angel Research

PAT grew ~35% yoy

The reported net profit grew by ~35% yoy to ₹19.8cr (outperforming our estimate of ₹15cr) 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.

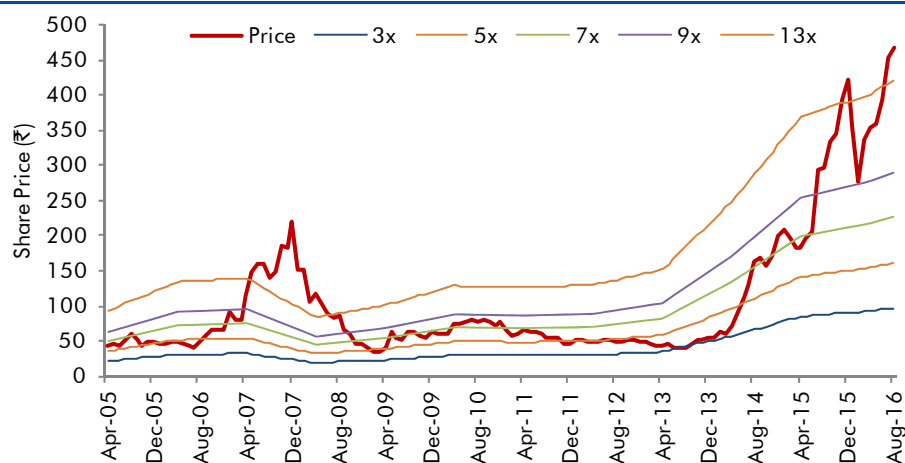
Continuous debt repayment and improving return ratios

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 a Buy rating on the stock with a target price of ₹524.**

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	761	815
Cost of Materials	263	316	363	343	387	414
Personnel Expenses	81	64	84	93	100	109
Others Expenses	197	242	255	286	274	293
EBITDA	63	65	81	105	113	123
% chg	(1.1)	3.9	24.6	29.6	6.8	9.1
(% of Net Sales)	10.4	9.5	10.4	12.7	12.9	13.1
Depreciation & Amortisation	16	14	12	13	14	15
EBIT	47	51	69	92	98	108
% chg	(2.2)	9.4	35.5	33.9	6.4	9.7
(% of Net Sales)	7.7	7.4	8.8	11.2	11.2	11.5
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	3.2	3.7
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	33	39	61	87	95	108
% chg	4.2	17.0	54.9	43.9	9.4	13.0
Prior Period & Extraord. Exps./ (Inc.)	-	-	-	-	-	-
PBT (reported)	33	39	61	87	95	108
Tax	9	12	17	25	28	31
(% of PBT)	26.1	31.8	28.9	28.9	29.0	29.0
PAT (reported)	25	27	43	62	68	76
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	25	27	43	62	68	76
ADJ. PAT	25	27	43	62	68	76
% chg	2.7	8.1	61.5	43.7	9.3	13.0
(% of Net Sales)	4.1	3.9	5.5	7.5	7.7	8.1
Basic EPS (₹)	11.3	12.2	19.7	28.3	30.9	34.9
Fully Diluted EPS (₹)	11.3	12.2	19.7	28.3	30.9	34.9
% chg	2.7	8.1	61.5	43.7	9.3	13.0

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	409	479
Shareholders Funds	267	276	313	369	431	501
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	472	537
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	669	750
Inventories	122	127	137	127	136	149
Sundry Debtors	140	143	182	199	211	226
Cash	20	9	11	83	98	112
Loans & Advances	104	138	175	191	207	235
Other Assets	13	13	13	15	17	28
Current liabilities	167	232	318	380	388	408
Net Current Assets	232	198	201	235	281	342
Deferred Tax Asset	1	1	1	1	1	1
Total Assets	397	368	379	420	472	537

Cashflow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	33	39	61	87	95	108
Depreciation	16	14	12	13	14	15
Change in Working Capital	(21)	19	(1)	38	(31)	(47)
Interest / Dividend (Net)	13	15	10	9	6	4
Direct taxes paid	(8)	(5)	(17)	(25)	(28)	(31)
Others	(0)	-	-	-	-	-
Cash Flow from Operations	34	82	64	121	57	49
(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	15	14
Opening Cash balances	24	20	9	11	83	98
Closing Cash balances	20	9	11	83	98	112

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	41.5	38.4	23.8	16.5	15.1	13.4
P/CEPS	25.0	24.9	18.5	13.7	12.5	11.2
P/BV	3.8	3.7	3.3	2.8	2.4	2.0
Dividend yield (%)	0.6	0.6	0.6	0.6	0.6	0.6
EV/Sales	1.8	1.6	1.3	1.2	1.1	1.0
EV/EBITDA	17.6	16.5	12.9	9.1	8.3	7.5
EV / Total Assets	2.0	1.8	1.5	1.2	1.1	1.0
Per Share Data (₹)						
EPS (Basic & fully diluted)	11.3	12.2	19.7	28.3	30.9	34.9
EPS (Adjusted)	11.3	12.2	19.7	28.3	30.9	34.9
Cash EPS	18.7	18.8	25.3	34.3	37.5	41.8
DPS	2.7	2.7	2.7	2.7	2.7	2.7
Book Value	122.1	126.1	143.0	168.6	196.8	229.0
Returns (%)						
ROCE	12.3	14.7	19.3	23.2	21.8	20.9
Angel ROIC (Pre-tax)	13.4	15.5	20.4	30.1	28.6	27.3
ROE	9.2	9.7	13.8	16.8	15.7	15.2
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	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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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)