

## **GARWARE WALL ROPES LIMITED**

BSE: 509557 | Sector: TECHNICAL TEXTILES

Position: **Close**

CMP : Rs. 186

Target Price: Rs. 253 (In next 6-12 mths)

### **BUSINESS BACKGROUND**

Garware-Wall Ropes Limited (GWRL) a Pune based company is engaged in the manufacture of synthetic cordage and nettings. It also makes products for fishing and aquaculture industries, & sports, fibre, industrial products and projects business. It operates in 2 segments: Synthetic Cordage, and Fibre and Industrial Products & Projects segment. It offers a wide range of 4 strand hawser laid ropes for a variety of applications, such as fishing, shipping, ports, shipbuilding yards, stevedoring, defense, material handling, construction, & electricity boards.

### **INVESTMENT HIGHLIGHTS**

#### **Strong 9 month FY15 Performance –**

GWR reported a consolidated sales growth of 20% yoy totaling Rs 587.33 crs in the first 9 months of FY15 (from Rs 497.03 crs in the first 9 months of FY14) led by better product mix. This was reflected in a 14% EBIDTA growth at Rs 58.71 crs from Rs 51.46 crs in the first 9 months of last year and a 60% increase in PAT. The PAT for the first 9 months of FY15 stood at Rs 30.79 crs as compared to Rs 19.26 crs in the first 9 months of last year.

For FY14 the company has recorded a topline of Rs 684.56 crs, a EBIDTA of Rs 65.62 crs while PAT is placed at Rs 26.75 crs. GWR paid a dividend of 27% for FY14.

#### **GWR enjoys a well diversified customer base –**

GWR is a leading producer of technical textiles which is primarily used in a variety of industries like Infrastructure, Transportation, Fishing, Agriculture, Sports, Defence and Industrial applications.

GWR has formidable brand equity for its products with well known brands like Garfil, Garmet, Sapphire, Olivene, Maxiflex, Maxigold, Sportiva and Plateena among others

Synthetic Cordage is a \$700mn industry worldwide and GWR is the world leader with an 8% market share. The synthetic cordage segment forms more than 75% of its revenues and Industrial Products accounts for the balance 25%.

Exports form close to 48% of its revenues and Europe is a key market for GWR. Last Year that is FY14 the Export revenues totaled Rs 328 crs as compared to Rs 254 crs last year.

FACE VALUE	Rs	10.00
DIVID YIELD %		1.45
52 WK HI/LOW		238/75
NSE CODE		GARWALLROP
BSE CODE		GARWALLROP
MARKET CAP		RS 441 CRS

### **SHAREHOLDING PATTERN**

PROMOTERS	-	52%
BANKS, MFs & DIIs	-	5%
FIIs	-	4%
PUBLIC	-	39%

### **KEY FUNDAMENTALS**

YE	FY15	FY16	FY17
Rev Gr%	15	15	15
PBT Gr%	51	19	18
PAT Gr%	51	23	18
EPS Gr%	51	23	18
Roe %	14	15	14
Roce %	11	12	14
EPS (Rs)	18.28	22.41	26.61
P/E(x)	10	8	7

## **GWR Business Model is spread across several user sectors –**

GWR is an innovative company and through its new product offerings across diverse sectors has successfully managed to move up the value chain from being a company which essentially used to service the fishing sector over the past few years.

Today its products in the geo-synthetic space is being well received as the market is growing and this provides immense opportunities to GWR going forward as the company has several products here which can provide a host of civil engineering solutions

## **Solutions Provided By GWR –**

1) Fisheries: As an innovative solution provider, the company caters to the global requirement in the active and passive fishing with products of Synthetic Fishing Ropes, Twines, Nets, Fabricated Products.

2) Aquaculture: The company offer Customized Synthetic Cages, Predator Nets and Mooring System Ropes for Aquaculture that are used in marine, inland and brackish water environment.

3) Shipping & Industrial: The company meets the stringent requirement of the various users in the Heavy Engineering, Shipping, Transmission, Safety and allied industries.

4) Yarn & Thread: The company's yarns and threads are used for Industrial Stitching purpose in diverse industries ranging from Fertilisers, Food Grains, Foot Wear, Filter Fabrics and other allied industries.

5) Sports: Customized sports nets conforming to international standards and specifications are used for different indoor and outdoor sports and games like Cricket, Football, Tennis, Hockey, Volleyball, Golf, Swimming Pool etc.

6) Coated Fabrics: Coated Fabrics used for various applications ranging from transportation to sports. Available in an array of different colours, the company's PVC Coated Fabrics offer high tensile strength, UV stability, Waterproofing, tear resistance and a variety of other benefits.

7) Agriculture: Development of various types of nets, cords and ropes, used for Protected Cultivation, protection Of Horticultural crops, support for Floriculture and Vegetable crops, utility products for Post Harvest Technology and Sericulture.

8) Geosynthetics: The company offers turnkey solutions in diverse applications such as Rockfall Protection, Coastal & River Protection, Erosion Control, Landfill and Lining Systems, Earth Retention Systems and Ground Improvement Techniques. The solutions are environment friendly and cost effective.

## **Growth drivers for Cordage & Geosynthetic Business look strong –**

In the Cordage business, GWL manufactures high end ropes and nets for mechanized and industrial fishing vessels of 100HP-15000HP, for industrial applications and fabricated products..

The fishing net market in India is estimated to be Rs 400 crs, while the international market is estimated to be \$500 mn. GWR caters to the requirements of 80 countries where fishing is a major industry and has earned recognition in the international market on the basis of its proven track record.

In India it has more than 80% market share in the mechanized fishing sector and 5% market share in the international market. Mechanized fishing is different from the traditional way of fishing in the sense that huge fishing nets are deployed in water through men and machines. The quality, weight, size are far better than the traditional fishing nets. GWRL's name is considered a synonym for quality and service across every mechanized fishing base in the country. GWRL's strong brand equity allows the company to counter competition, particularly from the unorganized sector and also fetch a 15-20% pricing premium.

Apart from fishing, it has growing presence in industries like sports, shipping and material handling.

In the sports segment, GWR's products are used in almost all the cricket nets, tennis courts, ski protection nets, soccer nets and every game wherever nets are required.

Also within the Cordage Revenues nearly 53% comes from the industrial segment (Shipping, Ports, Shipbuilding Yards, Stevedoring, Defense, Material Handling, Construction, Electricity Boards and various other Industrial Applications) constitutes nearly 35% comes from fabrication (specialised products for fishery, sports and industrial applications) division.

Also the Geosynthetic business of GWR which means planar, polymeric, permeable/impermeable material is used in contact with the soil/rock and /any other geotechnical material in civil engineering applications. These products have application in Coastal protection, Railways, and roads. They provide increased safety and better productivity.

With the user industry expected to post a robust growth, GWRL will be one of the direct beneficiaries. Currently this business contributes 16% of the total sales, which is expected to reach 25% in the next 18 months due to high growth in this division.

In the roads segment GWR's geosynthetic products are used for Reinforced soil walls, Asphalt Reinforcement, Sub reinforcement, Heavy Duty Pavements, slopes, embankment foundations etc.

In railway segment, GWR's geosynthetic products are laid under the layers of track bed. This product when laid keeps the strength of the track intact. Major advantage is that it improves bearing capacity of the tracks, reduces maintenance of ballast and the trains can operate without speed restrictions.

One of the geosynthetic product namely, rock fall boulder nets, are laid over the rocks on the roads to prevent the rock fall. These nets improve safety and eliminate traffic interruption. GWR provides various coastal protection systems, which eliminates soil erosion problem, improves coastal safety and reduces property losses. With large investments made in infrastructure development, a growing market has been opened up for the company's Geosynthetic segment.

The current order book for the geosynthetic division stands at Rs 250 crore which will get executed in the next one year. The Indian Railway's research division has also approved company's products for its application in railway tracks.

### **Going ahead GRW also plans to focus in a big on the Defence Business –**

Garware-Wall Ropes is also aiming to grow its technical textile business by focusing on import substitutes, particularly in the defence sector.

GWR has signed a letter of intent with the Defence Research and Development Organisation (DRDO) to develop products. It has recently supplied its first batch of technical textile to cover radars at sensitive locations. The Department of Science and Technology has also recognised the company's two research and development centres at Pune and Wai.

GRW expects the growth in defence technical textiles to be huge as the country imports 20% of its requirement from different countries such as Israel, Russia and the US with the market size of technical textiles in Indian defence estimated at Rs 1300 crs.

The Government thrust on 'Make in India' is likely to boost GRWs growth potential over the next 18-24 months

### **Steady financial performance – Revenue growth and margin expansion to continue –**

We estimate GWR's earnings to witness a CAGR of 20-25% over FY15-17E. This will be driven by steady revenue growth (15% CAGR over FY15-17E) and a steady EBITDA margin expansion over the same period.

Over the years, the company has improved its operational performance significantly with its operating margins having remained in a range between 9% to 10% since last 2 years. Also going ahead we expect RoE to cross 15% by FY17 from 10% in FY14. Also, considering that the company is both a export & domestic player, the net leverage at 0.20:1 as on FY14 seems reasonable.

## Business Outlook & Stock Valuation

On a rough cut basis, in FY15, Revenue will see a steady rise which is expected to touch Rs 790 crs.

On the bottomline level we expect the company to record a PAT of Rs 40 crs in FY15E. Thus on a conservative basis, GWR should record a EPS of Rs 18 for FY15E. For FY16 & FY17E our expectation is that earnings traction for GWR would continue to be robust wherein we expect a EPS of Rs 22. & Rs 27. respectively.

GRW has maintained its dominant position in the domestic market and is building a strong brand image in overseas markets. Development of new and value added products is being undertaken with renewed vigor.

Demand for industrial and mooring ropes depends on overall economic growth of India which indeed is promising. Considering the large investments being made in the infrastructure development, a growing market has opened up for GWRL's construction and environmental products. As the infrastructure development picks up pace and the company's products find increasing acceptance in varied applications, GWR's growth rate will accelerate.

On a conservative basis we expect Topline for GRW to cross Rs 1000 crs by FY17 where as the current Market Cap stands at just Rs 441 crs indicating a market cap to revenue multiple of just 0.55x based on FY15. With a well diversified product range, good product recall in both the domestic & global markets, and a strong 25% plus earnings growth expected over the next 12-18 months we expect the GRW stock to get re rated over the next 12 months.

Also Roe a key performance indicator is likely to improve to over 15% by FY17 from levels of around 10% in FY14 which should also re rate the present valuations of around 8x on FY16 and 7x on FY17E which look attractive from a medium to long term point of view.

We hence believe that the GWR stock should be purchased at the current price for a price target of around Rs 253. keeping a financial stop loss of Rs 163..

## FINANCIALS

For the Year Ended March RsCrs	FY14A	FY15E	FY16E	FY17E
Net Sales	684.56	790.0	908.5	1044.8
EBIDTA	65.62	78.71	90.85	105.5223
EBIDTA %	9.59	9.96	10.00	10.10
Interest	16.11	8.8	8.0	7.5
Depreciation	14.39	12.2	14.0	16.0
Non Operational Other Income	4.1	1.4	1.5	1.5
Profit Before Tax	39.21	59.11	70.35	83.52228
Profit After Tax	26.75	40.17	49.24	58.46
Diluted EPS (Rs)	12.18	18.28	22.41	26.61
Equity Capital	21.97	21.97	21.97	21.97
Reserves	253.51	286.68	327.92	468.18
Borrowings	56.76	50.0	48.0	0.0
GrossBlock	358.0	370.0	382.0	395.0
Investments	9.45	9.45	9.45	9.45

## **KEY CONCERNS**

Any slowdown in the domestic & Global Marine market will adversely hit growth and earnings.

Also any adverse movement in the Rupee dollar movement can have a significant impact on the company's profitability.