

Garware-Wall Ropes

Company Update

Lower raw material prices and higher export contribution to enhance margins: In the last six years, despite volatile raw material prices, Garware-Wall Ropes (GWRL) has maintained its operating margin in the range of 10-11%. The company's key raw materials are crude based; the recent decline in crude prices has resultantly had a favorable impact on the company's margins. Crude prices have declined by ~37% on an YTD basis and by ~40% on a yoy basis. The company's EBITDA margins, as a result, expanded by 145bp yoy in 1HFY2016. Crude prices are likely to continue to remain soft and thereby translate into lower raw material (high density polyethylene, polyethylene, nylon etc) prices for the company, which in turn will result in improvement in the company's EBITDA margin going forward. Moreover, higher contribution of exports as well as better product mix augurs well for the company.

Debt repayment and improving return ratios: The company is continuously generating higher cash flows, which has resulted in debt reduction and improvement in 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 costs (interest costs have reduced from ~₹17cr in FY2010 to ~₹10cr in FY2015). For 1HFY2016, the interest cost has reduced by ~25% yoy to ₹4.0cr (against ₹5.2cr in 1HFY2015). 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: At the current market price, GWRL trades at a P/E of 14.3x its FY2017E EPS. We had last upgraded our target price to ₹423 (after the company's 2QFY2016 results) which has now been achieved (on 23rd December, 2015). We are revising our recommendation on the stock to Accumulate and are further upgrading our target price to ₹473 (16x FY2017E EPS), indicating further upside in the stock price of ~12% from the current levels.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	688	784	862	974
% chg	13.9	14.0	10.0	12.9
Net profit	27	43	54	65
% chg	8.1	61.5	26.4	18.8
EBITDA margin (%)	9.5	10.4	11.2	11.2
EPS (₹)	12.2	19.7	24.9	29.6
P/E (x)	34.7	21.5	17.0	14.3
P/BV (x)	3.4	3.0	2.6	2.2
RoE (%)	9.7	13.8	15.1	15.4
RoCE (%)	14.7	19.3	21.3	21.7
EV/Sales (x)	1.4	1.2	1.1	0.9
EV/EBITDA (x)	15.0	11.7	9.6	8.1

Source: Company, Angel Research, Note: CMP as of December 23, 2015

ACCUMULATE

CMP	₹423
Target Price	₹473

Investment Period	12 months
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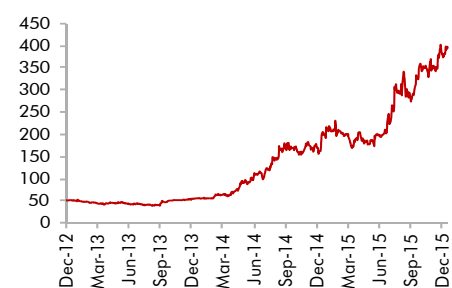
Stock Info	
Sector	Textiles
Market Cap (₹ cr)	1,005
Net Debt (₹ cr)	24
Beta	1.1
52 Week High / Low	427/162
Avg. Daily Volume	18,615
Face Value (Rs)	10
BSE Sensex	25,850
Nifty	7,866
Reuters Code	GRWL.BO
Bloomberg Code	GWWR@IN

Shareholding Pattern* (%)	
Promoters	50.6
MF / Banks / Indian Fls	2.3
FII / NRIs / OCBs	1.2
Indian Public / Others	45.9

*after preferential allotment

Abs. (%)	3m	1yr	3yr
Sensex	(0.2)	(7.6)	32.9
GRWL	34.9	161.6	749.1

3-year price chart



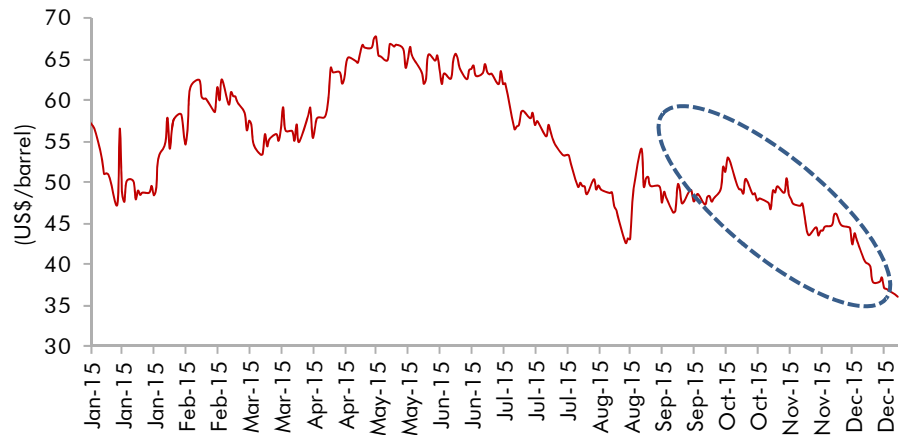
Source: Company, Angel Research

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Exhibit 1: Weakness in Crude Price



Source: 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. Being a global player, the company is known for its innovation in the field of fisheries, aquaculture, shipping, sports, agriculture, coated fabrics and geosynthetics. GWRL’s products are manufactured at its state-of-the-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	862	974
% chg	15.9	4.0	13.9	14.0	10.0	12.9
Total Expenditure	517	541	622	703	766	865
Cost of Materials	250	263	316	363	394	450
Personnel Expenses	79	81	64	84	95	109
Others Expenses	187	197	242	255	277	306
EBITDA	64	63	65	81	96	109
% chg	15.7	(1.1)	3.9	24.6	18.2	13.4
(% of Net Sales)	11.0	10.4	9.5	10.4	11.2	11.2
Depreciation & Amortisation	16	16	14	12	13	14
EBIT	48	47	51	69	83	95
% chg	18.6	(2.2)	9.4	35.5	20.7	14.7
(% of Net Sales)	8.2	7.7	7.4	8.8	9.6	9.8
Interest & other Charges	17	14	13	10	7	6
Other Income	1	1	1	2	2	3
(% of PBT)	3.5	4.1	2.6	3.0	2.6	2.7
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	32	33	39	61	78	92
% chg	2.8	4.2	17.0	54.9	28.5	18.8
Prior Period & Extraord. Exps./ (Inc.)	-	-	-	-	-	-
PBT (reported)	32	33	39	61	78	92
Tax	8	9	12	17	23	28
(% of PBT)	25.1	26.1	31.8	28.9	30.0	30.0
PAT (reported)	24	25	27	43	54	65
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	24	25	27	43	54	65
ADJ. PAT	24	25	27	43	54	65
% chg	(1.7)	2.7	8.1	61.5	26.4	18.8
(% of Net Sales)	4.1	4.1	3.9	5.5	6.3	6.6
Basic EPS (₹)	11.0	11.3	12.2	19.7	24.9	29.6
Fully Diluted EPS (₹)	11.0	11.3	12.2	19.7	24.9	29.6
% chg	(1.7)	2.7	8.1	61.5	26.4	18.8

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	339	398
Shareholders Funds	250	267	276	313	361	420
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	413	461
APPLICATION OF FUNDS						
Gross Block	336	339	351	371	391	411
Less: Acc. Depreciation	170	185	198	211	224	237
Net Block	167	154	153	160	167	174
Capital Work-in-Progress	3	0	7	7	7	7
Investments	9	9	9	9	9	9
Current Assets	394	399	430	519	601	697
Inventories	123	122	127	137	151	168
Sundry Debtors	150	140	143	182	198	221
Cash	24	20	9	11	24	49
Loans & Advances	87	104	138	175	213	243
Other Assets	10	13	13	13	15	16
Current liabilities	164	167	232	318	373	427
Net Current Assets	230	232	198	201	228	270
Deferred Tax Asset	-	1	1	1	1	1
Total Assets	409	397	368	379	413	461

Cashflow Statement

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	32	33	39	61	78	92
Depreciation	16	16	14	12	13	14
Change in Working Capital	(6)	(21)	19	(1)	(14)	(18)
Interest / Dividend (Net)	16	13	15	10	7	6
Direct taxes paid	(6)	(8)	(5)	(17)	(23)	(28)
Others	0	(0)	-	-	-	-
Cash Flow from Operations	52	34	82	64	61	66
(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)	(7)	(6)
Cash Flow from Financing	(1)	(39)	(74)	(43)	(28)	(21)
Inc./ (Dec.) in Cash	22	(3)	(11)	2	13	25
Opening Cash balances	2	24	20	9	11	24
Closing Cash balances	24	20	9	11	24	49

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
P/E (on FDEPS)	38.5	37.5	34.7	21.5	17.0	14.3
P/CEPS	23.1	22.6	22.5	16.7	13.7	11.8
P/BV	3.7	3.5	3.4	3.0	2.6	2.2
Dividend yield (%)	0.6	0.6	0.6	0.6	0.6	0.6
EV/Sales	1.8	1.7	1.4	1.2	1.1	0.9
EV/EBITDA	16.3	16.0	15.0	11.7	9.6	8.1
EV / Total Assets	1.8	1.8	1.6	1.4	1.2	1.0
Per Share Data (₹)						
EPS (Basic & fully diluted)	11.0	11.3	12.2	19.7	24.9	29.6
EPS (Adjusted)	11.0	11.3	12.2	19.7	24.9	29.6
Cash EPS	18.3	18.7	18.8	25.3	30.8	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	165.2	192.1
Returns (%)						
ROCE	12.2	12.3	14.7	19.3	21.3	21.7
Angel ROIC (Pre-tax)	13.3	13.4	15.5	20.4	23.2	25.0
ROE	9.6	9.2	9.7	13.8	15.1	15.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.7	1.8	2.0	2.1	2.2	2.4
Inventory / Sales (days)	78	74	67	64	64	63
Receivables (days)	94	85	76	85	84	83
Payables (days)	34	35	34	36	38	40
WC cycle (ex-cash) (days)	138	124	109	113	110	106

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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%)