

Netting the benefits of innovation

GWRL is a niche player in technical textiles with a strong export franchise (46% of revenue). Expertise in fibre technology and polymer processing holds it in high repute among makers of high wear & tear and high impact products. Diversifying from a twine/rope manufacturer (shipping) in FY94 to netting (fishing, sports, agri), GWRL is evolving into a leading player in geosynthetic (infra) and coated fabric (Defence). CMD Vayu is aggressive with focus on premiumisation, export and professionalising the team; hired Rehman as COO and host of professionals. Valuation of 25.8x FY16 (20x TTM) is inexpensive for a market leader given 18% RoE (FY16) and ~40% EPS CAGR over FY13-16, low capital intensity and GWRL's balance sheet strength to invest for 20%+ growth. Rising exposure to GOE and attrition are key risks.

Competitive position: STRONG

Changes to this position: POSITIVE

'Peerless' player in technical textiles globally

GWRL is unique in technical textiles with a product range unmatched globally. Key competitive advantage is its understanding of fibre technology and polymer processing, which enables it to sell 3,000 products to >80 countries. GWRL is the domestic leader in fishing nets and a top 5 player globally. It is India's largest exporter of sports nets (Wimbledon, English Premiere League).

High entry barrier; strong export franchise

GWRL's strength is product innovation. It has certifications from global agencies like The Cordage Institute, USA, The Oil Companies International Marine Forum and Russian Maritime Registrar. It has a strong export franchise, offering bespoke solutions over a strong distribution network. GWRL enjoys robust pricing power; gross margin improved (58% in FY16 vs 54% in FY07) with share of exports rising from 35% of revenue in FY07 to 46% in FY16.

Agri, geosynthetic and Defence key drivers given low penetration

Penetration of technical textiles is low in India vs Europe/US. But its prominence is rising (a) in agriculture given falling acreage and need for better yields; (b) in infrastructure (geosynthetic) given rising usage of environment friendly products and (c) in Defence after GWRL tied up with DRDO to introduce specialised products like flexible helipads and aerostat balloons.

Valuations inexpensive for a market leader with strong balance sheet

Valuation of 20x TTM appears inexpensive when seen in light of GWRL's low capital intensity, robust balance sheet and strong FCF to fund capex to double its revenue. This is critical given huge growth potential led by: (a) new product offerings in coated fabric, agriculture, geosynthetic, (b) new export markets; for instance fishing market in Japan; and (c) new innovation given GWRL's focus on consistently launching valued-added products.

Financial snapshot of GWRL

Year to March (₹ mn)	FY12	FY13	FY14	FY15	FY16
Operating income	5,783	5,994	6,846	7,822	8,248
EBITDA	670	597	556	779	976
Net profit	240	247	267	431	619
EPS (₹)	10.1	10.4	12.1	19.7	28.3
Reported RoE (%)	9.9	9.5	9.8	14.7	18.3
P/E (x)	72.1	70.2	60.2	37.1	25.8
P/BV (x)	6.9	6.5	5.8	5.2	4.4

Source: Company, Ambit Capital research

NOT RATED

Recommendation

Mcap (bn):	₹16/US\$0.25
6M ADV (mn):	₹11.6/US\$0.2
CMP:	₹730
TP (12 mths):	NA
Downside (%):	NA

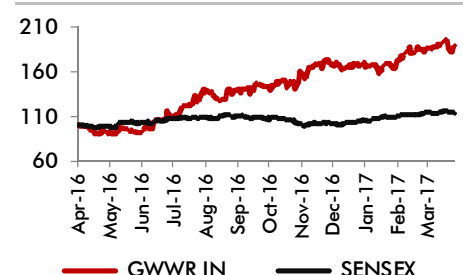
Flags

Accounting:	GREEN
Predictability:	AMBER
Earnings Momentum:	GREEN

Catalysts

- Breakthrough in Japanese fishing market
- DRDO approval for new products

Performance (%)



Source: Bloomberg, Ambit Capital research

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The Garware Group

About the group companies

Founded by Bhalthandra Garware, the group has operations across various businesses, including manufacturing of polyester films, bristles, ship repairs, technical textiles and offshore support services. Whilst the group companies were promoted by Mr. Bhalthandra Garware, their managements are separate and the companies are run independently by different family members. Intergroup holding between companies is minuscule; Garware Wall Ropes (GWRL) holds a marginal 0.6% and 0.9% stake in Garware Polyester and Garware Marine Industries. Similarly, Garware Polyester holds a meagre 1.8% stake in GWRL.

GWRL is the most valuable company in the Garware Group with superior cash flow (FY14-16 CFO/EBITDA of 138%) and strong RoE (15% over FY14-16)

Exhibit 1: Garware Group - snapshot of various listed group companies

Company name	Business description	Year of incorporation	Key member	Promoter holding (%) #	Mcap (₹ mn)	FY16 (₹ mn)				
						Revenue	EBITDA	PAT	CFO	RoE (%)
Garware Polyester Ltd	Manufactures polyester films for a variety of end applications, such as packaging, electrical & motor and cable insulations, shrink film for label application, coloured polyester films for window tint application, sequin, TV screen, safety etc.	1957	S.B. Garware	60.6	3,041	8,575	811	165	1,012	2.9%
Garware Synthetics Ltd	Manufactures nylon monofilaments, bristles, fishing line & PP bristles. Initially, the company was engaged in manufacturing and marketing of fishing nets. However, the manufacturing and marketing activities have ceased to exist from August 2013 and the company now runs a ship repair division.	1958	Sunder K. Moolya*	45.8	53	79	1	2	1	N/A
Garware Marine Industries Ltd	One of India's leading players in the technical textiles sector, providing specialised solutions to the cordage and infrastructure industry worldwide.	1975	Aditya A. Garware	37.3	52	12	(8)	0	(4)	0.0%
Garware Wall Ropes Ltd	Engaged in providing offshore support services to exploration and production companies.	1976	Vayu R. Garware	50.7	15,980	8,248	976	619	1,295	18.3%
Global Offshore Services Ltd		1978	Ashok Garware	33.0	1,350	3,721	1,171	(113)	1,045	-2.4%

Source: Company filings, Ambit Capital research. Note: *Company is owned by Nihal C. Garware & family however it is run by professional management; #as of Dec-16. N/A indicates Not Applicable due to negative equity.

Undoubtedly, GWRL is the most valuable company in the group with superior cash flow profile, healthy return ratio and the highest revenue/EBITDA CAGR over FY13-16 (see exhibit 2 below):

Exhibit 2: GWRL is the most valuable company in the group

Company name	(FY13-16)		(FY14-16)		
	Rev CAGR	EBITDA CAGR	Median EBITDA margins	Median RoE	Median CFO-EBITDA
Garware Polyester Ltd	3%	6%	8.2%	2.9%	131%
Garware Synthetics Ltd	2%	19%	-1.4%	N/A	33%
Garware Marine Industries Ltd	-50%	N/A	-93.4%	-16.9%	-50%
Garware Wall Ropes Ltd	11%	18%	10.0%	14.7%	138%
Global Offshore Services Ltd	11%	-7%	43.6%	10.2%	92%

Source: Company, Ambit Capital research. Note: N/A indicates Not Applicable due to negative equity; losses.

GWRL: The group's flagship company

Established in 1976 in technical collaboration with Wall Industries Inc, USA (one of the leaders in rope-making globally in 1976), GWRL is one of the leading players in technical textiles providing specialist solutions to the cordage and other industries. GWRL has a diversified portfolio ranging across fishing, shipping, infrastructure, aquaculture and sports.

These products are made of yarn and threads of synthetic fibres, including polypropylene, polyethylene, polyester and nylon. GWRL is certified for its products by reputed global agencies like The Cordage Institute, USA (CI), The Oil Companies International Marine Forum (OCIMF) and Russian Maritime Registrar of Shipping (RMRS) which makes GWRL one of the preferred partners for various companies globally (see exhibit 3 below).

GWRL was established in 1976 in technical collaboration with Wall Industries (USA); one of the leaders in rope-making globally in 1976

GWRL's products are certified by reputed global agencies

Exhibit 3: GWRL is known for its products globally across various products

Key Products	Market positioning	FY16 revenue share (%)	Key clients/ customers/ geographies
Fishing	<u>Leading supplier</u> of nets, ropes and twines for deep-sea fishing. No.1 in India with 65% market share and top 5 globally.	20%	Indian Navy, ONGC, Coast Guard, IOCL
Aquaculture	<u>Globally renowned</u> for aquaculture cages and predator systems.	15-20%	Strong presence in Canada, USA, Norway, Scotland, Australia, New Zealand, Chile
Agriculture	<u>Premium player</u> in various types of agri nets like shade nets, insect protection nets etc.	15%-20%	Primarily caters to the domestic market; supplying to farmers and corporates
Shipping	<u>Leading supplier</u> of mooring ropes (used to keep vessels secured) to shipping companies globally.	12%-15%	Adani Ports and Special Economic Zone
Sports	<u>Leading supplier</u> of nets for tennis, football, cricket, golf, basket-ball, beach volley ball and Ski nets for tournaments globally; <u>largest sports goods exporter from India</u>	10%	Varroc-Vengsarkar Cricket Academy; GWRL's nets are also used in several professional tournaments, such as Wimbledon, English Premiere League, American Baseball League, Irish Football League
Infrastructure	For industries it provides solutions for tower erection, lifting, material handling and safety net solutions for infra projects.	7-8%	Konkan Railway Corp. (KRCL), Hind. Zinc, Chennai Airport
Others	<u>Unique player in defence</u> ; supplies flexible helimats, aerostat balloons to the sector. Also, makes jute bags, woven sacks and reinforcements	10%-15%	Indian Defence sector

Source Company, Various press articles, Ambit Capital research

Exhibit 4: Brief summary of business verticals of GWRL

Key Products	Applications	Revenue share (FY16)	FY11-16 CAGR
Nettings	Various types of nets that find application across sectors, such as deep-sea fishing, agriculture, sports, etc.	52%	17%
Twines, Ropes & Yarns	Ropes find application across various users in the Heavy Engineering, Shipping, Transmission, Safety and allied industries. Yarn gets used for stitching purposes across various industries, such as Fertilisers, Food Grains, Foot Wear, Filter Fabrics and other allied industries.	35%	4%
Coated Fabric	Used for various applications ranging from transportation to sports.	4%	49%*
Woven Fabric	Finds usage in several products, such as mats, table cloth, etc.	1%	3%
Metal Gabions	Finds usage in Retaining walls/Mass gravity walls/Landslide mitigation projects.	1%	-16%
Traded Goods (including supplied under contract)	This includes contract revenues from Fibre & Industrial Product & Project segment.	8%	6%

Source: Company, Ambit Capital research. *This is CAGR over FY12-16 since the company did not have any revenues from coated fabrics in FY11.

GWRL's exports share has been consistently rising and now accounts for 46% of FY16 revenues versus 37% in FY11. GWRL is also the largest exporter of sports goods from India. Further, GWRL has received several accolades from Indian and International institutions for innovation and exports in sports, aquaculture and fishing nets.

GWRL is also the largest exporter of sports goods from India

Exhibit 5: In recent years, GWRL received several accolades for innovation and exports across various segments

Sr. No.	Year/month	Details
1	Dec-13	'Top Exporter Award' from 'The Plastics Export Promotion Council'
2	Mar-15	2nd Most Innovative Exporter at the ECGC – D&B Indian Exporters' Excellence Awards 2015
3	Aug-15	Awarded the Highest Sports Goods Exporter Award from the Sports Goods Export Promotion Council
4	Sep-15	'Top Exporter Award' from 'The Plastics Export Promotion Council'
5	Oct-15	Awarded the Best Aquaculture Cage Net Manufacturer Award at the Aqua International (AI) Awards 2015 along with a Certificate of National Appreciation for achieving Best Innovation & Performance in the Profession of Cage Net Manufacturing
6	Nov-15	'Institutional Award for R&D Works' by Central Board of Irrigation & Power (CBIP)- for its contribution to the geo-synthetics sector in the country

Source: Company, Ambit Capital research

GWRL has received several Indian and international awards for innovation and exports in sports, aquaculture and fishing nets

Primary checks indicate 'unmatched quality'

Our checks with channel partners, GWRL's customers, competitors and ex-employees in India suggest that GWRL's product quality is unmatched in the industry. This is the case with both netting as well as ropes. In netting, GWRL's nets are popular in fishing, agri, geosynthetic and sports. GWRL's ropes are more popular in shipping.

Netting: Market leader, premium pricing

In a fragmented market like netting (majority of the market is unorganised), GWRL is one of the market leaders with ~65% market share in fishing nets despite its pricing being at least 30% premium to peers. The key differentiating points highlighted for its nets were: (a) high shock resistance (absorbing shock effects without breaking); (b) UV resistance (helps to protect against degradation); and (c) better knot stability (resulting in durability and strength).

Within netting, GWRL's nets are most popular in: **(a)** fishing – they enable in better catch given better mouth opening and also help in saving on diesel cost because of reduced drag on the net; **(b)** flower and vegetable farming – helps in bettering yields and protecting crop failure; and **(c)** sports net like cricket, tennis and volley ball – very durable and strong to withstand the impact of the ball.

However, demand for GWRL's nets is not high among local clients (local fisherman, local sports clubs, small corporates and local farmers) given these are price conscious customers and GWRL is not prepared to negotiate on pricing. Also, availability of its products in markets where locals go for buying is rare as GWRL does not supply to majority of distributors in these markets so as to position itself as a niche supplier.

Shipping: Market leader in India, strong export franchise

GWRL is very popular for its mooring ropes (8 strands); used for parking vessels. Its most popular mooring rope is the Plateena rope made with Dyneema (a multi-filament fiber) which has extreme strength and minimal weight. For this rope, GWRL has a tie-up with DSM, Netherlands (globally reputed for supplying Dyneema fibre, the world's strongest fibre). These ropes have the same strength and diameter as the steel wire rope; advantage over steel wires are: **(a)** these ropes do not require any oiling/greasing, thus saving manpower cost and is environment friendly as well; and **(b)** for the same strength of a steel wire rope, the weight is one-seventh or one-fifth times lower.

GWRL's mooring ropes are the most expensive; nevertheless it is the market leader in India given it plays the critical role of saving ships from damage. The nearest competitor is Tufropes. GWRL's mooring ropes are known for its: (a) high strength to weight ratio, this is important as it enables downsizing of the ropes keeping the strength intact; and (b) chemical and UV resistance, this is important for the ropes' durability given ships travel across countries, which means ropes have to resist extreme weather conditions.

GWRL is a market leader in fishing nets with ~65% market share

GWRL's nets are known for (a) high shock resistance; (b) UV resistance; and (c) better knot stability

GWRL's most popular rope is the Plateena; a higher strength to weight ratio and no greasing requirements are key advantages over steel wire ropes

GWRL mooring rope is the most expensive and known for high strength to weight ratio and chemical and UV resistance

Exhibit 6: Primary data checks suggest GWRL is an epitome of 'top notch quality'

PD details	Comment
Distributor of GWRL 8-strand ropes, Katha Bazar (Mumbai)	<p>GWRL is one of the oldest manufacturers of mooring ropes in India.</p> <p>Given the superior quality and critical application, GWRL's products command a significant (>30%) premium.</p> <p>Certain shipping companies, while sending an enquiry, specifically mention 'Only GWRL' ropes.</p>
Distributor of GWRL 3-strand ropes, Katha Bazar	<p>GWRL's R&D facility and the manufacturing plant in Wai is top notch.</p> <p>Given the superior quality (tested for UV stabilisation), these ropes have a higher life (minimal wear and tear).</p>
Damodar Tandel, President of various fishermen societies and Employee Unions, Maharashtra	<p>Distribution network isn't up to the mark in local markets, their strategy is to stay niche.</p> <p>These nets have a life of up to 15 years versus 7-10 years for others.</p>
Purchase Manager, one of the biggest sports retailers in Mumbai	<p>GWRL's sports nets are most premium quality (higher strength and impact resistance) versus peers and hence command more than 50% premium.</p> <p>All major tournaments, such as Wimbledon, English Premiere League use GWRL's nets.</p> <p>GWRL's nets are approved by various Federations.</p>
Jim Traynor, Chairman, W&J Knox, Scotland, a market leader in the aquaculture industry in Scotland	<p>GWRL has carved a niche for itself due to its innovations and consistency in quality.</p> <p>It has built up a large capacity in aquaculture to meet the demand of global customers.</p> <p>We are more than happy to be associated with the company.</p>
Krushna Tidke, a farmer from Niphad taluka in Nashik, Maharashtra	<p>My yield has improved considerably after using GWRL's shade net for crops like capsicum, strawberry</p> <p>This has also encouraged other farmers to grow their crops under shade nets.</p> <p>These nets are quite good in quality, UV protection and durable.</p>

Source: Company, Ambit Capital research

What we like about GWRL

As per our channel checks, GWRL is a unique company with no competitor having a product portfolio as diversified as GWRL globally. Whilst there is competition in each segment in which GWRL operates, most are fragmented ([click here](#) to understand the number of fragmented players in each product), with product offerings primarily standard and not made to order. This implies that barriers to entry are very high in this business. Its key strength is relentless focus on new product innovation led by its philosophy of offering customised solutions. This allows GWRL to have superior pricing power across its diversified product portfolio. In the domestic market, GWRL's products sell at a premium of at least 30% over peers.

None of GWRL's domestic or global competitors have an as diversified portfolio as GWRL

Unique capability of understanding polymers

GWRL's key competitive advantage is its multi-discipline expertise in the fields of polymer engineering. As per our interaction with its senior ex-employees, GWRL's key competitive advantage is its understanding of the fibre technology and knowledge of polymer processing; it was in 90s that the trend of launching value-added products started. This allows GWRL to study the end-application of the customer and come out with customised solutions on a consistent basis. GWRL is the only company globally which sells ~3,000 different products to over 80 countries. GWRL has developed this skill through application knowledge and experience gathered in various sectors like fishing, shipping, coated fabric, agriculture and geosynthetic.

GWRL's key competitive advantage is its understanding of the fibre technology and the knowledge of polymer processing

– Former senior employee

If we go by customer reviews across different products, the central message is that GWRL helps them with solutions that are more lasting, much stronger than conventional products and easy to handle because the products are light, flexible and easy to transport.

GWRL is the only company globally which exports ~3,000 different products to over 80 countries

For instance, in the exhibit 7 below, we highlight what the various end-users of GWRL's products have to say about the strength and the underlying benefits:

Exhibit 7: Key benefits associated with using GWRL's products as per its customers

Name of client	Product	Comments
PMC's Varroc - Vengsarkar Cricket Academy	Sportiva- Cricket Batting Cage Nets	"We have found the nets very durable and strong to withstand the impact of the ball at high bowling and hitting speed."
Adani Ports and Special Economic Zone	New Generation Plateena Ropes (52mm)	Compared to conventional synthetic ropes, GWRL's New Generation Plateena ropes get replaced after much more number of operations resulting in cost savings and could withstand heavy surges during Towing operations during 4 months of Monsoon.
Kerala State Electricity Board	Plateena Ropes (16mm and 20mm)	"The rope is very light, easy to handle, easy to transport, flexible and very strong."
Various Boat Owners	Garfil STAR Nets	Using Garfil STAR nets resulted in diesel and cost savings and were very helpful for fishing activities.
Various farmers	Agri Nets	GWRL's agri nets, such as white nets and red nets are stronger and more durable; and resulted in better quality of crops, better UV protection and better yield of crops (up to 50% in certain cases)

Source: Company, Ambit Capital research

Tufropes seems to be the only company which comes close to GWRL in terms of product range. However, its revenue is 35% of GWRL's and PAT margin of 5.6% in FY15 was in line with GWRL's 5.5%. However, this has been declining for Tufropes even as GWRL has managed to improve margins (see exhibit 12 on page 8 below). Further, whilst Tufropes' revenues have compounded at 18% over FY12-15 versus 11% for GWRL, PAT has only compounded at 1% versus 21% for GWRL. As per our interaction with ex-employees, companies based in the USA and Europe are shutting shop and outsourcing to low-cost nations like Vietnam, the Middle East and India given this business, especially that of fishing nets, is labour intensive.

Tufropes seems to be the only domestic competitor, however its revenue is only ~35% of GWRL; PAT has only compounded at 1% over FY12-15 versus 21% for GWRL

Big players like SRF (Mcap US\$1.5bn) do have presence in technical textiles but their focus is not much on this segment. As per our specialty chemicals analyst, Ritesh Gupta, SRF's revenue from cordage and netting is only ₹5bn versus GWRL's ₹10bn in FY17E. One of the reasons for SRF's lack of focus in technical textiles is lack of investment in building a distribution network given SRF's portfolio is B2B. Also, SRF's cordage and netting portfolio is commoditised and derives very low RoE.

Big players like SRF do have presence in technical textiles but their focus is not much given commoditised portfolio

High entry barriers

GWRL's products are used for critical applications. The end-users of GWRL's products run a lot of risk like damage to property and/or reputation in the event these products fail. For instance, GWRL's nets are used in:

- marquee tournaments like Wimbledon, Irish Football League and English Premiere League; if these nets are found defective then there can be a lot of reputational damage to these federations for using inferior products;
- agriculture; for protective farming where the risk of damage to the crop can be significant in the event an inferior net is used;
- aquaculture cages; these cages are for protecting the fishes, aquatic plants, algae from the predators; and
- fishing nets; if by paying a hefty premium for buying these nets there is no added value in terms of a good catch alongside cost saving in the form of lower fuel cost per kg of fish catch then fisherman will not buy these nets.

In ropes too, the applications are critical. For example: **(a)** mooring ropes used by ships for anchoring; in the event of any defect in the rope there can be a significant damage to the ship; **(b)** ropes used in geosynthetics to provide turnkey solutions in rock fall mitigation, coastal and river protection and industrial landfills.

For products to be proved superior, these products have to receive a number of certifications from reputed domestic and global agencies. GWRL is the only company in India to have received a host of certifications from several of these agencies. Tufropes is perhaps the only other domestic competitor to have received certifications from only a handful of these agencies.

Lastly, it is also a very tedious process to break into a new client given GWRL does not sell this directly to OEMs. GWRL has to work closely with distributors, which in turn deal with multiple established companies.

GWRL's products are used for critical applications; GWRL's clients run a lot of risk like damage to property and/or to reputation in the event these products fail

GWRL is the only company out of India to have received a host of certifications; Tufropes, the only other competitor has received only a handful of these

It is a tedious process to break into a new client; GWRL has to build a distribution network globally too

Exhibit 8: GWRL's products have received many more certifications than Tufropes

Standards observed	About the agency	GWRL	Tufropes
BSEN - European Standard in UK	BSI Group, formulating the BSEN standards, is the national standards body of the United Kingdom.	Yes	No
BIS - Indian Standards	The Bureau of Indian Standards, formulating the BIS- Indian Standards, is the national Standards Body of India.	Yes	Yes
JIS - Japanese Standards	Japanese Standards Association specifies the Japanese Industrial Standards (JIS) that are used for industrial activities in Japan.	Yes	No
EN-ISO - International Standards Organisation	The International Organization for Standardization is the world's largest developer of voluntary international standards that facilitate world trade by providing common standards between nations.	Yes	No
CI - Cordage Institute USA	The Cordage Institute, USA is an international trade association of fibre rope manufacturers, their suppliers and affiliated end-user organisations.	Yes	No
OCIMF - Oil Companies International Marine Forum	OCIMF is the voluntary association of oil companies that have an interest in the shipment and terminalling of crude oil and oil products.	Yes	Yes
ASTM - American Standards For Testing Methods	An international standards organisation that develops and publishes technical standards for a wide range of materials, products, systems and services.	Yes	No
RMRS: Russian Maritime Registrar of Shipping	Develops RS rules and guidelines that comply with requirements of international standards to ensure safety at sea and pollution prevention.	Yes	No
DNV.GL	Provides classification, technical assurance, software and independent expert advisory services to the maritime, oil & gas and energy industries.	No	Yes

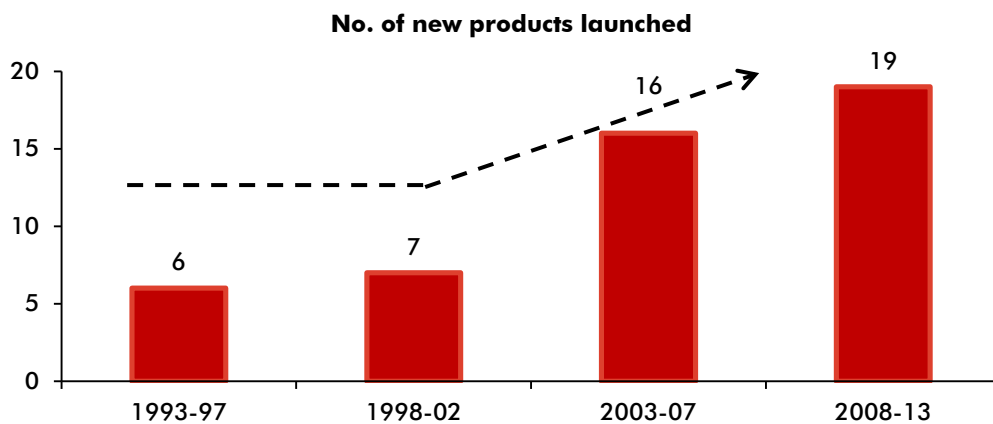
Source: Company, Ambit Capital research

Consistent product innovator, robust pricing power

GWRL has never shied away from product innovations; albeit the pace has significantly improved since Vayu Garware joined the company in 1996. When compared with Tufropes, GWRL has high presence across various segments of technical textiles. Also, within each segment, the number of SKUs is higher. Possibly, this is the reason why Tufropes' FY16 revenue is ~65% lower than GWRL and has seen a decline in its margins; GWRL on the contrary has seen margin improvement over FY12-15 period.

Since Vayu joined GWRL in 1996, the pace of product innovations has consistently increased

GWRL has a higher presence across various segments of technical textile relative to Tufropes

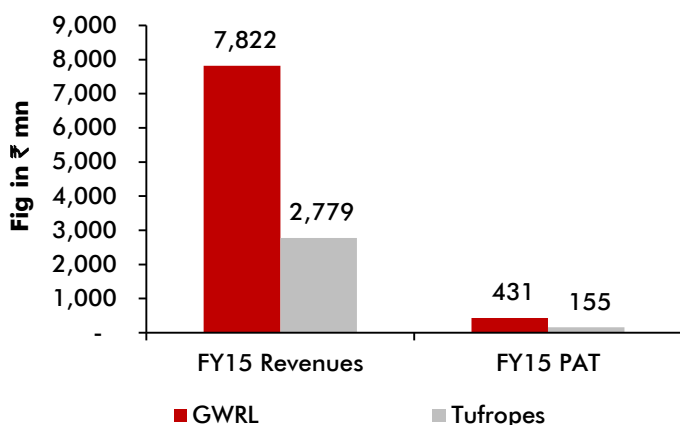
Exhibit 9: GWRL has consistently undertaken product innovation and the pace has only increased with time


Source: Company, Ambit Capital research. Note: This exhibit is based on the key milestones achieved by GWRL as disclosed on its website [here](#).

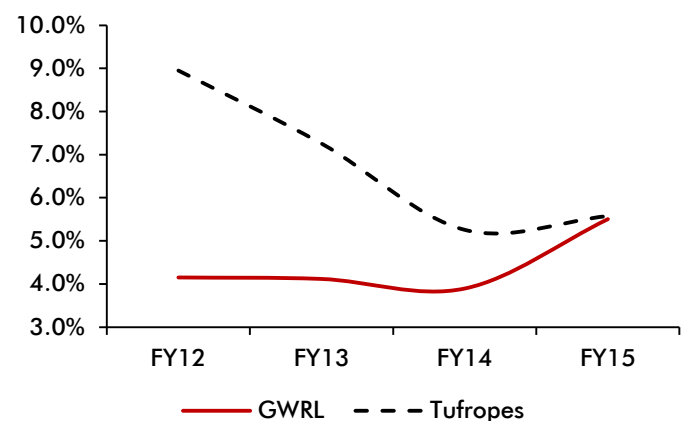
Exhibit 10: GWRL's SKU range is far more superior than that of Tufropes

Product category	Product range offered by GWRL	Product range offered by Tufropes
Fish nets	Product range includes Twisted and Braided Nets used in Trawling, Gill Nets, Dole Nets, Purse Seine Nets, Pelagic Nets	Twisted Netting, Braided Netting, Tufline Netting and Aquamarine
Aquaculture nets	Nylon and Star Cages, Predator nets, Bird protection nets, Sea lice treatment tarpaulins, Knotless nets	Aquatic Cage, Nylon Cage, Top Cover and Predator nets
Sports Nets	Tennis, Cricket, Golf Practice, Golf Driving Range, Basket Ball, Beach Volleyball, Ski, Soccer, Badminton, Hockey, Volley Ball, Handball, Soccer Ball Carry, Pool and Batting Cage	Ski, Batting, Soccer, Volleyball, Tennis, Pool and Golf
Agriculture	Anti-Bird Net, Anti Hail Net, Shade Net, Crop Support Net, Grape Net, Sericulture Net, Insect Net, Staking Cord, Floriculture Net, Fencing Net	Tuf Tape Tape, Tuf Tape Mono, Tuf Mono Mono, Hail Net and Tuf Thermal
Ropes	3-Strand Industrial Ropes, 8-Strand Shipping Ropes, Speciality Ropes, 12-Strand Ropes, Braided Ropes and Mooring Ropes (Note: GWRL manufactures a variety of ropes within this category)	Supertuf 8-Strand, Supertuf Plus 8-Strand, Tufflex Sinking 3-Strand, Supertuf 3-Strand, Supertuf Plus 3-Strand, Lead Rope, Tufline 3-Strand, Tufflex 8-Strand, Tufflex Lite 8-Strand, Nylotuf 8-Strand, Tails, Tuffilm 3-Strand, IR Rope, Nylotuf Rope, Tufpet Rope, Tufflex Rope, Baler Twine and Sling
Other segments	Twines, Coated Fabrics, Geosynthetics, Yarn & Thread	-

Source: Company, Ambit Capital research

Exhibit 11: Tufropes' topline/PAT is much lower than that of GWRL given inferior product range


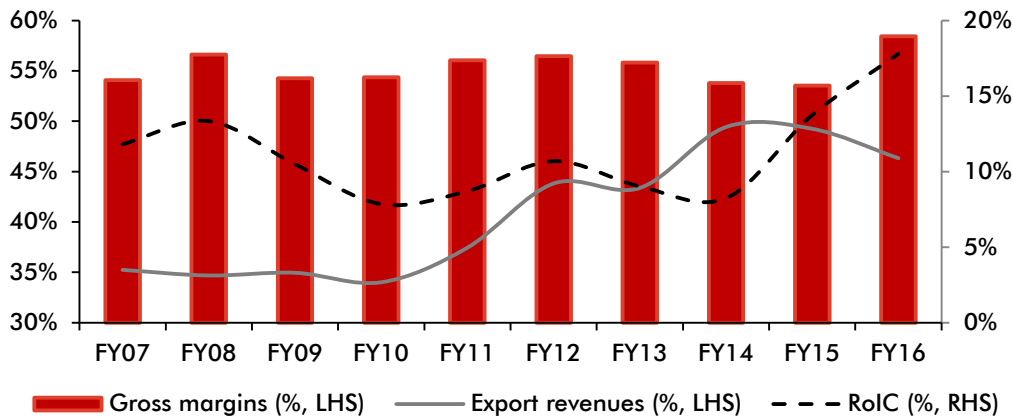
Source: Company, Ambit Capital research. Note: Data pertains to FY15.

Exhibit 12: Tufropes' PAT margin is more volatile than that of GWRL


Source: Company, Ambit Capital research.

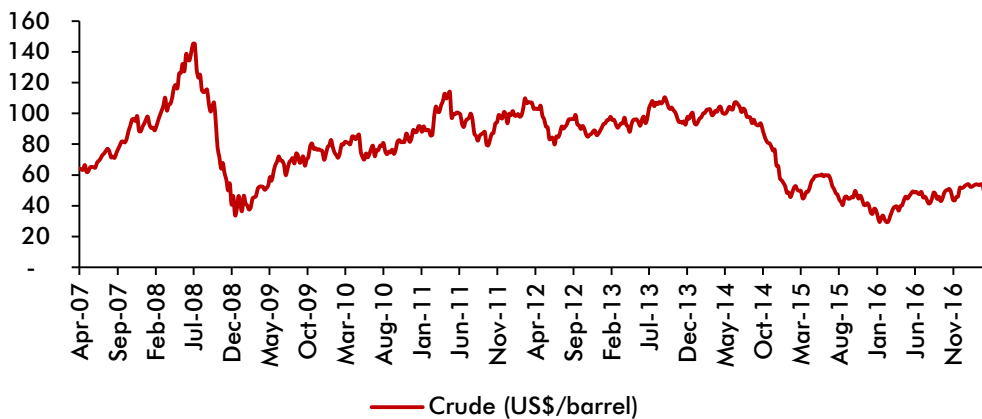
GWRL's products enjoy strong pricing power across products and markets. This can be corroborated from the consistency in gross margin (range of 53% to 58% over FY07-16) despite significant volatility in crude, which is the main input cost, and rising share of exports. Also, RoIC has improved from 12% in FY07 to 18% in FY16. It was only in FY16 and 9MFY17 that gross margin shot up to 58% and 62% respectively (from 54% in FY15) due to significant correction in crude prices, which is an anomaly.

Exhibit 13: GWRL's gross margin has been consistent over FY07-16 despite the rising share of exports...



Source: Company, Ambit Capital research

Exhibit 14: ...and despite significant volatility in crude, which is the main input



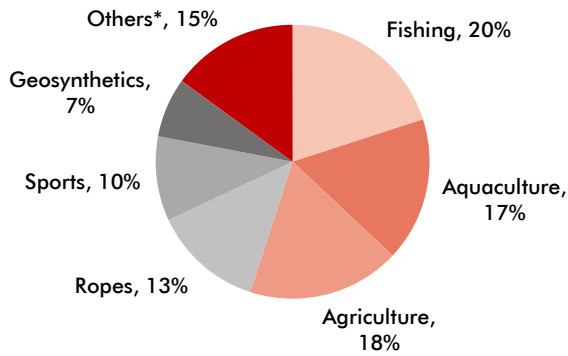
Source: Company, Ambit Capital research

Well-diversified product portfolio insulates GWRL from slowdown in any particular sector

GWRL has a well-diversified product portfolio compared to its nearest competitor, Tufropes. Whilst initially GWRL was only a ropes and twines manufacturer, ropes, twines and yarns contributed only ~35% of FY16 revenues. The new products that now account for the bulk of the FY16 revenue are nettings (52%), coated fabric (4%), woven fabric (1%), metal gabion (1%) and others that include traded goods (8%). Whilst GWRL does not report segment-wise revenues, in its FY15 AGM, GWRL had given a broad break-up of various segments. Fishing, aquaculture and agriculture account for the bulk of its revenues.

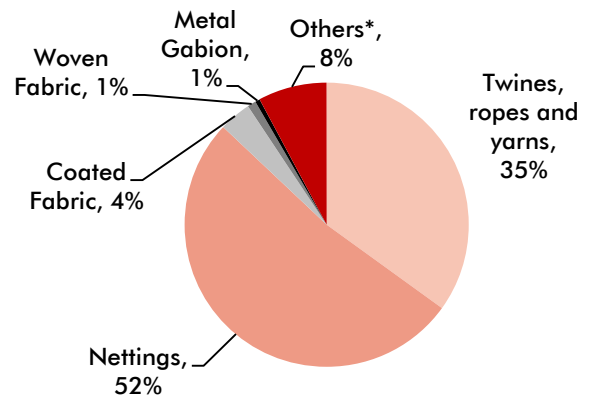
Whilst GWRL started operations as a ropes and twines manufacturer, in FY16, ropes, twines and yarns contributed to only ~35% of overall revenues

Exhibit 15: Segment-wise revenue break-up (as per FY15 AGM)



Source: Company, Ambit Capital research. Note: This segment-wise revenue break-up is based on the management commentary in its FY15 AGM as the company does not formally disclose the revenues from its various segments in its annual report. *Others include coated fabrics, jute bag, woven sack and reinforcements.

Exhibit 16: Product-wise revenue break-up (as per FY16 annual report)



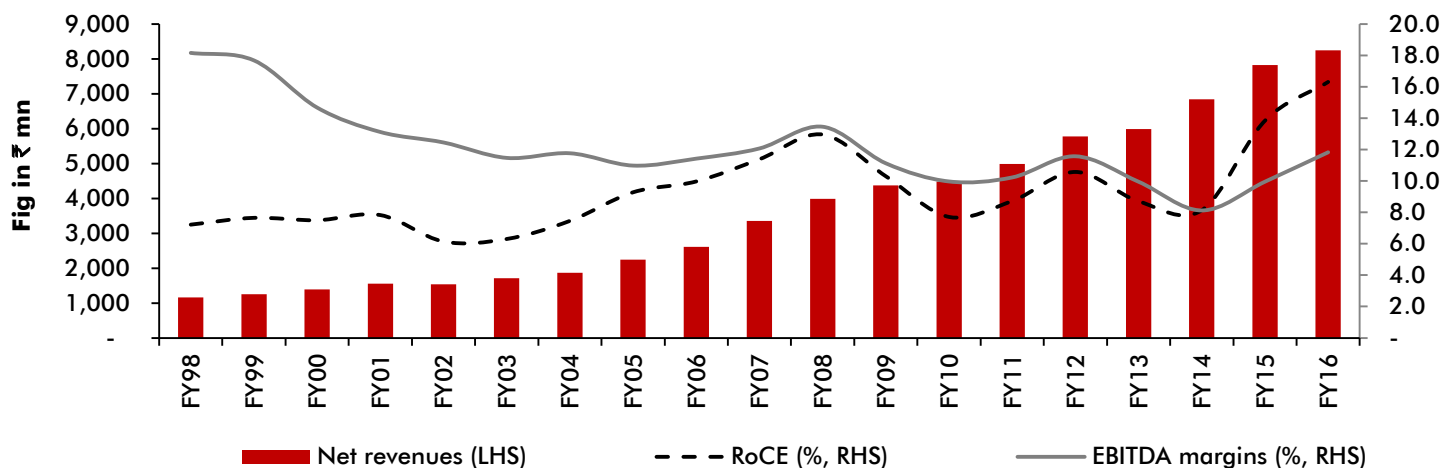
Source: Company, Ambit Capital research. Note: This product-wise revenue break-up is based on the FY16 annual report. *Others include traded goods, such as secugrid, membranes, steel wire ropes and nets, etc and goods supplied under contract.

Its well-diversified product portfolio insulates GWRL from any slowdown in any particular segment. For instance, in FY16, the fluctuation in crude oil prices affected the economies of several oil producing nations like Norway, the UK, Canada and the USA, resulting in lower demand for GWRL's aquaculture products. In spite of the slowdown, GWRL reported 25% YoY growth in EBITDA due to increased sales of its value-added products and strong growth in the sports goods sector.

Mapping GWRL's evolution

GWRL reported revenue CAGR of 12% over FY06-16. PAT CAGR is much higher, at 15%, led by 180bps PAT margin expansion on account of rising share of exports and value-added products. Median post-tax RoCE of 10.4% is low, but increased to 16.3% in FY16 led by improvement in margins and capital employed turnover from ~1.2x in FY06 to ~2.2x in FY16. Whilst gross block turnover improved from 1.5x in FY06 to 2.1x in FY16, working capital turnover nearly doubled to 4.2x from 2.2x in FY06.

Exhibit 17: Garware's revenue and RoCE trajectory over the past couple of decades; RoCE movement is largely a function of improving product mix



Source: Company, Ace Equity, Ambit Capital research. Note: RoCE is post-tax

Phase 1 (1976 to 1991): Commoditised product portfolio; was about to become bankrupt in 1991

GWRL was started in 1976 by B D Garware in collaboration with Wall Industries Inc, USA (global leader of ropes then). GWRL's focus then was primarily on fisheries and allied sectors in the domestic market with key products being ropes and twines. There was no focus on exports or for that matter entering into nets or any value-added products. By 1990, GWRL was almost on the verge of bankruptcy.

GWRL started business in 1976 with a commoditised portfolio of ropes and twines. Hence, by 1990, it was on the verge of bankruptcy

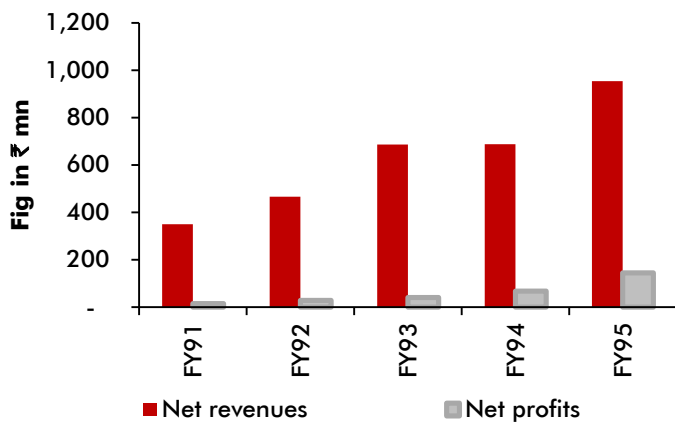
Phase 2 (1991 to 2007): Ramesh Garware turns around GWRL, Vayu joins in 1996

In 1990, Ramesh Garware took over the reins of GWRL from his father B D Garware and played an instrumental role in turning around the company. Over FY91-95, debt:equity reduced from 1.44x to 0.9x and RoCE improved from 8.8% to 17.7%. Focus on value-added products started off after Ramesh brought in his son Vayu in 1995 after he completed his BSc (Economics) from Wharton Business School. Vayu's prima facie goal was to transform GWRL from a pure-play cordage company to a technical textile company. GWRL has expanded its business from a more domestic focus in early 1990s to doing business in over 75 companies globally now.

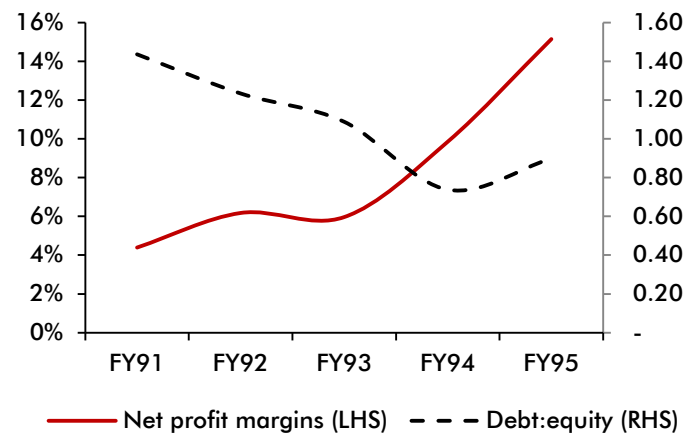
Ramesh Garware played an instrumental role in turning GWRL around back in 1990 when it was on the verge of bankruptcy

- Entry into new products (1995-02):** During this period, GWRL launched (a) Garfil Maxiflex Ropes, a type of mooring rope used by ships for anchoring vessels; (b) Geonets, which is used for drainage applications and road surfacing during construction and restoration of roads and (c) sports nets, which are used in tennis and football. The response to these products was a resounding success; revenue and PAT over FY94-96 virtually doubled.

Over 1995-97, GWRL started premiumising its portfolio; launched mooring rope, geonet and sports net

Exhibit 18: GWRL revenues and profits recorded a turnaround over FY91-FY95


Source: Company, Ambit Capital research

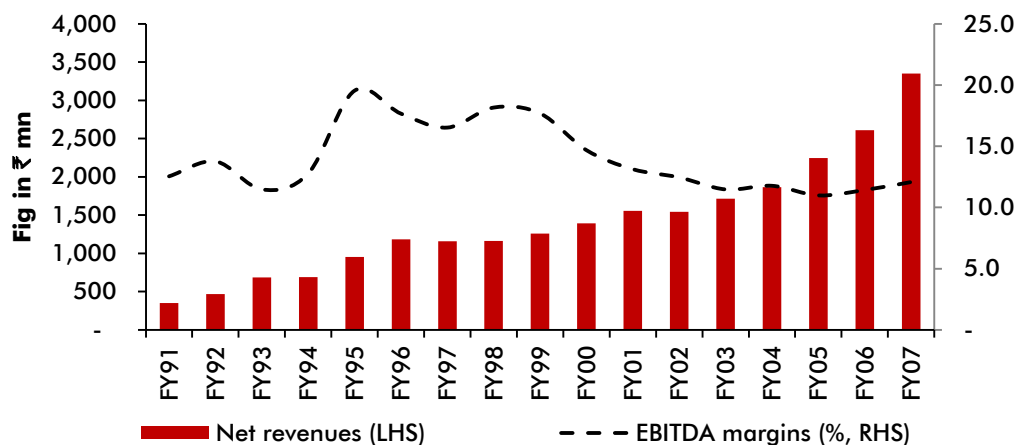
Exhibit 19: Margins expanded and GWRL also successfully reduced its debt


Source: Company, Ambit Capital research

- **Premiumising existing portfolio (1998-02):** During 1998-02, GWRL introduced (a) high-end sports cages which are used in various sports like cricket, golf and football; (b) sapphire braided nettings (premium fish net) which offer several advantages like less drag and more life given low wear and tear; and (c) mulch mats which are used for suppressing weed growth for new planted trees, conserve water and give insulation.
- **Entry into aquaculture (2003-07):** During this period, GWRL made an entry into aquaculture. It started off with manufacturing Garfil Nylon purse seine nettings for the domestic market; a premium product offering which has specialised resins. Subsequently, it started manufacturing valued-added products like (a) purse seine nettings as per Norwegian standards for selling it to the global markets; (b) aquaculture cages fabrication for high value Tuna fishes; (c) sapphire Aquaculture Cages fabrication; and (d) pelagic nettings.

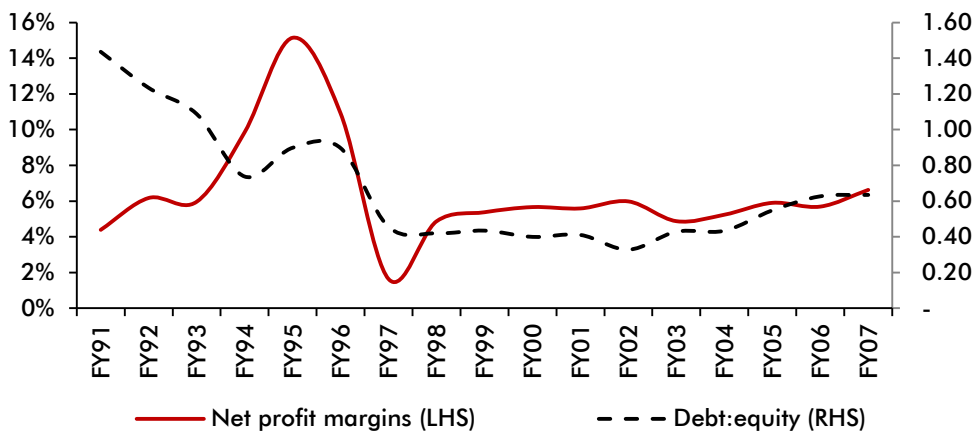
During 1998-02, GWRL launched sport cages, premium fish nets and mulch mats used for protecting new plants from weeds

Consequent to the success achieved in these new products, GWRL transformed into one of the largest synthetic cordage and netting companies in India.

Exhibit 20: GWRL has grown to become one of the largest synthetic cordage and netting companies in India


Source: Company, Capitaline, Ambit Capital research

Exhibit 21: Whilst PAT margin was volatile initially, after FY98 it has been fairly steady; debt-equity was modest by the end of this phase



Source: Company, Capitaline, Ambit Capital research

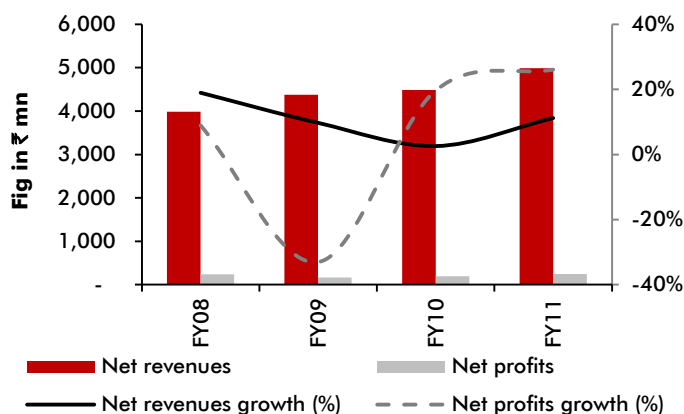
Phase 3 (FY07 to date): Transformational phase

This phase can be defined as the transformational phase in GWRL's lifecycle. Mr. Vayu became the CMD of the company during this period and stepped up focus on portfolio diversification and growing exports. He appointed Mr. Shujaul Rehman as the COO in 2012 (now the CEO). Mr. Shujaul has worked with Cadbury India, Marico, Apollo Tyres and CEAT. Whilst Mr. Shujaul has brought about a change in the culture of the organisation by hiring professional managers and enhancing GWRL's R&D capabilities, the most important message to the employees is the change in culture from a family-run shop to a professional outfit.

Post 2007, growth has largely been driven by entering new business divisions like agritech, coated fabrics and Defence; and increasing foray in new export markets like LatAm, Far East and South Asia

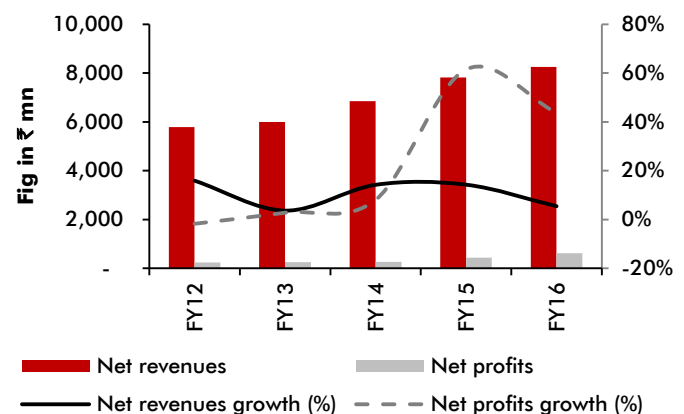
- In 2009, GWRL started two new business divisions, agritech and coated fabrics. In agritech, GWRL introduced various types of agriculture shade nets which are used for protective farming as discussed earlier. In coated fabrics, GWRL introduced products like tarpaulin, awnings and tents which are used primarily for providing shelter from sun water, fire and extreme cold.
- In 2013, GWRL entered the Defence sector by launching aerostat balloon, flexible helimats and inflated structures for radars.

Exhibit 22: Whilst GWRL's revenues compounded at 10% and PAT compounded at 2% over FY07-11...



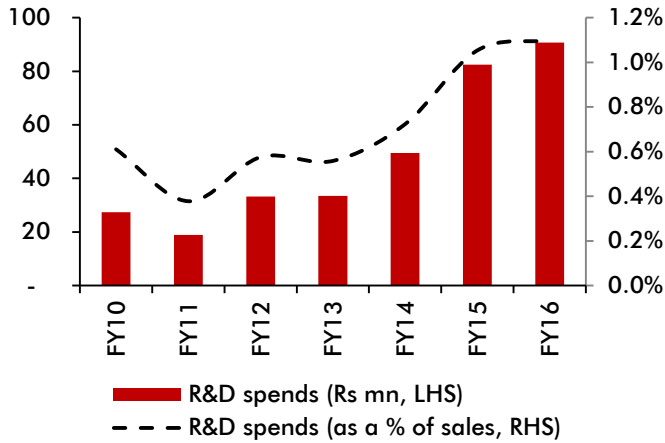
Source: Company, Ace Equity, Ambit Capital research

Exhibit 23: ...since Vayu took over, revenues compounded at 11% whilst profits compounded at 20% (over FY11-16)



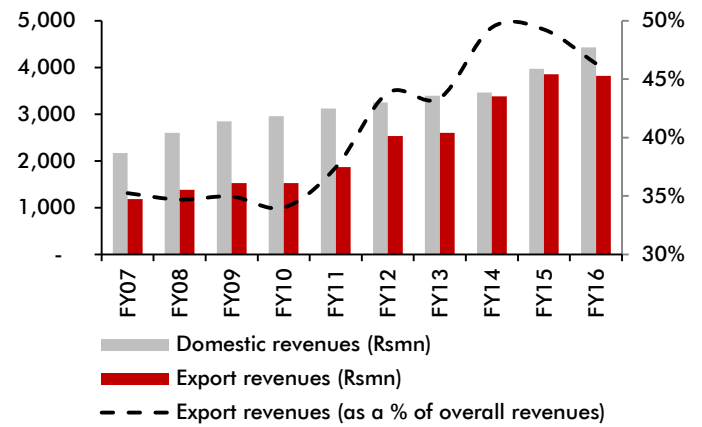
Source: Company, Ace Equity, Ambit Capital research

Exhibit 24: Increasing focus on innovation...



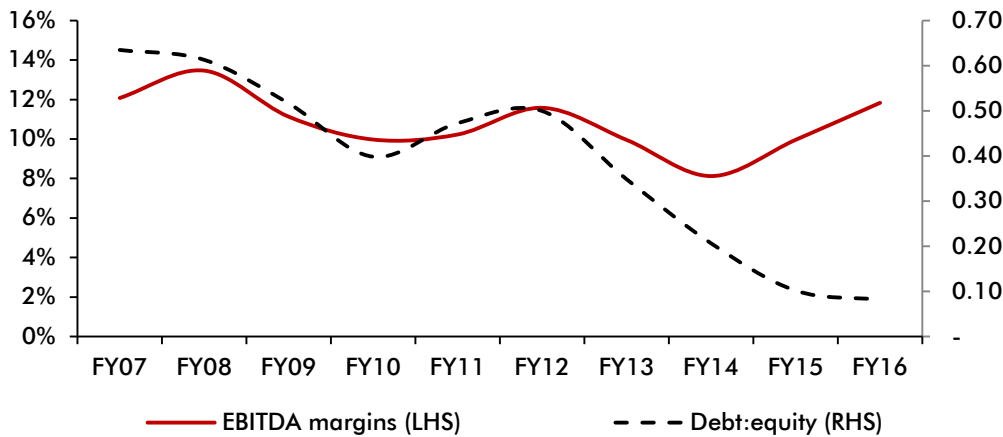
Source: Company, Ace Equity, Ambit Capital research

Exhibit 25: ...and rising share of exports boosted margins



Source: Company, Ace Equity, Ambit Capital research

Exhibit 26: GWRL has been successful in bringing down debt to minimal levels; margins albeit volatile initially, have witnessed an improvement in recent years



Source: Company, Capitaline, Ambit Capital research

Mapping the drivers

Quantifying GWRL's addressable market is difficult given its diversified product portfolio and also because hardly any company globally can be considered its peer. Moreover, since the time Mr. Vayu became CMD, the pace of new product development has significantly accelerated. Nonetheless, latest management interviews (click [here](#)) suggest growth will be driven by products for agriculture, geosynthetics and Defence.

Quantifying GWRL's addressable market is difficult given diversified product portfolio and hardly any company, globally, which can be considered its peer

Agri business to be the biggest driver

GWRL's products find application in protective farming which is fast gaining prominence in India and globally. With less than 1% of India's overall agricultural acreage under protected cultivation, protective cultivation is still in its nascent stage in India and we thus see huge opportunity for GWRL's agricultural nets, such as anti-bird nets, anti-hail nets, shade nets, etc largely driven by rising penetration.

With less than 1% of India's overall agricultural acreage under protective cultivation, we see huge potential for GWRL's agricultural nets in the domestic markets

Exhibit 27: Brief profile of GWRL's key products in the agriculture business

Product category*	Application
Anti-Bird Nets	Bird protection
Anti-Hail Nets	For protecting high-value Horticultural crops, such as apple from hail
Shade Nets	For protected cultivation of high-value crops
Insect Nets	Protect crops from insects
Fencing Nets	Protect agriculture fields from animal trespassing

Source: Company, Ambit Capital research. *The company also has presence in other segments, such as Sericulture Nets, Floriculture Nets, Crop Support Nets, Grape Nets, etc.

Given the overall acreage under agriculture is unlikely to meaningfully increase, new farming practices have to be introduced to improve the agricultural yield to meet the growing needs of the population. According to U.K. Behera, principal scientist, agronomy, Indian Agriculture Research Institute, New Delhi, "Protective farming is one such tool that can help meet this goal. Though protective cultivation entails a high initial expenditure that comes from putting up the greenhouse structures, farmers do not seem to mind the extra upfront cost as it offers high returns as well."

Whilst overall agricultural acreage is unlikely to meaningfully increase, there is a need for better yield to meet growing needs of the population

Several developed countries in Europe (Spain, Israel and Holland) have a very high dependence on protective farming with some countries having ~60% of agricultural acreage under protected farming. Further, in a country like Israel, agricultural acreage under protected cultivation is as high as ~70%. As this trend catches up in India, we see huge potential for GWRL's offerings in protective farming.

Further, with ~60-70% penetration in major developed markets, we see huge potential for GWRL's offerings in protective farming

There is a case to increase GWRL's exports as well in protective farming in developed countries in North America and Mediterranean regions given GWRL is a well-known name in the European countries, especially Norway, Scotland and Denmark.

Increasing usage of geosynthetic led by rising prominence in infra projects

In India, only 10% of the textile products are technical textiles as compared to developed countries like Germany where the share is already 50%. However, the usage is now increasing in India given these products have a longer life. They are environment friendly and help in saving cost. Within the technical textile segment, geosynthetic is gaining prominence given increasing applications in civil engineering applications, such as reinforcement, filtration, separation and production.

Only 10% of textile products in India belong to technical textile versus 50% globally

However, it is now gaining prominence given it has longer life span, saves on cost and is environment friendly

GWRL has developed and commercialised more than 20 products and solutions in the geosynthetic segment and has undertaken more than 150 pilot projects for clients like Konkan Railway Corporation, Hindustan Zinc, Chennai airport and Nabha Power. In the recent past, GWRL has actively worked with the Government for a range of infra projects. A few of the large projects that GWRL has executed, recently:

GWRL has developed and commercialised more than 20 products and undertaken more than 150 pilot projects for various Government organisations

- **Rockfall protection project awarded by South Central Railway.** GWRL used a patented technology (joint patent between Konkan Railways and GWRL).
- **Integrated coastal zone management project in Odisha** for protection of Penth village from the onslaught of Bay of Bengal. GWRL installed geo-textile tubes and created an embankment with toe mound, which will protect the village from coastal erosion.

Exhibit 28: A brief profile of GWRL's key offerings in the geosynthetic segment

Product category*	Application
Reinforced soil structures	For soil retention
Landfills	Waste containment, such as municipal solid waste and hazardous industrial waste for protecting human health and environment
Rock fall protection	Protection of life and property in mountainous terrains from rock falls
Geosynthetic lining	To arrest/prevent seepage (i.e. slow escape of liquids or gas); thus preventing contamination of aquifers
Coastal and river protection	For protecting shorelines, river banks, etc

Source: Company, Ambit Capital research. *Other segments include Gabion gravity retaining walls, Erosion Control & Embankment protection, etc.

Rising usage of coated fabric in Defence

GWRL recently entered PVC coated fabrics, which caters to sectors such as transport (tarpaulin), shelter (awnings, tents), biogas etc.; the main application is water proofing and UV resistance. Whilst there are several other companies which house these types of products like Supreme, Time Technoplast, GWRL's offering is unique. It has tied up with DRDO to introduce specialised products like flexible helipad, aerostat balloons and developed weather-proof enclosures such as inflated structure for radars to protect electronic equipment like electronic radar from damage in extreme conditions (earlier these were imported from Israel). GWRL is pitching for getting approval from DRDO for new products like high altitude clothing and materials and other intelligence and security applications (currently imported).

As per media articles (click [here](#)), GWRL is planning to target at least ₹1bn of revenue from the Defence sector each year over the next 3-4 years. Margins in this segment should be very good as GWRL will be replacing expensive material, which is now being imported mainly from Europe. However, Indian companies catering to the Defence sector don't enjoy high margins given they supply under the domestic content requirement (DCR) rule where several Indian companies compete for orders. In this case, GWRL will most likely be the only Indian company to be supplying these products given these will most likely be patented in a JV with DRDO.

Exhibit 29: A brief profile of GWRL's key products supplied to the Defence sector

Product category*	Application
Aerostat Balloons	For military surveillance
Flexible Helimat	To ensure safety of helicopter and pilot while landing and taking-off
Inflated structure for radars	To protect electronic equipments from damage in extreme conditions
Camouflage nets	To protect personnel and conceal equipment from observation by enemy forces

Source: Company, Ambit Capital research. *Other products include Inflatable boats, high-performance cordage, etc.

Exports to be a big driver of revenue

Sports, aquaculture and fishing nets contribute a majority of GWRL's exports revenue despite these categories accounting for only ~47% of FY15 revenues (Note: We do not have bifurcation of revenues for FY16). Given GWRL's strong domestic product portfolio in agriculture (~18% of revenues), geosynthetic (7% of revenues) and coated fabrics (4% of revenues), it's only a matter of time that GWRL will see strong exports for these product categories as well. As mentioned earlier, usage of products in protective farming and geosynthetic material is much higher globally.

GWRL has also stepped up its hiring globally. GWRL has been dependent on a lot of business partners globally for doing business but has now started hiring country managers. Recently, GWRL hired country managers in Norway and Chile, big markets for aquaculture.

Whilst there are several PVC coated fabric players in India, GWRL is unique as it supplies specialized products to DRDO

Margin in Defence should be high unlike other players which supply under the DCR rule where competition is cut throat

GWRL is pitching for getting approval from DRDO for its high altitude clothing and materials and other intelligence and security applications that are presently imported

We expect exports to be another big driver of GWRL's revenues over the next few years; GWRL has also recently hired country managers in Norway and Chile

Key takeaways from last three years' annual reports

Focusing on value-added products and exports

In its annual reports, GWRL has commented on increasing focus on value-added products across sectors like agriculture, aquaculture, coated fabric, fishing and Defence. The rationale is to increase exports. GWRL is focusing on South America, the Mediterranean region and North Europe. It is also investing in deepening its footprint in these markets; as highlighted earlier, GWRL recently hired country managers in Norway (Europe) and Chile (South America) to engage more closely with its customers given its philosophy of offering customised solutions.

In the annual reports, management talked about increasing focus on value-added products and increasing focus on exports

Exhibit 30: GWRL has launched a range of value-added products over FY14-16

Segment	Products launched
Aquaculture	Anti-predator nets, ultra-strong and algae-resistant nylon netting and aquaculture traps
Agriculture	Insect-protection nets
Coated Fabrics	GURU Max range of products
Defence	Weather-proof enclosures and airborne platforms
Fisheries	High-tenacity yarn nets and cod ends

Source: Company, Ambit Capital research

Related-party transactions and managerial remuneration

Related-party transactions negligible; high rent yield is a red flag

GWRL has negligible related-party transactions. The proportion of revenue and purchases from related parties is less than 1%. On loans and advances from related parties, there is an outstanding loan from Ramesh Garware which was given in FY14 to GWRL of ~₹126mn at the interest rate of 9% (now it has become ~₹157mn in FY16 due to accumulation of interest). This loan is yet not re-paid (despite ~₹832mn cash balance as on Mar'16) because it cannot be repaid until production of Probate of the Will dated April 6, 2012.

GWRL has negligible related party transactions; loan from promoter has not been repaid given pending probate of the Will

GWRL pays rent to Vayu for a flat sold in FY13 to Vayu for ₹102mn on a sale and lease back model. The rental yield on this is very steep at 7.7% in FY16 and this has increased from 6.2% in FY14. This is a **RED FLAG**. Moreover, the flat sold to Vayu in 2014 was sold at the book value, which again is a **RED FLAG**.

High rental yield on rent paid to Vayu and selling flat to Vayu at book value are red flags

Exhibit 31: Negligible related-party transactions

Particulars (₹ mn unless stated)	FY14	FY15	FY16
Net worth	2,749	3,100	3,648
Loan from promoter	132	144	157
Related party advances as a % of net worth	4.8%	4.6%	4.3%
Net revenues	6,846	7,822	8,248
Sale of goods/services	-	-	-
Sale of goods to related parties as a % of net revenues	0.0%	0.0%	0.0%
Total Purchases (Raw Materials & Traded Goods)	3,214	3,719	3,302
Purchase of goods/services	1	-	-
Total purchases from related parties as a % of total purchases	0.0%	0.0%	0.0%
Rent paid for flat	6	7	8
Rental yield*	6%	7%	8%

Source: Company, Ambit Capital research. Note: The flat was sold to Vayu for ₹102mn in FY13.

GWRL also keeps on taking deposits from multiple related parties. However, the interest paid on these deposits is high at ~16% assuming these deposits have been parked for the full year.

Managerial remuneration – High but well-deserved

GWRL pays ~₹48mn total managerial remuneration to Vayu (CMD); equivalent to 5.5% of PBT. Since the time Vayu became the CMD, his remuneration has increased significantly. Earlier, when he was whole time director, his remuneration was much lower at ₹7.5mn in FY11 (he became CMD in Nov'11). In FY13 (his first full year as being the CMD), Vayu's salary increased to ₹11mn and has compounded at 63% over FY13-16 vs PBT CAGR of 38%.

We believe paying a high remuneration to Vayu is justified. Our discussions with former senior employees suggest that Vayu has changed the DNA of the company since his appointment in FY12. Getting into the value-added product portfolio and increasing focus on exports are his initiatives (see page 8). In fact, since the time he became the CMD, the pace of launching valued-added products has stepped up (see page 8). Alongside this, he is trying to professionalise the management; soon after his promotion as CMD in Nov'11, he hired Mr. Shujaul Rehman in May'12 and appointed him as GWRL's COO. Vayu specialised in Finance from Wharton Business School. Other prominent hires are Atin Goel (National Sales Head), Mandar Bhide (Senior VP- Global Strategy & Business Development) and Kishor Darda (General Manager- R&D).

Vayu's remuneration has increased significantly since the time he became the CMD; in FY16 it was ₹48mn (5.5% of PBT)

Vayu has changed the DNA of the company; getting into value added product portfolio; increasing focus on exports and professionalizing the management are his initiatives

Exhibit 32: Remuneration paid to CMD – high but well-deserved

Particulars (₹ mn unless otherwise stated)	FY14	FY15	FY16
Net revenues	6,846	7,822	8,248
PBT	391	605	870
Remuneration paid to CMD*	20	31	48
Remuneration paid to CMD (as a % of net revenues)	0.3%	0.4%	0.6%
Remuneration paid to CMD (as a % of PBT)	5.1%	5.2%	5.5%

Source: Company, Ambit Capital research. *Note: This is total director's remuneration paid to Vayu Garware as per the related-party schedule.

Exhibit 33: GWRL- Key employees hired over the past 5 years

Employee Name	Designation	Previously worked with:
Atin Goel	National Sales Head	Videocon Consumer Durables, CEAT Tyres, Godrej Appliances
Mandar Bhide	Senior Vice President - Global Strategy & Business Development	Wiko Mobiles, Nokia, Marico, Godrej
Kishor Darda	General Manager- R&D	DSM Dyneema, Jai Corp
Anand Kabra	Polymer Technologist	Indian Oxides and Chemicals, APPL, DSCL, Shriram Polytech, Finolex Cables
Jayant Udakhe	Deputy Manager (R&D)	Wool Research Association

Source: Company, Ambit Capital research

Customer-centric annual report – Unique for a small-cap company

Impressive cover page

We are impressed with the cover page of each of the annual reports since FY08. Not only does it have a unique title each year, in 7 out of 9 years, the title is customer centric; very uncanny of a small cap company. Moreover, the message in each of the 7 titles is very clear and loud; *focus is on product innovation and customising solutions*. Also, in the cover page for most of the years, GWRL has shown its products, showcasing its diversified product offering to the customer.

In 7 out of 9 annual reports, GWRL's annual report titles are customer centric

Exhibit 34: GWRL's annual report titles too are consumer centric

Annual report for the year	Title
2008	Helping Ecology through Innovative Technology
2009	Success through Customer Satisfaction
2010	Envisioning a promising future
2011	Evolving, Enhancing, Excelling.
2012	Delivering Solutions, Adding Value
2013	Geared for Growth
2014	Changing Paradigms
2015	Surging Ahead
2016	Adding Value. Enhancing Performance.

In each of the cover pages GWRL has shown its products, showcasing its diversified product offering to the customer

Source: Company, Ambit Capital research

Exhibit 35: Annual report cover pages showcase GWRL's diversified product portfolio



Source: Company, Ambit Capital research. Note: These are the cover pages of the FY14, FY15 and FY16 annual reports.

Customer first

Since FY15, GWRL has made a change in the structure of the annual report. Immediately after the message from the chairman's desk is a section dedicated to what GWRL has done new that year for its customer.

For instance, in FY15, under the section titled "putting customer first", GWRL has highlighted valued-added products introduced in FY15. For instance, GWRL developed (a) new high-strength mooring ropes with low snap-back, high tenacity yarn nets and cod ends that reduce twine/net size during fish trawling; (b) anti-predator nets and ultra-strong algae resistant nylon net for aquaculture; and (c) weather-proof enclosures to protect electronic equipment in extreme conditions and airborne platforms for military surveillance.

Since FY15, GWRL has a dedicated section on what it has done new for the customer in that year. This section follows immediately after the message from the chairman's desk

In FY16, under the section titled "Expanding customer engagement", they have highlighted initiatives taken to create awareness of their products in agriculture. In agriculture, GWRL has set up model green houses, increased the fabricator and distributor network and deployed agronomists to give advice on crop management.

Valuations: A unique player

There is no direct comparable peer to GWRL given its diversified product portfolio. However, as its solutions are customised for B2B players and most of its revenue comes from exports, GWRL can be compared to AIA Engineering (AIA). Similar to GWRL, which acts as a partner/consultant for its clients and not a vendor to customise solutions for each of their requirements, AIA does this for its cement and mining OEMs. Like GWRL, AIA is also a unique company globally with very few peers.

However, the big difference between AIA and GWRL is that AIA primarily supplies to the cement and mining industries, which are extremely cyclical, while GWRL supplies solutions to diversified industries, which makes it less cyclical. Read more on this in the earlier section titled "Well-diversified product portfolio insulates GWRL from slowdown in a particular sector".

RoCE, cash conversion cycle and fixed asset turnover for both companies are very similar. However, AIA's revenue is 3x that of GWRL. In FY10, AIA's revenue was what GWRL's revenue is likely to be in FY17; **AIA then traded at 21x TTM vs GWRL trading at 20x**. Today, AIA trades at 31x and its share price has nearly quadrupled since FY10. The quadrupling of the share price was led by doubling of revenues over FY10-16 and 2.5x increase in EBITDA.

GWRL also has the potential to double revenue over the next five years and improve margins from 12% in FY16 led by rising focus on geosynthetic, coated fabric and agri nets, which are domestic-focused businesses and possibly high-margin because:

- In coated fabrics, rising focus in Defence can provide high margins given GWRL's products are replacing high-cost imports from Europe.
- In agriculture, we believe GWRL's products should have high margins as our channel checks suggest pricing is at least at a 30% premium to peers. This is because GWRL's nets have led to significant improvement in yield (important as acreage is falling) and also have longer life (at least 2x of peers).
- In geosynthetic, there is a possibility of strong revenue growth given low penetration in infra. GWRL's product offering is globally benchmarked versus commoditised portfolios of competitors like Maharshee and Tuflex. This makes us believe that margins in this product can also be higher than blended margins.

Valuation of 20x TTM also appears inexpensive when seen in light of GWRL's low capital intensity combined with its balance sheet strength and strong FCF. GWRL can easily fund capex, which can double its revenue in a year to address any new opportunity that comes through. GWRL's FY16 gross block was ₹4.2bn; as against this it generated CFO of ₹1.3bn in FY16 and has the balance sheet strength to raise ₹4bn debt (assuming net debt:equity of 1x).

AIA's valuation multiple re-rating in the last five years has come on the back of its success in mining. AIA had the balance sheet strength to address this new opportunity in mining, which is a huge potential given the penetration of high chrome grinding media is less than 20%. AIA has doubled its gross block over FY12-16 with minimal leverage (though in between it levered its balance sheet but now the debt has been repaid). More importantly, AIA increased its gross block by 7.5x over FY07-16, while leveraging its balance sheet in between but paring debt aided by strong FCF.

New opportunities for GWRL can emerge from: (a) new product offerings in coated fabric, agriculture, geosynthetic, as mentioned above, both in domestic and export markets, (b) new export markets; for instance GWRL can find success in the fishing market in Japan which is globally amidst the top 10 consumers of fish (GWRL presently has no exposure to Japan); and (c) any new innovation given GWRL's focus on consistently launching valued-added products.

GWRL can be compared to AIA given both provide unique solutions and majority of revenue come from exports

Big disconnect with AIA is it is a cyclical company vs GWRL which supplies solutions to diversified industries which makes it less cyclical

RoCE, cash conversion cycle and fixed asset turns for both AIA and GWRL are very similar

Valuation of 20x TTM appear inexpensive when seen in light of GWRL's balance sheet and strong FCF to fund capex to double its revenue in a year

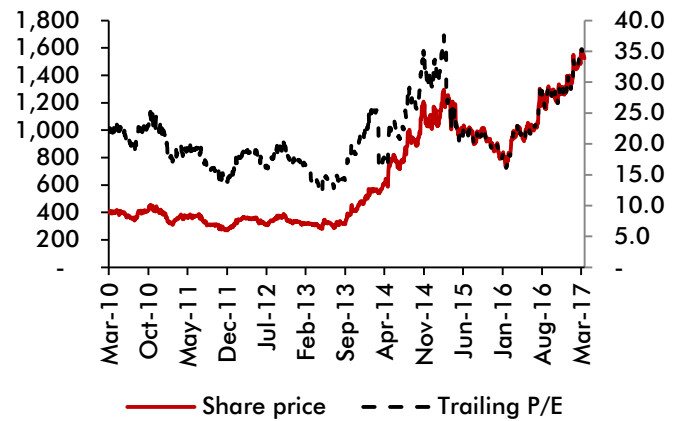
AIA's valuation multiple re-rating in the last five years has happened on the back of its success in mining and AIA's ability to fund capex to tap this opportunity given its strong balance sheet strength

Exhibit 36: AIA in FY10 was where GWRL is today; revenue doubled and EBITDA almost tripled since then...

₹ mn	GWRL	AIA Engineering	
	FY16	FY10	FY16
Revenue	8,248	9,643	20,984
EBITDA	976	2,435	6,114
EBITDA margin (%)	12%	25%	29%
PAT	619	1,707	4,242
RoCE (%)	23%	26%	23%
RoE (%)	18%	20%	19%
Cash conversion cycle (days)	116	117	127
Gross Block turnover (x)	2.1	3.0	2.2

Source: Bloomberg, Ambit Capital research. Note: To make it more comparable, RoCE is pre-tax.

Exhibit 37: ...and AIA's share price has nearly quadrupled led by valuation re-rating



Source: Bloomberg, Ambit Capital research

Trades attractively compared to companies with similar market-cap and accounting scores

We also compared GWRL with companies in the range of ₹10bn-30bn market cap having similar accounting scores as GWRL. In our HAWK model, GWRL's accounting decile is D1 and companies that we selected have accounting scores ranging from D1 to D3. GWRL's RoCE, RoE and PAT/revenue CAGR over FY13-16 is significantly higher than the median for these companies (EBIT margin is in line). Yet, on valuation it only trades at a marginal premium on P/B, P/E and EV/EBITDA to these companies.

Exhibit 38: GWRL trades at a discount to peers despite superior earnings growth and return ratios

Company name	Mcap (US\$ mn)	FY16 'greatness' scores	Revenue CAGR (FY14-FY16)	EPS CAGR (FY14-FY16)	EBIT margins (FY14-FY16)	RoE (FY14-16)	RoCE (FY14-16)	FY16 P/E	FY16 P/B	FY16 EV/EBITDA
GWRL	236	79%	11%	39%	8%	15%	20%	24.6	4.2	14.3
Median for 'D1-D3' companies	254	50%	6%	15%	9%	13%	15%	24.5	3.5	13.3
A few peers from 'D1'-D3'										
Nilkamal	462	38%	6%	27%	6%	10%	13%	26.4	4.8	12.6
SML Isuzu	295	21%	5%	12%	4%	14%	18%	27.1	5.6	16.5
KEI Industries	236	79%	12%	28%	8%	11%	22%	24.4	4.1	8.0
Kewal Kiran Clothing	329	54%	15%	8%	22%	21%	32%	31.0	7.1	17.4
Wim Plast	256	83%	13%	17%	15%	23%	33%	33.9	7.7	19.8

Source: Bloomberg, Ambit Capital research; RoE, RoCE (pre-tax) and EBIT margin are median over FY14-16; CAGR is over three year period. Mcap, FY16 valuations as of 12 April 2017.

When compared to companies only in D1, i.e. the top-notch accounting quality on our proprietary 'accounting' framework (i.e. similar to GWRL), GWRL trades in line with peers despite much superior earnings growth, superior RoCE and in-line RoE.

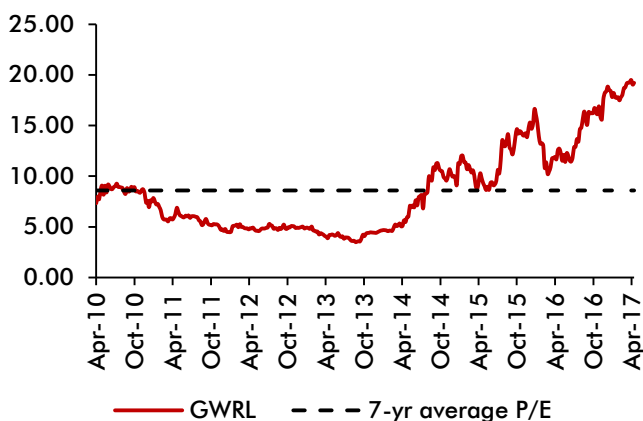
Exhibit 39: GWRL trades in line with peers despite superior earnings growth and superior RoCE

Company name	Mcap (US\$ mn)	FY16 'greatness' scores	Revenue CAGR (FY14-16)	EPS CAGR (FY14-16)	EBIT margins (FY14-16)	RoE (FY14-16)	RoCE (FY14-16)	FY16 P/E	FY16 P/B	FY16 EV/EBITDA
GWRL	236	79%	11%	39%	8%	15%	20%	24.6	4.2	14.3
Median for 'D1' companies	240	50%	8%	23%	9%	16%	17%	25.4	4.2	13.7
Few of the peers from 'D1'										
Nilkamal	462	38%	6%	27%	6%	10%	13%	26.4	4.8	12.6
SML Isuzu	295	21%	5%	12%	4%	14%	18%	27.1	5.6	16.5
Sutlej Textiles	230	67%	11%	23%	9%	24%	17%	8.6	2.2	7.7
Automotive Axles	168	8%	19%	40%	4%	7%	11%	25.8	3.3	10.3
Tide Water Oil Co.	331	50%	5%	13%	9%	17%	28%	23.7	4.0	13.8

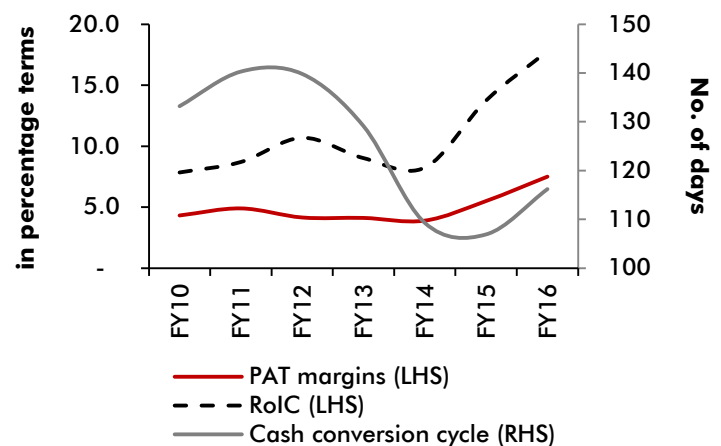
Source: Bloomberg, Ambit Capital research; ROE, ROCE (pre-tax) and EBIT margin are median over FY14-16; CAGR is over three year period. Mcap, FY16 valuations as of 12 April 2017.

Cross-cycle valuation

GWRL's P/E multiple has re-rated from ~7.3x TTM earnings in Apr '10 to ~19.2x in Apr '17 led by improvement in PAT margin/RoIC from 4.3%/7.8% in FY10 to 7.5%/17.8% in FY16. Also, its cash conversion cycle has improved from 133 days in FY10 to 116 days in FY16. There is not much change in leverage given GWRL's balance sheet has been debt-free.

Exhibit 40: GWRL is trading at ~120% premium to cross-cycle averages...


Source: Bloomberg, Company, Ambit Capital research

Exhibit 41: ...led by improvement in PAT margins/RoIC and cash conversion cycle


Source: Bloomberg, Company, Ambit Capital research. Note: RoIC is post-tax.

Ambit's HAWK analysis – Top notch quality on our proprietary frameworks

GWRL scores very well on Ambit's proprietary 'accounting' and 'greatness' frameworks. Strong cash conversion, no direct write-offs through equity and lower CWIP (as a proportion of gross block) are amongst the reasons why the company features in 'D1' on our 'accounting' framework. Superior capital allocation over FY11-16 has resulted in the company featuring in the 'Zone of Greatness' as well. Also, it is worth mentioning that over the last five years GWRL has consistently featured in 'D1' on our accounting framework.

GWRL does very well on Ambit's proprietary 'accounting' and 'greatness' frameworks

On Ambit's proprietary 'accounting' framework (click [here](#) for our December 16, 2016 note: "Beware of the 'Zone of Darkness'!" for more details), GWRL features in 'D1', i.e. the best decile on accounting quality (in the small-cap universe). Similarly, on our proprietary 'greatness' framework (click [here](#) for our January 06, 2017 note: "Ten-baggers 6.0'" for more details), GWRL gets a score of 79%, i.e. it features in the 'Zone of Greatness' (see exhibit 42 below):

GWRL features in 'D1' on 'accounting' and gets 79% score on our 'greatness' framework

Exhibit 42: GWRL - Top notch on Ambit's 'forensic' and 'greatness' frameworks

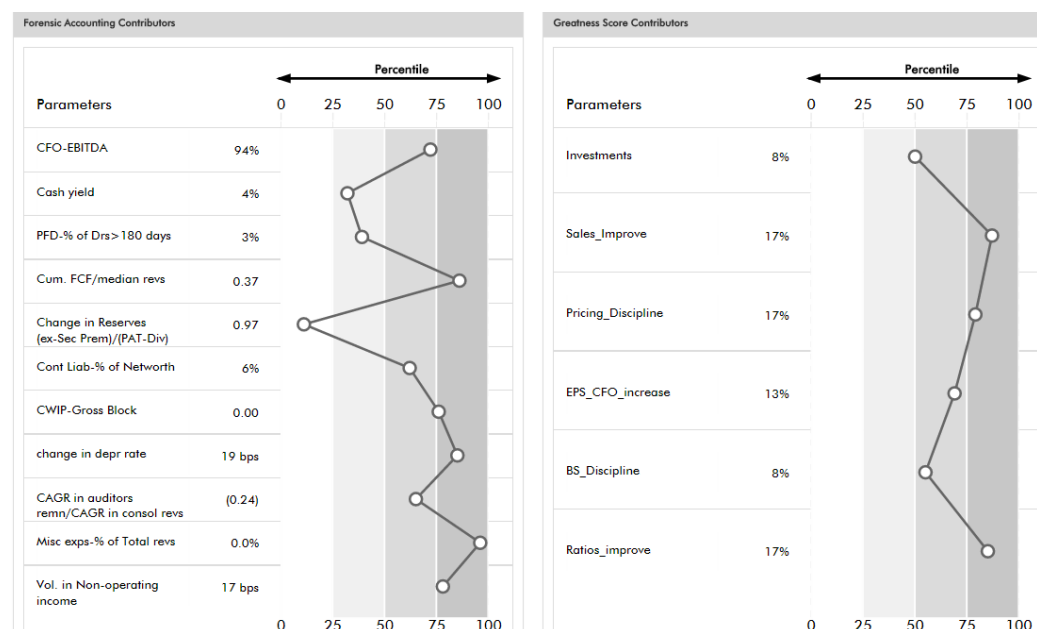


Source: Ambit [HAWK](#), Ambit Capital research

Strong cash conversion (with last six years' cumulative CFO/cumulative EBITDA of 94%), healthy free cash flow generation, no major direct write-offs through equity; low contingent liabilities (as a percentage of net worth, last six-year median is 6%) and low CWIP (as a proportion of gross block) are few of the reasons why GWRL features in 'D1' on our accounting framework.

Similarly, superior capital allocation over FY11-16 (see exhibit 43 below) has resulted in GWRL getting a high score (79%) on our greatness framework as well.

Exhibit 43: GWRL- Top notch on Ambit's forensic and greatness scores

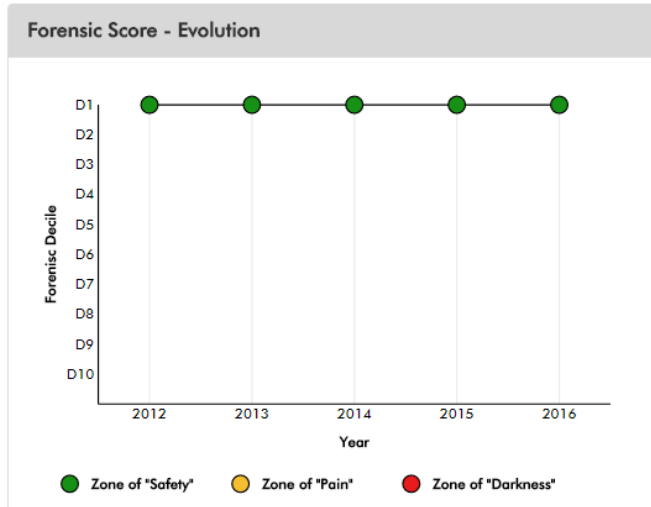


Source: Ambit [HAWK](#), Ambit Capital research

Finally, it is also worth highlighting that GWRL has consistently featured in 'D1' on our accounting framework over the last five years. Further, from our earlier discussions, we note that since Vayu took over in FY12, GWRL has consistently seen an improvement in profits, cash flows and margins led by increasing focus on exports and entry into value-added products. This has resulted in GWRL consistently improving its 'greatness' scores on our 'greatness' framework (exhibits 44 and 45):

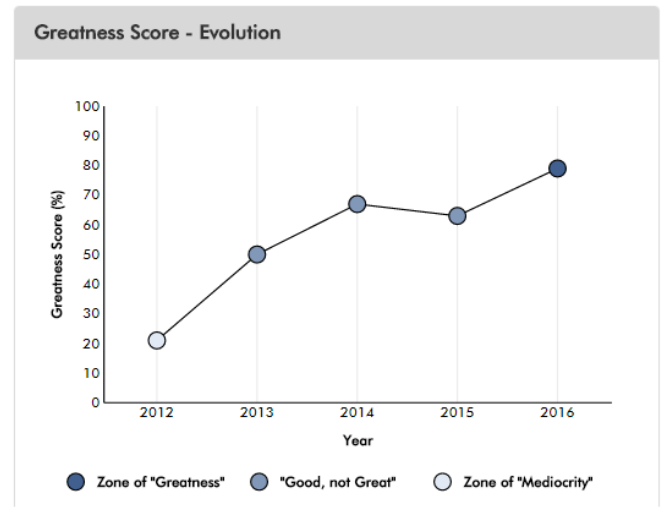
Over the last 5 years, GWRL has consistently featured in 'D1' on accounting and has also seen an improvement in its 'greatness' scores

Exhibit 44: GWRL's 'forensic' score evolution



Source: Ambit [HAWK](#), Ambit Capital research

Exhibit 45: GWRL's 'greatness' score evolution



Source: Ambit [HAWK](#), Ambit Capital research

Key risks

Management attrition: Our discussion with senior ex-employees of GWRL suggests GWRL has a history of retaining people; several senior executives have been working for more than 15-20 years. However, the culture there is bureaucratic which does not go well with the middle management. Further, even the salary/incentive structure for majority of its workforce is lower than market standards (remuneration of GWRL's CMD vis-à-vis median remuneration of its employees is very high at ~140x in FY16).

However, since he became CMD Vayu has been trying to bring in professionalism; for instance, when Mr. M.V. Subbarao, who served as the President of GWRL since December 2002, retired in 2011, he appointed Mr. Shujaul Rehman as the COO in May '12 (he is now CEO). Rehman is an outsider, having worked with companies such as CEAT, Marico, Cadbury India and Apollo Tyres.

Regulatory risk in fishing, especially in the domestic market: Majority of GWRL's revenues come from the fishing segment. Hence, GWRL is exposed to regulatory risk in the fishing segment, especially in the domestic market.

For instance, earlier this year, Maharashtra banned the use of purse seine nets (i.e. large fishing nets used to catch fish in bulk) along the 720km Maharashtra coastline (click [here](#) for the press article). Whilst Maharashtra is only a small part of the domestic fisheries market, implementation of such guidelines at a national level can impact demand for GWRL's purse seine nets in the domestic market.

Rising exposure to GoE: Government-owned enterprises are the main customers of GWRL's geosynthetic and coated fabric segments. Geotextile tubes were used in FY11 for building a 1.4km tube in AP. Recently, Pune Municipal Corporation gave GWRL the responsibility to build a gabion structure of steel-wire netting to prevent soil erosion in an island in Katraj Lake in Pune. In the coated fabric segment, GWRL tied up with DRDO to develop specialised products like a flexible helimat, aerostat balloons, weather-proof enclosures such as inflated structure for radars, etc for varied applications in the Indian Defence sector.

The risk in dealing with GoEs is poor visibility of growth on account of delayed decision making led by vested interests and inertia in trying new technologies. Secondly, there could be payment delays. Currently, this is not reflected in GWRL's cash conversion cycle given the share of geosynthetic and coated fabric is very low.

Discussion with ex-senior employees suggests GWRL has a bureaucratic culture which does not go well with the middle management

However, this has been changing since Vayu became the CMD

~20% of GWRL's revenues come from the fishing segment; GWRL is thus exposed to any regulatory risk in this segment

Finally, rising exposure to GOE is another risk as it could lead to poor visibility on growth and payment delays

GWRL Financials

Income Statement (standalone)

Year to March (₹ mn)	FY12	FY13	FY14	FY15	FY16
Revenue	5,783	5,994	6,846	7,822	8,248
EBITDA	670	597	556	779	976
Depreciation	160	163	144	124	131
Interest expense	166	145	128	102	87
Other income	(23)	45	107	52	113
PBT	321	334	391	605	870
Provision for taxation	80	87	124	175	252
Extraordinaries	-	-	-	-	-
Consolidated adj PAT	240	247	267	431	619
EPS diluted (₹)	10.1	10.4	12.1	19.7	28.3

Source: Company, Ambit Capital research

Balance Sheet (standalone)

Year to March (₹ mn)	FY12	FY13	FY14	FY15	FY16
Networth	2,504	2,667	2,749	3,100	3,648
Loans	1,251	929	568	316	298
Other Liabilities	180	181	203	225	283
Sources of funds	3,935	3,777	3,519	3,641	4,229
Net block (incl. CWIP)	1,699	1,545	1,601	1,726	1,994
Net current assets	1,910	1,943	1,735	1,719	1,313
Cash	235	198	89	106	832
Investments	91	92	93	90	89
Application of funds	3,935	3,777	3,519	3,641	4,229

Source: Company, Ambit Capital research

Cash flow statement (standalone)

Year to March (₹ mn)	FY12	FY13	FY14	FY15	FY16
PBT	321	334	391	605	870
WC changes	(62)	(214)	189	55	290
CFO	515	339	791	745	1,296
Net capex	(287)	6	(200)	(255)	(399)
Net Investments	(2)	(1)	(2)	3	1
CFI	(293)	4	(195)	(250)	(367)
Proceeds from borrowings	227	(166)	(401)	(305)	(40)
Issue of equity	-	-	(105)	(7)	-
CFF	(5)	(380)	(704)	(478)	(202)
FCF	229	344	591	490	896

Source: Company, Ambit Capital research

Ratios (standalone)

Year to March	FY12	FY13	FY14	FY15	FY16
Revenue growth (%)	15.9	3.6	14.2	14.3	5.4
EBITDA margin (%)	11.6	10.0	8.1	10.0	11.8
Net margin (%)	4.2	4.1	3.9	5.5	7.5
RoCE post-tax (%)	10.6	8.7	8.1	13.8	16.3
RoE (%)	9.9	9.5	9.8	14.7	18.3
CFO/EBITDA	86%	69%	152%	114%	138%
P/E (x)	72.1	70.2	60.2	37.1	25.8
P/B(x)	6.9	6.5	5.8	5.2	4.4
EV/EBITDA(x)	23.1	25.9	27.8	19.8	15.8

Source: Company, Ambit Capital research

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