Garware Tech Fibre Analysis *by Ravi K. Yendru*

Statutory Warning: *This is NOT an investment advice to buy or sell shares. Please make your own decision, as blindly acting on anyone else's research and opinions can be injurious to your wealth. I own the stock at the moment, and my analysis can be biased, and wrong. The below is my personal analysis for Education purposes. I am not a SEBI registered research analyst*

Overview of the Company:

The company is into Technical Textiles manufacturing. These textiles are used in areas like Aqua, Fisheries, Agriculture, Sports, Shipping. It's a family operated business.

Observations from Annual Report

Chairman's Report: The Chairman Vayu Ramesh Garware (V R Garware) is a young and 3rd generation entrepreneur. It was able to get some good awards both on Products and Working environment for employees.

Management Discussion:

Opportunities: The Global growth in Salmon aquaculture seems to be a leading driver in the growth of the company over the past few years. The fibers from the company is an important component in the industry

Threats: Increase in Polymer prices may Impact Demand

Customers: Aqua, Sports, Shipping, Sports, Agriculture

Industry Wise (Porter's) Analysis

Competitive rivalry: The company has edge on competition owing to quality product range and good marketing team
Buyer Power: Overall there does some control on Buyers since the company can increase price and for the buyer the product is an important part of overall setup
New Entrants: Entry barriers do exist since it's a sophisticated product range they produce.
Threat of substitution: Threat of Substitution exists but then a company's products can be good for large projects where complicated solutions are needed.
Supplier Power: Lots of Suppliers and can easily be substituted. The director did mention about margins being hit if Polymer prices are increased

Do not see much of **Negatives**.
Positives: There are entry barriers, company has pricing power, Supplier's don't have much power, Buyer's are quality conscious. Substitution is possible but in individual segments.

Important point is they cater to businesses in which the company's product is only a small part but it's important, so companies will prefer quality.
For example in Aqua nets are very important, in Shipping anchor roles are important, in Agriculture (green houses) nets are important. In all of these industries the nets are only a small part of the infrastructure but a very important one.

This **qualifies for a MOAT business since the company will have pricing power**.

Balance Sheet Observations:

Negatives:
NA
Positives:
Equity Share capital reduced over the past 10 years
Debt is less

Overall it's a very healthy Balance Sheet

P&L Observations

Negatives:
NA

Positives:
Top line Sales Growth (Avg 9%)
Operating Profit has Grown (Avg 13%)
Net Profit has Grown (Avg 26%)
Most of the expenses are reduced

Observations:

Overall it's a very healthy P&L

Cash Flow Observations

Negatives:
FY 2018 CFO was less than net profit and CAPEX seems to be less as well.
In FY17 and 18 Cash Required in Investing was more than Operating Cash
In FY18 Cash required from Financing was more than Operating Cash

Positives:
Major Sources are Cash seems to be from Operating Cash Flow (OPS)
OPS is positive and sufficient to cover CAPEX.
CAPEX is mostly less than Free Cash Flow.

Observations: Operating Profits are mostly Positive and increasing except FY18

Overall the Cash flows analysis seems to be good

Ratio Analysis:

Positives:
Liquidity, Solvency and Profitability ratios are increasing

Negatives:
Activity Ratios: Inventory days and Receivable days increased slightly from the past 5 years

Du Pont Analysis

Positives:
Financial Leverage --> Reducing
Net Profit Margin --> Increasing
Negatives:
NA
Neutral:
Asset Turnover --> Range Bound

Overall, the ROE average for 10 years is less than 20% (16.8) and ROCE is 19.9%. But it's on an uptrend. It indicates a good management

Valuations:

The DCF Value is Rs 639 and with a Margin on Safety of 30% the ideal buying range is Rs 447.6. So as per DCF the current CMP is not attractive. (Growth Rate 12% and 10% for 1st 5 years and next 5 years)
As per **Reverse DCF** the Market is expecting a growth rate of 25% for 1st 5 years and 20% for the next 5 years at a discount rate of 12%.
Dando Valuation the lower range is 1233 Crore and upper range is 2150 crore. The current Market capitalization is 2280 crore, so the current price is not in the buyable range
As per **Expected Returns model** with Assumption in CAGR in Net Profit as 12% and Exit PE of 20 the Market Capitalization can be 3010 cr which is less than current Market Map of 2280cr. Hence the price looks attractive

PEG < 1 (0.52)

Management Analysis:

Positives:

- Promoters hold 50.71% and no pledging.
- Management is focused only on Technical Fibers (Circle of Competence)

Negatives:

- Combined salary is 9 Cr which is 6.4% of Net Profit which is more
- Nothing much is mentioned about qualification and age of the Management.

Risks:

1) People migrating away from Aqua Food
2) In the short term since no travel (CORONA). There will impact on the sales