

1. Garware Polyester (GPL) is led by a sister duo, first cousins with the MD of Garware Technical Fibres (GTFL). A very solid business with increasing traction in niche, highly profitable segments in plastic films and coatings. Alas, hostile to minority shareholders.
2. The Garware family is an interesting one. The most well-known in the group is GTFL, whose market capitalization has increased 1000% between 2014-20 to exceed INR 3000 crores. GTFL is led by Vayu Garware, son of Ramesh Garware, who in turn was the son of Bhalchandra Garware.
3. Bhalchandra Garware had 3 other sons, who each lead Garware Polyester (GPL), Garware Synthetics and Garware Marine Solutions. All these companies are listed on Bombay Stock Exchange. Of the 4 listed companies from the family, only 2 operate in any meaningful capacity – GTFL and GPL.
4. GTFL is well known already, so let us talk about GPL. GPL was established by Shashikant Garware, son of Bhalchandra Garware. The third generation, his daughters Monika Garware and Sarita Garware, are the joint MDs, and Shashikant Garware is the chairman and MD.
5. GPL manufactures BOPET / Polyester films, sun control films and thermal lamination films. Lots of competitors out there for polyester films. What is interesting though, is deep product expertise and niche specialization.
6. For most of its history, GPL did not seem bother with innovation. Its historical annual reports are a testament to the travails of manufacturers of commoditized products. Excess supply over demand, government ban on automotive sun control films, crushing competition, etc.
7. Things were changing though, from FY 2014-15 onward GPL seems to have consciously explored opportunities in specialty polyester films and the export markets. The annual reports of GPL are a bland affair, but the signs were present.
8. Now we fast forward to FY2018-19, where GPL seems to have tasted success with its specialty films. The last few annual reports show a clear focus on innovation and specialty films. While details are scanty, we can piece together a reasonable picture by connecting the dots.
9. Results were not far behind. Between FY18 and FY21, GPL has shown impressive growth in nearly all operating parameters. PAT jumped from INR 33 crore to INR 84 crore, EBITDA jumped from INR 83 crore to INR 162 crore, gross margin improved from 10% to 19%.
10. Interestingly, Monika Garware (Joint MD) was married to Rajiv Modi, MD of Cadila Pharma up till 2018. Considering that GPL started outperforming from FY2018, it is possible that the promoters are now focusing more attention on GPL.
11. The bet on specialty films seems to be paying off for GPL, not just financially but also in terms of market share. GPL claims to have market leadership in sun control films for industrial, commercial and residential applications. It claims to be the only Indian manufacturer of sun control films.
12. In December 2020, GPL announced its foray into automotive protective films. It also claims to be the sole manufacturer of automotive protective films in India. GPL expects additional sales of INR 300 crore p.a. by FY2023 from this product, currently all met from imports.
13. All these aspects point to a business that may soon be the market leader in several products with niche but healthy demand in the market. Related companies in the group like GTFL have done exceptionally well with this strategy of premiumization. Can GPL do the same?
14. The story gets a bit hairy hereon forth. GPL, like many other listed companies in India, is a family-run business. Family businesses traditionally see family members succeed into leadership roles, and far more importantly, give few hoots for public shareholders.

15. GPL is in the same mould as most family businesses known to be unfriendly to minority shareholders. In FY19, the promoter family paid themselves INR 12.56 crore in remuneration. But none of them cared enough to attend the AGM.
16. In fact, Mr Shashikant Garware, the Chairman and MD, has not attended a SINGLE annual general meeting in the last FIVE years. Monika Garware has attended ONE annual general meeting in the last FIVE years. Not inspiring much confidence, is it?
17. It gets worse though. Like many family-run listed companies, promoters inevitably decide why are we putting money in the hands of public shareholders? Cue related party transactions. Promoters use an entity called Garware Industries Limited (GIL) to extract money from GPL.
18. Every year, approximately INR 30-33 crores of PBT is extracted from GPL by the promoters in the form of "processing charges". Why can this processing not be done in-house when GPL touts itself as a fully vertically integrated manufacturer?
19. Not to be missed among related party transactions is GPL paying rent to three promoter members separately, totalling INR 2.3 crore. There is more rent paid to GIL and another promoter entity for INR 2.4 crore. Total rent paid is INR 4.72 crore from GPL to promoter family in FY19.
20. Another expense which catches the eye is legal expenses. INR 10 crore of legal expenses in a year, and that is not even an aberration compared to the previous year. Considering GPL has not disclosed any major litigations and contingent liabilities, where is this money going?
21. Minority shareholders have not been silent on these promoter shenanigans. In 2018, an NCLT case was filed against Shashikant Garware, alleging defrauding of shareholders. Not an issue though, his remuneration shot up another 20% right after.
22. In total, we can count INR 50 crore in cash flows paid out to related parties including promoters in FY19. This amounts to over 37% of PBT being taken out of GPL by the promoters. In earlier years, promoter took out way more than they left behind.
23. GPL can go places with the deep expertise and experience of the promoters. It is disappointing to see the promoter group not adopting good corporate governance practices, which would help GPL command higher valuation in the market and reward all stakeholders.
24. GTFL is a good example of a family-run business that was turned around by a third-generation promoter (Vayu Garware). While both GPL and GTFL promoters have foreign business degrees, only one seems to have imbibed the lessons of business school!
25. GTFL also has related party transactions that should ideally be completely absent. However, the scale of such transactions is tiny, and GTFL has captured the imagination of marquee investors. It is entirely possible a similar story plays out in GPL regardless of its governance issues.
26. Hope you found this useful. I am not an investment advisor, and no part of this thread should be considered as investment advice or a recommendation to buy or sell any company mentioned herein.

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