



January 7, 2008

Garware Wall-Ropes Ltd.

Buy

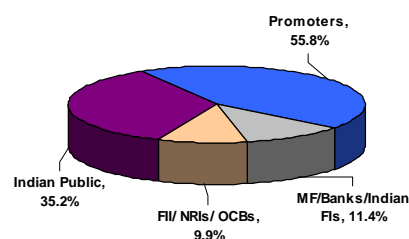
CMP: Rs 233

Target Price: Rs 310

Key Data

Market Cap (Rs bn)	4.8
Market Cap (US\$ mn)	122.1
52 WK High / Low	232 / 63
Avg Daily Volume	26390
Face Value (Rs)	10
BSE Sensex	20345
Nifty	6178
BSE Code	509557
NSE Code	GARWALLROP
Reuters Code	GRWL.BO
Bloomberg Code	GWWR IN

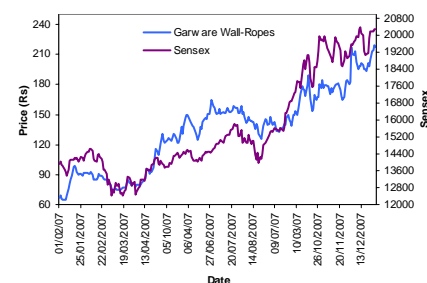
Shareholding Pattern (%)



Price Performance (%)

	Absolute	Relative
3 Months	41.4	24.3
6 Months	80.5	36.3
12 Months	222.7	177.1

BSE vs Garware Wall-Ropes Ltd.



Viraj Nadkarni

Tel: +91 22 4000 2665

email: vnadkarni@finquestonline.com

Synthesizing gains...

Garware Wall-Ropes Ltd (GWRL) is a leading provider of applications based solutions for fishing, shipping, sports, and infrastructure projects. With the geo-synthetic segment catching up pace, GWRL is ideally poised to benefit and scale up its operations.

Investment Arguments

- With huge investments being made in some of the sectors catered to by Geosynthetic segment, we expect this segment of GWRL to be the key driver in scaling up the company's business in future. We believe that good orderbook position; new projects in pipeline along with huge scope for scalability are some of the positives for this segment. We expect revenues from this segment to witness a CAGR of 50% over FY2007-10E.
- The company's fishing products enjoy wide reputation in the fishing net industry enabling it to earn pricing premium, counter competition and pass on the increased costs. We expect this division to witness revenue CAGR of 16% over FY2007-10E
- The Fabricated and Industrial division is set to benefit due to increased acceptance of the company's products in sports and industrial activities both domestic and abroad. We expect Fabricated and Industrial division to witness revenue CAGR of 24% and 21% respectively over FY2007-10E.
- On the export front, GWRL's ratio of foreign exchange expenses to foreign exchange earnings stand at an average of 0.55 over the last 3 years. Thus the concern of unfavourable rupee-dollar equation affecting the margins gets mitigated to a considerable extent.
- GWRL was traditionally involved in the cordage business where the main revenue contributor was fishing nets division. However, offlate the Fabricated and Geosynthetic businesses have started catching up as they are related to industries which have promising outlook. We believe that the traditional revenue mix structure of GWRL is slated to change thereby de-risking its business model.

Valuation

At CMP of Rs 233, the stock trades at a P/E of 20x FY2008E, 14.2x FY2009E and 10.5x FY2010E our EPS estimates of Rs 11.6, 16.4 and 22.2 respectively. **We Initiate Coverage on the stock with a 'Buy' recommendation and a price target of Rs 310.**

Key Financials

Y/E	March (Rs mn)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales		3,352	4,148	5,186	6,551
% chg		28.4	23.8	25.0	26.3
Net Profit		222	276	388	526
% chg		40.3	24.1	40.6	35.6
EPS		10.7	11.6	16.4	22.2
EBITDA Margin (%)		12.1	12.3	12.6	12.8
P/E (x)		21.7	20.0	14.2	10.5
P/CEPS (x)		15.2	14.3	10.8	8.4
ROE (%)		14.1	14.0	16.9	19.1
ROCE (%)		12.3	13.7	16.0	18.2
P/BV (x)		3.1	2.8	2.4	2.0
EV/Sales (x)		1.7	1.3	1.1	0.9
EV/EBITDA (x)		14.0	10.8	8.6	6.9

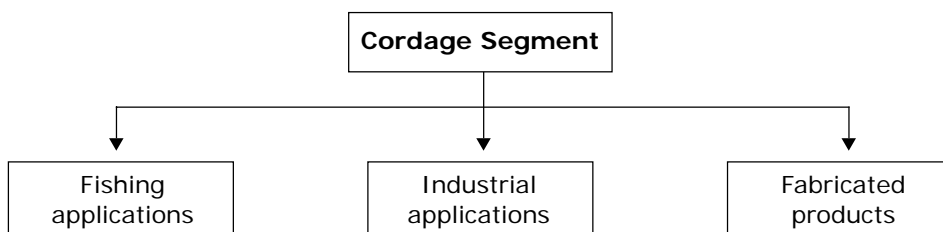
Source: Company; FQ Research

Business Profile

The company's business is spread into two segments viz: Cordage segment and Geo-synthetic segment

Cordage Segment-

In the Cordage business, the company caters to the sectors like fishing, shipping, material handling and sports. Based on the applications, the products can be broadly segregated under three heads viz, Fishing, Industrial and Fabricated.



Fishing Applications-

GWRL is engaged in manufacturing of high end ropes and nets for mechanized and industrial fishing vessels of 100HP-15000HP.

Industrial Applications-

GWRL products are used in industrial applications in areas like Shipping, Ports, Shipbuilding Yards, Stevedoring, Defense, Material Handling, Construction, Electricity Boards etc.

Fabricated Products-

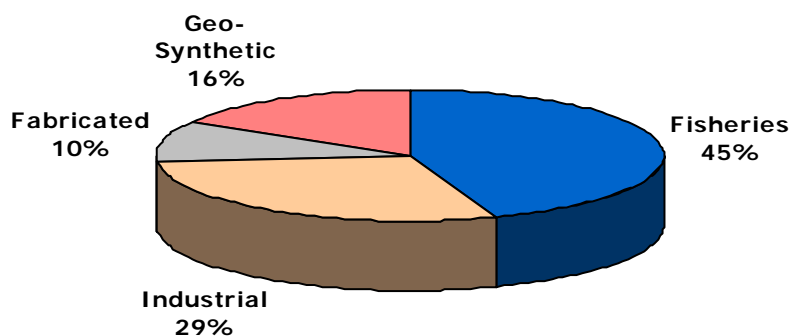
GWRL's fabricated products find application in areas like specialised products for fishery (aqua culture), sports and industrial applications. In sports, these products are used in cricket nets, ski protection nets, tennis court nets, soccer nets, basketball nets etc.

Geo-synthetic segment-

Geosynthetic means planar, polymeric, permeable/impermeable material which may be used in contact with the soil/rock and /any other geotechnical material in civil engineering applications. The main purpose of this application is ensuring soil protection. These products have applications in areas like

- Coastal protection and river training,
- Railways,
- Roads,
- Ground Improvement,
- Water Resource Management and
- Landfill Engineering.

Exhibit 1: Revenue Breakup (2007)



Source: Company; FQ Research

Investment Arguments

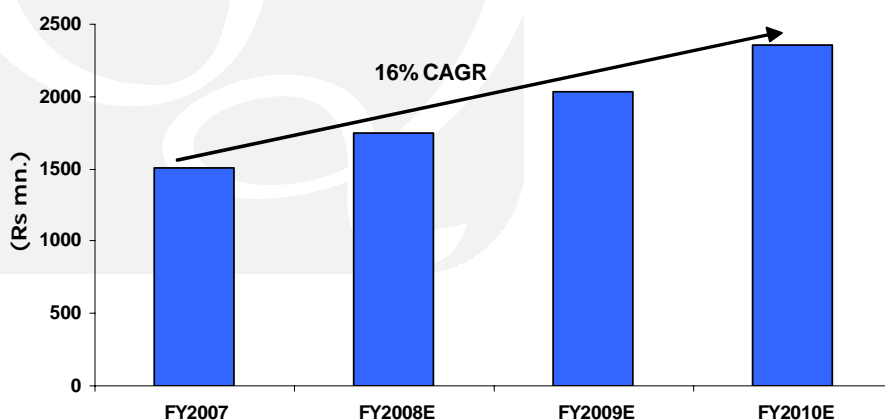
Cordage Segment

Dominant presence in Indian fishing nets industry & spreading presence in the international markets

The fishery division contributed 45% of the total revenues in FY2007. GWRL is engaged in manufacturing of high end ropes and nets for mechanized and industrial fishing vessels of 100HP-15000HP. The fishing net industry in India is estimated to be around Rs 1200mn. GWRL has more than 60% market share in overall nets in India while it has around 85% market share in mechanised nets. Mechanized fishing is different from the traditional way of fishing in the sense that huge fishing nets are deployed in water through men and machines. The quality, weight, size are far better than the traditional fishing nets. In the fishing business, the net forms a critical component and hence utmost importance is given to its quality by its users. The company's products enjoy wide reputation in the fishing net industry for its quality which enables it to counter competition from the unorganized players. GWRL's nets enjoy a pricing premium of 15-20% in the market. We expect GWRL to maintain its leadership position in India going ahead.

The international market is estimated to be between Rs 16bn to 20bn where GWRL enjoys a 4-5% market share. The company exports to nearly 80 countries where fishing is a major industry. Out of the total export revenues, around 25-30% come from USA while the balance 70-75% come from European countries like France, Norway, Ireland etc. The demand for GWRL's fishing nets is steadily on a rise from Russia and South America. On a whole, we expect the revenues from fishing nets business to rise at a CAGR of 16% till FY2010E with increasing revenue contribution from the international markets.

Exhibit 2: Fisheries Segment Revenue Trend



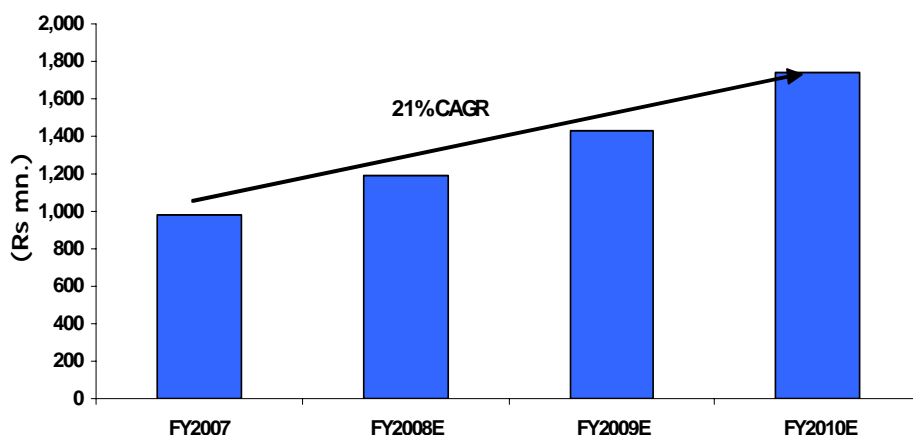
Source: Company; FQ Research

Demand for Industrial nets and Fabricated nets on a rise

Industrial nets

The industrial nets segment contributed 29% of the total revenues in FY2007. GWRL's industrial ropes and nets are used in industries like Shipping, Ports, Shipbuilding Yards, Stevedoring, Defense, Material Handling, Construction, Electricity Boards etc. These ropes and nets are primarily used for applications like mooring and material handling. The demand for mooring and material handling ropes and nets is dependent on the overall economic growth in India. With the booming economy and aggressive investments and expansion seen in various sectors to which the company caters, we expect this division's revenues to witness CAGR of 24% over FY2007-10E

Exhibit 3: Industrial Products Revenue Trend

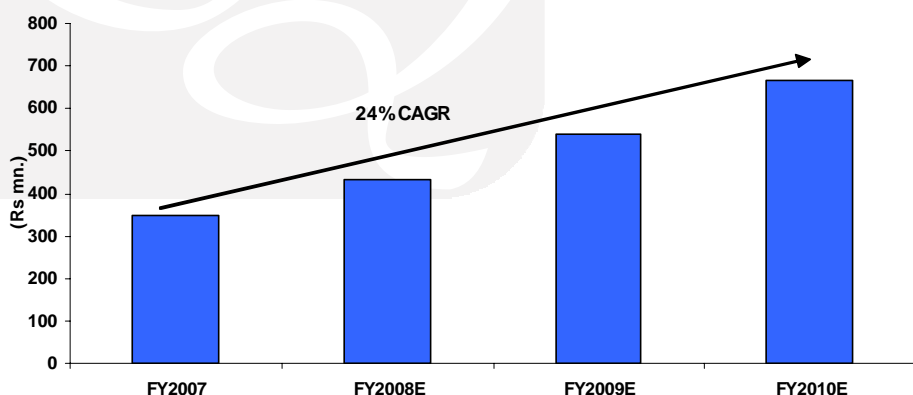


Source: Company; FQ Research

Fabricated Nets

The fabricated nets division contributed 10% of the total revenues in FY2007. Majority of the products manufactured under this segment are exported. GWRL's fabricated products find application in areas like specialised products for fishery (aqua culture), sports and industrial applications. GWRL's sports nets are enjoying high quality reputation in the international markets. For example the goal nets used in FIFA Worldcup are all manufactured and designed by GWRL. Apart from football, GWRL's fabricated nets are widely used in cricket nets, ski protection nets, tennis court nets, basketball nets etc. Considering the demand, brand image and quality reputation enjoyed by GWRL's nets in the domestic and international markets, we expect this division's revenues to witness a CAGR of 24% over FY2007-10E.

Exhibit 4: Fabricated Products Revenue Trend



Source: Company; FQ Research

Geosynthetic Segment

The Geosynthetic segment contributed 16% of the total revenues in FY2007. Geosynthetic application in the road and other infrastructure projects has been extensive in developed countries like USA, Europe, Japan, etc on account of its intrinsic benefits. During the recent past, there has been a focused approach in India for infrastructural development across the country, particularly in the area of roads, rail roads, etc. The infrastructure can be developed as per international standards by using geosynthetics for separation, filtration and drainage, reinforcement and erosion control to improve the performance and life of the infrastructure. The usage of geotextiles is low in India due to traditional geotechnical and civil engineering practices and resistance to adopt geotextiles over conventional methods. However, recently the use of geosynthetics in India is on a rise.

Products catering to various infrastructure related industries

GWRL's geosynthetic products have applications in Railways, Roads, Water Resource Management, Coastal Protection and Training, Ground Improvement and Landfill engineering. These products provide increased safety and better productivity and the main purpose of their application is ensuring soil protection and erosion.

Following is a brief synopsis of the use of GWRL's geo-products in some of the industries-

● **Roads**

In many situations roads have to be constructed on varying soil subgrade formations. The use of Geosynthetics in road development can lead to increase in road life to 3 - 4 times of the existing roads, minimising road maintenance and improving riding quality without potholes and reflective cracking. In roads, GWRL's products are used for Reinforced soil walls, Asphalt Reinforcement, Sub reinforcement, Heavy Duty Pavements, slopes, embankment foundations etc.

● **Railways**

In Railways the company's products are used as Steel wire boulder nets for rockfall protection and also for carrying out the process of Track Bed Stabilisation. The Steel Wire boulder nets are laid over the rocks on the roads to prevent the rock fall. These nets improve safety and eliminate traffic interruption.

For track bed stabilization, the geosynthetic products are laid below the track to provide stability and safety. In India around 32000 kms of railway tracks are build on marshy lands where geosynthetic material can be laid to provide adequate safety. The company's products have already been approved by the Railway Ministry. This throws a Rs 32.5bn opportunity for GWRL to be explored in the railway sector.

● **Water Resource Management**

In water resource management, the company provides canal and reservoir lining to channelise the water. This reduces water logging, salination and ensures proper water distribution.

● **LandFill Engineering**

Landfill engineering is a unique area where the company's products are used to restrict the harmful water or waste of water. It ensures optimum air space utilization and eliminates ground water contamination.

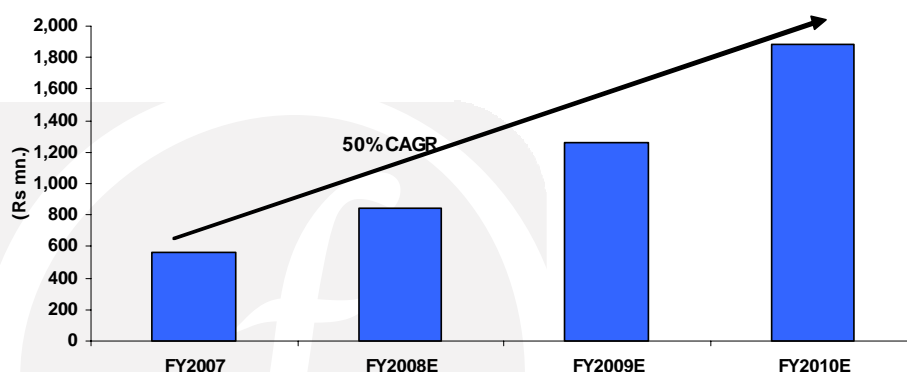
● **Coastal Protection And Training**

The company provides various coastal protection systems, which eliminates soil erosion problem, improves coastal safety and reduces property losses.

Revenues slated to grow at a robust pace

With huge investments being made in some of the sectors catered, we expect this segment of GWRL to witness robust growth in years ahead. The current order book for the geosynthetic segment stands at Rs 600mn. The Indian Railway's have approved company's products for its application in railway tracks. The company has also received nod from the State Government of Maharashtra for using geosynthetic products in dams for improving their safety. It is likely to secure project worth Rs 500mn on solid waste management in UP where geosynthetic products will be used extensively. We believe that good orderbook position; new projects in pipeline along with huge scope for scalability are some of the positives for this segment thereby creating visibility for revenues in years to come. We expect revenues from this segment to witness a CAGR of 50% over FY2007-10E.

Exhibit 5: Geosynthetic Segment Revenue Trend



Source: Company; FQ Research

Concerns

- **Volatility of raw material cost**

Some of the raw materials consumed by GWRL for manufacturing nets are Polypropylene, HDPE, Polymer and Nylon Yarn. The prices of these raw materials and crude are positively co-related. Although GWRL is in a position to pass on the increased costs, any significant upsurge in these products prices may impact GWRL's profitability.

- **Exchange Rate Fluctuations**

GWRL derives around 42% of its revenues through exports. Sharp fluctuations in the exchange rates may have an adverse impact on GWRL's financials.

Company Background

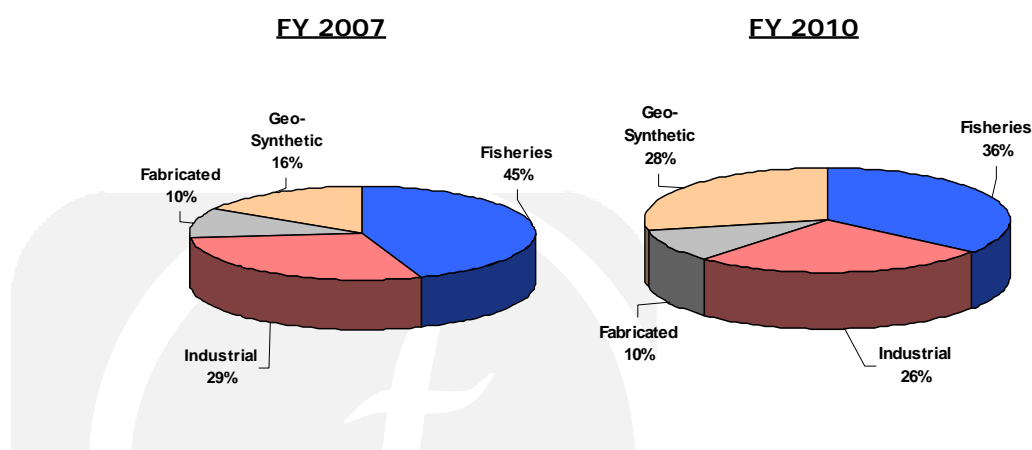
Incorporated in 1976, GWRL was promoted by Garware Filament. GWRL provides customized solutions to the cordage and infrastructure industry in India and worldwide. GRWL is now leading provider of applications based solutions for fishing, shipping, sports, and infrastructure projects. The products are manufactured to customer's specification with an increasing share of branded products in all business segments.

Future Outlook and Valuation

Changing revenue mix structure

GWRL was traditionally involved in the cordage business. In the cordage segment the main revenue contributor for the company was fishing nets division. However, offlate there has been a transformation in the revenue mix as the Fabricated and Geosynthetic businesses have started catching up. Industrial, Fabricated and Geosynthetic are related to those industries which have promising outlook. Therefore we believe that the traditional revenue mix structure of GWRL is slated to change thereby placing it on the high growth trajectory and also de-risking its business model.

Exhibit 6: Changing Revenue Mix

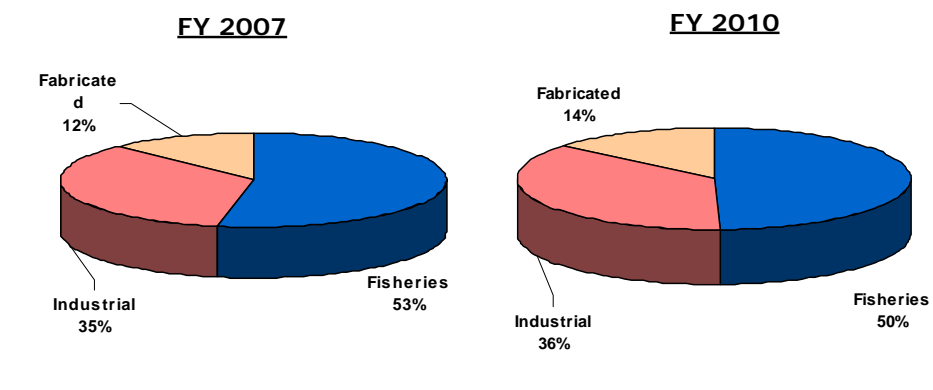


Source: FQ Research

Revenues to witness a CAGR of 25.1% over FY2007-10E

In FY2007 the cordage segment posted net sales of Rs 2840mn thereby registering a rise of 19.7% over FY2006 net sales of Rs 2370mn. Nearly 58% of the FY2007 sales came from domestic market and the balances were from exports. Going forward we expect cordage segment's revenues to witness a CAGR of 18.8% from 2840mn in FY2007 to Rs 4760mn in FY2010E. The contribution from Industrial and Fabricated division is likely to improve considering their rising demand in future. We expect the export contribution to total sales to rise to 46% in FY2010E from about 42% in FY2007.

Exhibit 7: Cordage segment- Revenue Mix Forecast



Source: FQ Research

The Geosynthetic segment is ideally poised to witness a robust growth in its revenues as huge investments are being made in some of the sectors catered by it. We believe that good orderbook position; new projects in pipeline along with huge scope for scalability are some of the positives for this segment. We expect revenues from this segment to witness a CAGR of 50% over FY2007-10E.

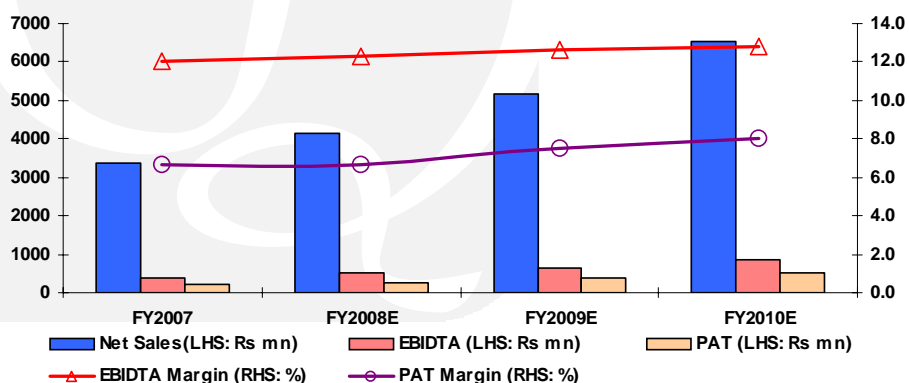
On a whole we expect GWRL's topline to witness a CAGR of 25.1% over FY2007-10E.

EBIDTA and PAT to grow at a CAGR of 27.7% and 33.2% respectively, over FY2007-10E.

GWRL's Cordage products especially the fishery division and fabricated division enjoy good reputation in their respective industries for their quality. This enables the company not only to counter competition from the unorganized players but also to pass-on any price escalations on the raw material front thereby protecting the EBIDTA margins. On the export front, GWRL's ratio of foreign exchange expenses to foreign exchange earnings stand at an average of 0.55 over the last 3 years. Thus the concern of unfavourable rupee-dollar equation affecting the margins gets mitigated to a considerable extent. We still have assumed some pressure on margins of the fishery and fabricated divisions due to weakening rupee while making our projections. We expect slight margin improvement in the industrial and geo-synthetic businesses.

Considering the above factors, we expect GWRL's EBIDTA and PAT to witness a CAGR of 27.7% and 33.2% respectively. The EBIDTA and PAT margin is likely to improve to 12.8% and 8% respectively in FY2010E from 12.1% and 6.6% in FY2007 respectively.

Exhibit 8: Sales, EBIDTA and PAT Trend



Source: FQ Research

Valuation

At CMP of Rs 233, the stock trades at a P/E of 20x FY2008E, 14.2x FY2009E and 10.5x FY2010E our EPS estimates of Rs 11.6, 16.4 and 22.2 respectively. **We Initiate Coverage on the stock with a 'Buy' recommendation and a price target of Rs 310.**

Profit & Loss Statement

Rs mn

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	3352	4148	5186	6551
% chg	28.4	23.8	25.0	26.3
Total Expenditure	2948	3639	4530	5710
EBIDTA	404	509	656	841
(% of Net Sales)	12.1	12.3	12.6	12.8
Other Income	30	30	30	30
Depreciation & Amortisation	94	110	122	132
Interest	89	112	119	127
PBT	250	317	446	611
(% of Net Sales)	7.5	7.6	8.6	9.3
Tax	28	41	58	86
(% of PBT)	11.2	13.0	13.0	14.0
PAT	222	276	388	526
(% of Net Sales)	6.6	6.6	7.5	8.0
Extraordinary Item	-0.1	0.0	0.0	0.0

Balance Sheet

Rs mn

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
SOURCES OF FUNDS				
Equity Share Capital	207	237	237	237
Reserves & Surplus	1,371	1,726	2,055	2,521
Shareholders Funds	1,578	1,963	2,292	2,758
Total Loans	1,027	1,021	1,078	1,156
Deferred Tax Liability	151	151	151	151
Total Liabilities	2,756	3,135	3,521	4,065
APPLICATION OF FUNDS				
Gross Block	2,098	2,298	2,448	2,648
Less: Acc. Depreciation	1,052	1,162	1,283	1,416
Net Block	1,046	1,137	1,165	1,233
Capital Work-in-Progress	17	30	30	20
Investments	177	177	177	177
Current Assets	2,402	2,916	3,555	4,412
Current liabilities	890	1,125	1,407	1,777
Net Current Assets	1,511	1,791	2,149	2,635
Misc expd	5	-	-	-
Total Assets	2,756	3,135	3,521	4,065

Cash Flow Statement

Rs mn

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
Profit before tax	250	317	446	611
Depreciation	94	110	122	132
Change in Working Capital	171	279	372	550
Direct taxes paid	28	41	58	86
Cash Flow from Operations	146	106	137	108
Inc./ (Dec.) in Fixed Assets	176	104	28	58
Free Cash Flow	(30)	2	109	51
Inc/ (dec) in investment	-	-	-	-
Issue of Equity/ Preference	8	30	-	-
Inc/ (dec) in loans	171	(7)	57	78
Dividend Paid (Incl. Tax)	8	7	-	-
Others	(114)	(33)	(181)	(132)
Cash Flow from Financing	72	(2)	(124)	(54)
Inc./ (Dec.) in Cash	42	0	(15)	(4)
Opening Cash balances	33	75	75	60
Closing Cash balances	75	75	60	56

Key Ratios

Y/E March	FY2007	FY2008E	FY2009E	FY2010E
Valuation Ratio (x)				
P/E	21.7	20.0	14.2	10.5
P/E (Cash EPS)	15.2	14.3	10.8	8.4
P/BV	3.1	2.8	2.4	2.0
EV / Sales	1.7	1.3	1.1	0.9
EV / EBITDA	14.0	10.8	8.6	6.9
Per Share Data (Rs)				
EPS	10.7	11.6	16.4	22.2
Cash EPS	15.3	15.3	16.3	21.5
Book Value	76.2	76.2	82.8	96.7
Returns %				
ROE	14.1	14.0	16.9	19.1
ROCE	12.3	13.7	16.0	18.2
Operating Ratio (%)				
Expenditure / Sales (%)	87.9	87.7	87.4	87.2
Inventory (Days)	84	83	82	81
Debtors (Days)	96	95	94	93
Debt / Equity (x)	0.4	0.3	0.3	0.3



FINQUEST Securities (P) Ltd.

602 Boston House, Next to Cinemax, Suren Road, Andheri (East) Mumbai 400 093
Tel.: 91-22-4000 2600 • Fax: 91-22-4000 2605 • Email: info@finquestonline.com
Website: www.finquestonline.com

Ratings (Returns)

Buy > 15%

Hold 0-15%

Sell > -10%

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, FINQUEST, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent FINQUEST and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

FINQUEST and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to companies mentioned herein or inconsistent with any recommendation and related information and opinions.

FINQUEST and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.