



January 29, 2008

# Garware Wall-Ropes Ltd.

**BUY**

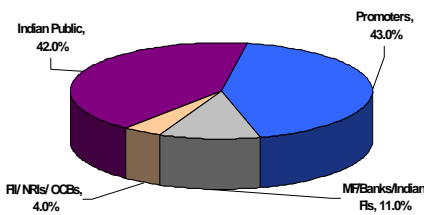
CMP: Rs 156

Target Price: Rs 310

### Key Data

Market Cap (Rs bn)	3.2
Market Cap (US\$ mn)	81.6
52 WK High / Low	258 / 71
Avg Daily Volume	26390
Face Value (Rs)	10
BSE Sensex	18152
Nifty	5274
BSE Code	509557
NSE Code	GARWALLROP
Reuters Code	GRWL.BO
Bloomberg Code	GWWR IN

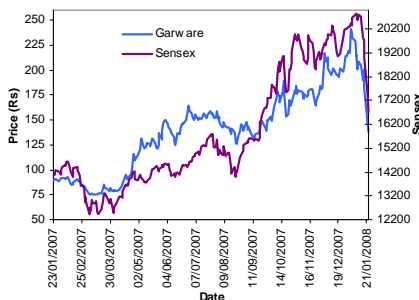
### Shareholding Pattern (%)



### Price Performance (%)

	Absolute	Relative
3 Months	(18.8)	(8.2)
6 Months	(12.4)	(18.3)
12 Months	50.9	33.7

### Garware Wall-Ropes Ltd. vs BSE



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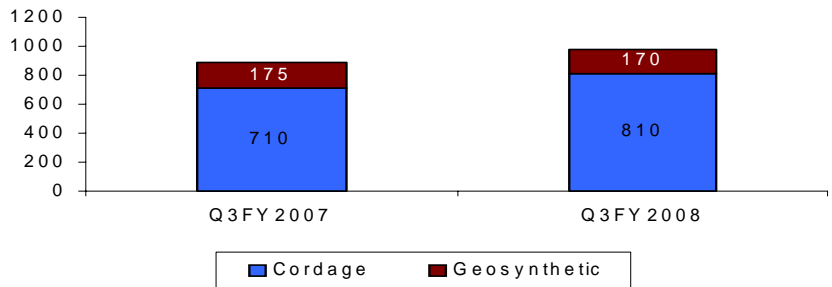
## Q3FY2008 Result Update

*Garware Wall Ropes Ltd (GWRL), has posted growth of 7.4% in net profit on YoY basis. The growth in net profit was contributed mainly by 9.5% rise in revenues and a margin expansion of around 98bps. We expect the Geosynthetic segment of GWRL to be the key driver in scaling up the company's business in future. We continue to maintain "BUY" on the stock with a price target of Rs 310.*

### Growth in cordage segment revenues drives topline

GWRL's topline grew by 9.5% YoY from Rs 887.2mn in Q3FY2007 to Rs 971.3mn in Q3FY2008 mainly on the back of growth in the cordage segment. The revenues of cordage segment grew by around 14.1% on YoY basis from Rs 710mn in Q3FY2007 to Rs 810mn in Q3FY2008. The revenue contribution from the geosynthetic business was more or less constant on YoY basis at around Rs 170mn. GWRL's revenues for 9MFY2008 also surged by 20.3% from 2.4bn in 9MFY2007 to Rs 2.9bn. GWRL derives around 42% of the revenues from exports. On the export front, GWRL's has a natural hedge as its ratio of foreign exchange

### Exhibit 1: Segmental revenue contribution



Source: Company, FQ Research

### Key Financials

Y/E March (Rs mn)	FY2007	FY2008E	FY2009E	FY2010E
<b>Net Sales</b>	<b>3,352</b>	<b>4,148</b>	<b>5,186</b>	<b>6,551</b>
% chg	28.4	23.8	25.0	26.3
<b>Net Profit</b>	<b>222</b>	<b>276</b>	<b>388</b>	<b>526</b>
% chg	40.3	24.1	40.6	35.6
<b>EPS</b>	<b>10.7</b>	<b>11.6</b>	<b>16.4</b>	<b>22.2</b>
EBITDA Margin (%)	12.1	12.3	12.6	12.8
P/E (x)	14.5	13.4	9.5	7.0
P/CEPS (x)	10.2	9.6	7.3	5.6
ROE (%)	14.1	14.0	16.9	19.1
ROCE (%)	12.3	13.7	16.0	18.2
P/BV (x)	2.0	1.9	1.6	1.3
EV/Sales (x)	1.2	1.0	0.8	0.6
EV/EBITDA (x)	10.2	7.8	6.3	5.0

Source: Company, FQ Research

to foreign exchange earnings stand at an average of 0.55. GWRL has managed to protect its balance revenues by hiking the prices of its products in the international markets during the quarter.

#### **Operating margins improve on the back of pricing power.**

Some of the key raw materials consumed by GWRL are Polypropylene, HDPE, Polymer and Nylon Yarn. The prices of these raw materials and crude are positively co-related. Due to the unprecedented surge in crude prices during Q3FY2008, GWRL's raw material cost went up. 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 to pass-on any price escalations on the raw material front thereby protecting the EBIDTA margins. During Q3FY2008 GWRL was successful in passing on the increased input costs to its customers thereby negating the effect of raw material price escalation on its margins. The EBIDTA margins during Q3FY2008 surged by around 100bps on YoY basis from 12.7% in Q3FY2007 to 13.7% in Q3FY2008.

#### **Net Profit up by 7.4%**

GWRL's net profit went up from Rs 64.2mn in Q3FY2007 to 69mn in Q3FY2008 registering a rise of 7.4% on YoY basis. The interest cost during the quarter surged by around 79.3% on YoY basis from Rs 20mn in Q3FY2007 to Rs 36.4mn in Q3FY2008. Additional loan for incurring maintenance capex along with increase in cost of borrowing resulted in the rise of interest cost. This surge in the interest cost took its toll on the net profit during the quarter.

#### **Future Outlook and Valuation**

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 derisking its business model. We expect GWRL's revenues to witness a CAGR of 25.1% and EBIDTA and PAT to witness a CAGR of 27.7% and 33.2% respectively, over FY2007-10E.

#### **Valuation**

At CMP of Rs 156, the stock trades at a P/E of 13.4x FY2008E, 9.5x FY2009E and 7x FY2010E our EPS estimates of Rs 11.6, 16.4 and 22.2 respectively. ***We continue to maintain "BUY" on the stock with a price target of Rs 310.***

#### **Quarterly Financial Highlights**

Y/E March (Rs mn)	Q3FY2008 (3)	Q3FY2007 (3)	Growth (%)	FY2007 (12)	FY2006 (12)	Growth (%)
<b>Net Sales</b>	<b>971</b>	<b>887</b>	<b>9.5</b>	<b>3,352</b>	<b>2,611</b>	<b>28.4</b>
Less: Operational Exp.	839	775	8.2	2948	2306	27.8
<b>Operating profit</b>	<b>133</b>	<b>113</b>	<b>18.0</b>	<b>404</b>	<b>305</b>	<b>32.5</b>
OPM (%)	13.7	12.7		12.1	11.7	
Other Income	6	1		30	15	
Less: Interest	36	20		89	73	
Less: Depreciation	25	23		94	86	
<b>PBT</b>	<b>78</b>	<b>71</b>	<b>10.5</b>	<b>250</b>	<b>161</b>	<b>55.4</b>
Less: Tax	9	6		28	3	
<b>PAT</b>	<b>69</b>	<b>64</b>	<b>7.4</b>	<b>222</b>	<b>158</b>	<b>40.3</b>
EPS (on Existing Equity)	3.3	3.2		10.7	7.9	

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**Ratings (Returns)**

**Buy > 15%**

**Hold 0-15%**

**Sell > -10%**

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