

## Margins expected to improve from H2FY23...

**About the stock:** Garware Technical Fibres (GTFL) is one of India's leading players in the technical textiles sector and a major supplier of aquaculture cage nets to the global salmon farming industry (40% market share). GTFL also has a dominant market position in providing solutions to domestic marine fisheries and a growing presence in sports nets and geosynthetics.

- The company has transitioned from being a provider of nets and ropes to Indian fisheries and shipping sector, respectively, to a value added solution provider to its clients across the globe with a presence in 75 countries with exports contributing ~ 63% of revenues

**Q2FY23 result:** GTFL reported steady revenue growth with QoQ margin improvement.

- Revenue grew 26% YoY to ₹ 356 crore. However, lower gross margins (down 352 bps YoY to 66.1%) impacted profitability
- Positive operating leverage led to lower employee cost to sales ratio (declined 104 bps YoY) and lower other expenses to sales ratio (declined 182 bps YoY), which restricted the decline in EBITDA margin to 66 bps YoY to 17.4%. Absolute EBITDA increased 22% YoY to ₹ 62 crore. Higher depreciation and interest expense along with lower other income on a YoY basis led to net profit growth being restricted to 17% YoY to ₹ 48 crore

**What should investors do?** Over the past three years, the impact of GTFL's improved financial performance has been visible in upward momentum in stock price, which has grown at ~3x over the last three years.

- We maintain **BUY** rating on the stock

**Target Price and Valuation:** We value GTFL at ₹ 4160 i.e. 34x FY24E EPS

### Key triggers for future price performance:

- GTFL has a unique business model as it derives ~60% of revenues from products developed for food related sectors that are relatively immune to demand fluctuations compared to textile fashion and clothing categories
- High share of value added products (75% of revenues) enhances customer stickiness and enables GTFL to pass on a majority of the input cost increase to consumers and maintain its margin profile trajectory
- Expansion of aquaculture cages business by foraying into non-salmon fish farming cages coupled with strong growth in sports and geosynthetics segment would aid in maintaining pace of revenue growth. Increased traction in new high margin innovative products (40% of value added products) to drive 250 bps margin expansion to 21.2% in FY22-24E. We expect revenue, PAT CAGR of 15%, 23%, respectively, in FY22-24E with healthy RoCE in range of 24-27% (RoIC: 40%+)

**Alternate Stock Idea:** Apart from GTFL, we also like Gokaldas Exports (GEL).

- GEL is one of India's leading apparel exporters with an annual capacity of 36+ million pieces, which focuses on manufacturing complex garments

### Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	1,017.8	953.1	1,034.6	1,189.4	6.6%	1,375.7	1,565.0	14.7%
EBITDA	192.0	177.5	204.4	222.9	11.0%	254.5	331.8	22.0%
Adjusted PAT	125.7	140.5	158.4	164.8	14.6%	186.6	249.3	23.0%
P/E (x)	61.5	55.0	46.0	44.2		38.2	28.9	
EV/EBITDA (x)	39.1	42.0	33.6	30.5		26.1	20.0	
RoCE (%)	25.8	21.8	23.9	21.6		23.7	27.6	
RoE (%)	19.3	19.0	19.5	17.0		18.1	21.1	

Source: Company, ICICI Direct Research



**GARWARE**  
TECHNICAL FIBRES

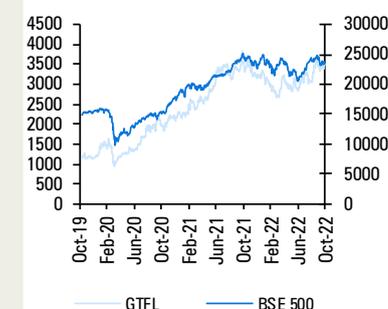
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	7,289.2
Total Debt (FY22) (₹ crore)	79.6
Cash & Investments (FY22) (₹ crore)	561.2
EV (₹ crore)	6,807.5
52 Week H / L	3843 / 2620
Equity Capital (₹ crore)	20.4
Face Value (₹)	10.0

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	52.6	52.6	52.6	52.6	52.6
FII	8.6	7.9	7.4	7.4	8.3
DII	3.7	4.4	5.5	5.9	6.6
Others	35.0	35.1	34.5	34.1	32.4

### Price Chart



### Key risks

- Key Risk:** (i) Significant increase in raw material prices can subdue margins (ii) Slower than expected ramp up in new products can subdue sales

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## Key takeaways of recent quarter

- On the revenue front, the company is witnessing continued demand from existing and new customers. GTFL is focussing on expanding into non salmon farming in aquaculture business and is tapping new geographies to widen and diversify its customer base
- The current share of value added products is at ~ 75% of total revenues. The company is able to pass on the input cost increase with a lag of about two months for value added products. GTFL intends to scale up the share of value added revenues to ~80% over the next few years. The non value-added segment is experiencing comparatively higher impact on profitability owing to the inflationary trends in raw materials
- Among other business segments, the sports segment is witnessing strong demand due to re-opening of school, clubs, etc, in key export markets. The management is hopeful of strong momentum continuing for the sports segment
- The company's order cycle is normally between one and two months. The order book is usually around the same period and the company's current order book is trending at around two months
- On the margin outlook front, GTFL expects to improve its margins and report close to 20% margin from Q3FY23 onwards. The company indicated that raw material prices have declined from their peak while logistic cost has also come down and other operational challenges like availability of containers for export to smaller ports has improved
- Through its geo-synthetic solutions, GTFL plays a crucial role in infrastructure development along with environment protection. In India, the focus sectors are roads and railways, for which the company provides solutions to protect slopes, control erosion and mitigate landslides. In the environment space, GTFL enjoys a niche position for technologically advanced solutions to deal with the challenge of safe disposal of hazardous and non-hazardous industrial waste. The company's solutions are finding increasing acceptance in international markets also. GTFL continues to penetrate new and promising markets in South America and the Asia Pacific region. In the domestic market, the company foresees scaling of demand due to enabling factors such as the central government's National Infrastructure Pipeline with a massive financial outlay
- The company continues to focus on innovations and providing innovative solutions to its customers. GTFL has applied for ~75 patents and been granted 23 patents
- The company is looking at acquisitions in Europe in specific segments. Discussions are going on with prospective companies though nothing has been finalised yet
- The company has announced a buyback scheme through the tender offer route and is proposing to buy back 240000 equity shares of face value ₹ 10 each at ₹ 3750/share. The above scheme would entail a maximum amount of ₹ 90 crore

## Financial Summary

**Exhibit 18: Profit & loss statement**

(Year-end March)	FY21	FY22A	FY23E	FY24E
<b>Net Sales</b>	1,034.6	1,189.4	1,375.7	1,565.0
Growth (%)	8.5	15.0	15.7	13.8
Total Raw Material Cost	296.1	349.5	429.2	457.0
Gross Margins (%)	71.4	70.6	68.8	70.8
Employee Exp	152.7	149.8	173.3	197.2
Other Expenses	381.4	467.2	518.6	579.0
Total Operating Expenditure	830.2	966.5	1,121.2	1,233.2
<b>EBITDA</b>	204.4	222.9	254.5	331.8
EBITDA Margin	19.8	18.7	18.5	21.2
Interest	10.3	10.6	11.5	10.3
Depreciation	20.7	21.5	23.7	26.3
Other Income	34.7	25.5	30.0	38.0
Exceptional Expense	-	-	-	-
PBT	208.1	216.4	249.4	333.2
Total Tax	49.7	51.6	62.8	83.9
<b>Profit After Tax</b>	158.4	164.8	186.6	249.3

Source: Company, ICICI Direct Research

**Exhibit 19: Cash flow statement**

(Year-end March)	FY21	FY22A	FY23E	FY24E
Profit/(Loss) after taxation	158.4	164.8	186.6	249.3
Add: Depreciation	20.7	21.5	23.7	26.3
Net Increase in Current Assets	-13.1	-61.8	-85.9	-76.7
Net Increase in Current Liabilities	83.7	-41.6	36.5	30.8
<b>CF from operating activities</b>	<b>249.5</b>	<b>82.8</b>	<b>160.9</b>	<b>229.7</b>
(Inc)/dec in Investments	-90.9	-53.8	0.0	-24.7
(Inc)/dec in Fixed Assets	-23.3	-14.4	-40.0	-40.0
Others	2.1	-4.6	0.0	0.0
<b>CF from investing activities</b>	<b>-112.1</b>	<b>-72.8</b>	<b>-40.0</b>	<b>-64.7</b>
Inc / (Dec) in Equity Capital	-1.3	0.0	-0.2	0.0
Inc / (Dec) in Loan	-30.7	-22.2	-8.0	-7.2
Others	-81.7	-4.7	-126.9	-99.6
<b>CF from financing activities</b>	<b>-113.7</b>	<b>-26.9</b>	<b>-135.1</b>	<b>-106.7</b>
Net Cash flow	23.7	-16.9	-14.2	58.2
Opening Cash	33.7	57.4	40.5	26.2
<b>Closing Cash</b>	<b>57.4</b>	<b>40.5</b>	<b>26.3</b>	<b>84.5</b>

Source: Company, ICICI Direct Research

**Exhibit 20: Balance Sheet**

(Year-end March)	FY21	FY22A	FY23E	FY24E
Equity Capital	20.6	20.6	20.4	20.4
Reserve and Surplus	790.5	950.0	1,009.5	1,159.1
Total Shareholders funds	811.1	970.6	1,029.9	1,179.5
Total Debt	101.8	79.6	71.6	64.5
Non Current Liabilities	35.9	36.5	36.7	36.8
<b>Source of Funds</b>	<b>948.9</b>	<b>1,086.7</b>	<b>1,138.2</b>	<b>1,280.8</b>
Gross block	309.2	324.1	364.1	404.1
Less: Accum depreciation	66.9	88.3	112.0	138.3
Net Fixed Assets	242.4	235.8	252.2	265.9
Capital WIP	-	-	-	-
Intangible assets	4.8	4.2	4.2	4.2
Investments	466.9	520.7	520.7	545.4
Inventory	190.4	223.9	263.8	278.7
Cash	57.4	40.5	26.2	84.5
Debtors	243.8	259.6	294.0	343.0
Loans & Advances & Other CA	103.7	116.2	127.9	140.7
Total Current Assets	595.3	640.2	711.9	846.8
Creditors	251.3	213.8	245.0	270.1
Provisions & Other CL	118.7	114.6	119.9	125.6
Total Current Liabilities	370.0	328.4	364.9	395.7
Net Current Assets	225.3	311.8	347.0	451.1
LT L& A, Other Assets	9.5	14.1	14.1	14.1
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>948.9</b>	<b>1,086.7</b>	<b>1,138.2</b>	<b>1,280.8</b>

Source: Company, ICICI Direct Research

**Exhibit 21: Key ratios**

(Year-end March)	FY21	FY22A	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	76.8	79.9	92.7	122.3
Cash EPS	86.8	90.3	104.4	135.2
BV	393.4	470.7	511.4	578.7
DPS	0.0	2.5	18.5	48.9
Cash Per Share	27.8	19.6	13.0	41.4
<b>Operating Ratios (%)</b>				
EBITDA margins	19.8	18.7	18.5	21.2
PBT margins	20.1	18.2	18.1	21.3
Net Profit margins	15.3	13.9	13.6	15.9
Inventory days	67.2	68.7	70.0	65.0
Debtor days	86.0	79.7	78.0	80.0
Creditor days	88.6	65.6	65.0	63.0
<b>Return Ratios (%)</b>				
RoE	19.5	17.0	18.1	21.1
RoCE	23.9	21.6	23.7	27.6
RoIC	47.3	41.2	41.6	49.8
<b>Valuation Ratios (x)</b>				
P/E	46.0	44.2	38.2	28.9
EV / EBITDA	33.6	30.5	26.1	20.0
EV / Sales	6.6	5.7	4.8	4.2
Market Cap / Revenues	7.0	6.1	5.2	4.6
Price to Book Value	9.0	7.5	6.9	6.1
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.1	0.1	0.1
Debt/EBITDA	0.5	0.4	0.3	0.2
Current Ratio	1.5	1.8	1.9	1.9
Quick Ratio	0.9	1.1	1.2	1.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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