

Garware Technical Fibres Ltd. (GTFL)

No. of shares (m)	99.27
Mkt cap (Rs crs/\$m)	9234/1076.4
Current price (Rs/\$)*	930/10.8
Price target (Rs/\$)	877/10.2
52 W H/L (Rs.)	986/626
Book Value (Rs/\$)	113/1.3
Beta	0.2
Daily NSE volume (avg. monthly)	41260
P/BV (FY25e/26e)	7.4/6.1
EV/EBITDA(FY25e/26e)	24.1/21.0
P/E (FY25e/26e)	38.8/33.9
EPS growth (FY24/25e/26e)	20.9/17.2/14.3
OPM (FY24/25e/26e)	20.5/20.3/20.8
ROE (FY24/25e/26e)	18.6/19.3/19.8
ROCE(FY24/25e/26e)	17.8/18.6/19.1
D/E ratio (FY24/25e/26e)	0.1/0.1/0.1
BSE Code	509557
NSE Code	GARFIBRES
Bloomberg	GTFLIN
Reuters	GRWL.NS

Shareholding Pattern

	%
Promoters	53.0
MFs / Banks / FIs	10.4
Foreign Portfolio Investors	9.8
Govt. Holding	0.0
Public & Others	26.8
Total	100.0

As on September 30, 2024

Recommendation

HOLD

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Quarterly Highlights

- Garware Technical Fibres Ltd. (GTFL) reported a robust growth of 28.1% in its revenue from operations at Rs 420.59 crs in Q2FY25 from Rs 328.30 crs in Q2FY24. Growth in Q2FY25 came due to surge in orders from its key markets such as Norway and Chile. These orders were recognized as revenues in Q2, which had a ballooning impact on revenues.
- Operating profit for Q2FY25 stood at Rs 91.46 crs as against Rs 68.56 crs, depicting a growth of 33.4%. Nearly four-fifths of the Company's sales came from value added products which led the operating profit margin to grow by 86 basis points yoy to 21.7% in Q2FY25. Rise in OPMs over the next few years seems visible as the Company intends to further increase its share of value added products by aggressively investing in R&D.
- The synthetic cordage segment, comprising ~82% of the revenue, grew by 24.7% yoy to Rs 350.86 crs, whereas, the fibre and industrial products and projects grew by 52.1% yoy to Rs 78.45 crs. EBIT of synthetic cordage segment posted 26.0% yoy growth at Rs 79.78 crs and EBIT margin of this segment stood at 22.7%. With geo synthetics seeing traction worldwide, fiber and industrial products and projects saw EBIT growth of 50.6% (yoy) at Rs 14.01 crs resulting in EBIT margin at 17.8%.
- With increased investment in infrastructural development by the Indian Government, GTFL is seeking to capture the opportunity lying for geo synthetics business in the domestic market. In India, GTFL deals in landfill lining as well. But in the export market, the Company does only supply of products and not execution. The market for geo synthetics is huge and the Company will be cautious in identifying and accepting any related projects.
- The stock currently trades at 38.8x FY25e EPS of Rs 23.97 and 33.9x FY26e EPS of Rs 27.40. Aquaculture is one of the most lucrative businesses for Garware. The Company is constantly thriving to maintain its market share in the global markets accompanied by new product development which aims to reduce carbon footprint. The management is also refocusing to streamline its product, "value added ropes" which has the ability to sharpen its competitive edge. Yet overreliance on new products could hinder business scaling if such products find less favor with customers. Weighing odds, we assign 'hold' rating on the stock with target price of Rs 877 (previous target: Rs 705) based on 32x FY26e earnings.

Consolidated (Rs crs)	FY22	FY23	FY24	FY25e	FY26e
Income from operations	1189.40	1305.55	1325.61	1548.87	1742.85
Other Income	25.54	27.90	43.19	47.91	52.01
EBITDA (other income included)	248.45	257.44	314.81	361.96	414.41
PAT after EO	164.94	172.42	208.42	237.90	272.01
EPS(Rs)	16.00	16.92	20.46	23.97	27.40
EPS growth (%)*	4.1	5.8	20.9	17.2	14.3

*adjusted for bonus

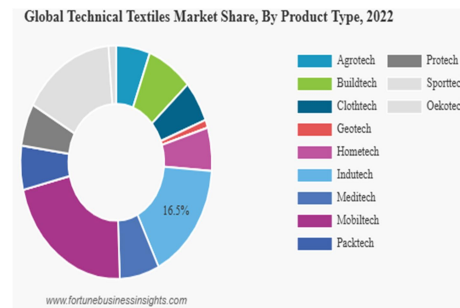
Investment Thesis

Technical Textile Industry

According to a report by Fortune Business Insights, the global market size of technical textile is estimated to grow from USD 225.99 billion in 2023 to USD 346.67 billion in 2030, exhibiting a CAGR of 6.3% in the projected period. Asia-Pacific dominated the global technical textiles market with a market share of 36% in 2022. Technical textiles find its application in several industries namely construction, healthcare, defense, automobiles, sports, etc. These products are tailor made to suit specific requirements and perform functions that are based on the requirements of the end user. Hence, the growth prospects of the end user industry have significant impact on the growth of technical textiles industry. With technological advancement and product innovation in the manufacturing sector, the scope of technical textiles is expanding.



Source: Fortune Business Insights



Source: Fortune Business Insights

According to a policy report released by Government of India, technical textiles industry accounts for just 13% of India's total textile and apparel market, contributing 0.7% to India's GDP. Therefore, there lies immense opportunity for growth in this sector. The global growth rate of the technical textile will increase at ~4.9% CAGR from 2022-2030. India is the third largest consumer market and fifth largest exporter in the global technical textiles sector. The major domestic growth drivers of the industry are availability of raw materials, affordable manpower, investment promotion schemes by Government, regulations and standardization across various sectors, increase in consumer awareness about environmental issues and climate change, and growth of end-use industries. However, volatility in the cost of raw materials, obsolete machinery, and competition from international players like China, Bangladesh and Vietnam are few pain points in the domestic technical textile industry.



Source: Wright Research



Source: Wright Research

In the interest of promoting technical textiles industry in India, Government has taken various initiatives including PLI scheme for Textiles, PM MITRA Parks, National Technical Textiles Mission (NTTM), rationalization of HSN codes, development of more than 500 BIS standards and issuance of QCOs for technical textiles, etc. In the Union Budget of 2024-25, the Government of India increased the budget allocation for the textiles sector by Rs 9.74 billion to Rs 44.17 billion. The major textile industry of India is set up in Gujarat and Maharashtra in the West and Karnataka and Tamil Nadu in the South. Gujarat's 2024 Textile Policy offers various incentives (interest subsidy, capital subsidy, etc.) for the state's textile market, making it attractive for large scale investments. The policy sets a roadmap for India to become a hub for technical textiles.

Table 1: Textile Industry Statistics: Maharashtra, Gujarat and Karnataka, 2023

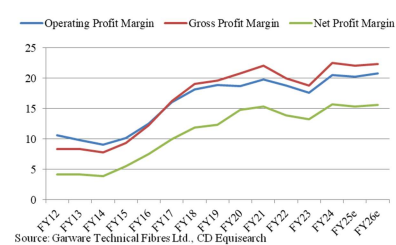
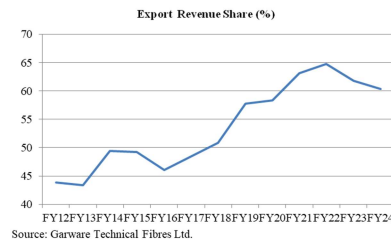
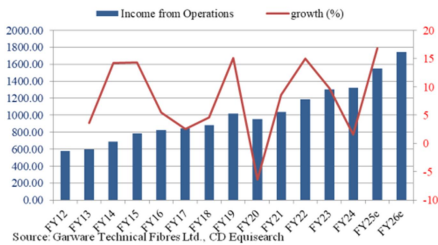
Variable	Gujarat	Maharashtra	Karnataka
Exports of fabrics, yarn, made-ups	33.4%	14.76%	5.25%
Textile exports	26.91%	18.57%	9.07%
Capacity	4.5 million spindles	4.9 million spindles	4.5 million
Strengths in textiles	Largest producer of synthetic fabric, woven fabric production, technical textiles, denim	Cotton production, 2 nd largest exporter of textile products, 12% of India's total yarn production	Silk textiles, cotton, and apparel production

Source: MIDC, Government of Gujarat, AEPC, Karnataka Department of Handlooms and Textiles

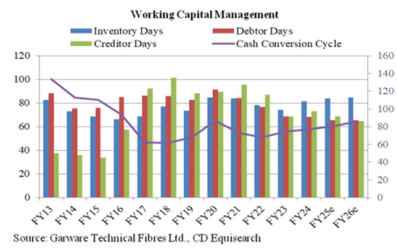
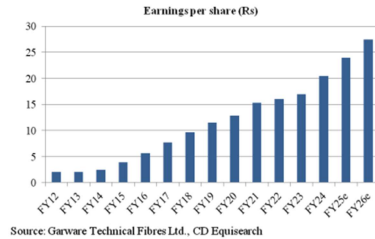
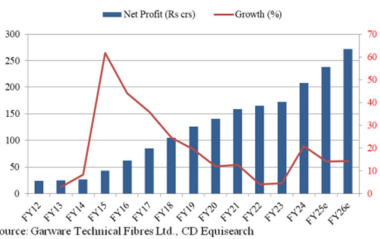
Despite various schemes introduced by the Government, there still remains a caveat in the sector. The processing facility of the textile value chain is insufficient. This becomes a hindrance in the growth of the sector in the country. In order to retain its competitive edge and serve the growing demand, India must develop its processing plants. Unlike Maharashtra and Tamil Nadu, where generous power subsidies are available, Gujarat has little support. The cost of power tariffs in Gujarat is quite high. Hence, for the Indian textile industry to rise to its maximum potential, Government should acknowledge the caveat points and introduce measures to fix the same.

Financials and Valuation

Revenue from operations of GTFL saw marginal increase of 1.5% in last fiscal (from Rs 1,305.55 crs in FY23 to Rs 1,325.61 crs in FY24). Strong demand from aquaculture and geosynthetics industry led operating profit to surge by 18.3% to Rs 271.92 crs in FY24 from Rs 229.82 crs in FY23. OPM saw a yoy surge of 290 bps to 20.5%. Margins grew on the back of rise in demand for value added solutions which constitute major chunk of the Company’s product sales portfolio. Order book from Norway, Chile and Northern Europe was strong. The Company made 71% of its sales through distributors in the preceding year. Robust connectivity with distributors and customers in the international market has helped GTFL in achieving profit after tax (adjusted) of Rs 208.42 crs in FY24, marking a growth of nearly 21% from Rs 172.42 crs in FY23.

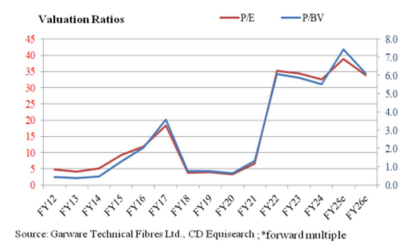
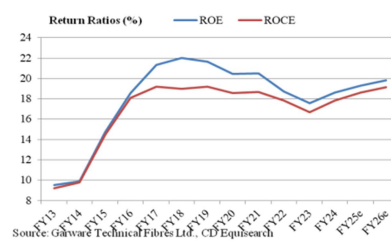
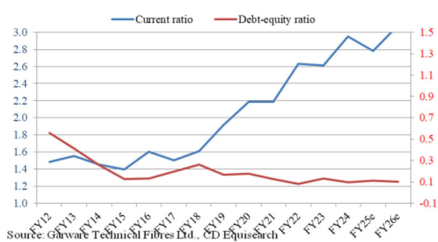


With current capacity utilization of 70-80%, Garware plans to incur capex towards value added products and acquisition of companies (outside India) engaged in allied activities; the capex to be funded through internal accruals. As there has been many challenges in the global supply chain and the major part of the business comes from Europe, the Company looks forward to make acquisitions in that geography. The Company’s manufacturing facility is primarily in India and the products are shipped from India to other export markets. Therefore, there is a lot of lead time which the customers have to face. However, as the Company’s 100% sales under aquaculture business comes from outside India, it will be interesting to see how Garware is able to tap manufacturing facilities abroad in this labor intensive segment. While making acquisitions, GTFL will count on the companies which will add new products to their existing product portfolio and bring technological edge. Although the Company does not hedge for the volatility in the cost of raw materials, it is not a significant concern for the Company as the cost is passed through with a lag of one to two months. Since, majority of its products add value to customers, GTFL has significant pricing power.



The need for sustainable solutions was seen in the aquaculture industry of Northern Europe. In South America, upgradation in value added products was visible. GTFL helps its customers upgrade their products, though, not without risk of cannibalization. To overcome high rate of product obsolescence - average 3-4 years (though it may vary by product type/geography), Garware needs to invest full throttle in R&D. Rolling out new value added products at barely sluggish pace is essential for it to expand margins going ahead. Being able to incur significant R&D expenses and maintain the quality of their products is what imparts it competitive edge. As most of Garware’s competitors comprise of unorganized players who operate in small scale, it becomes nearly impossible for them to focus on product upgradation.

Going forward, the Company plans to enhance its profitability by expanding its geographical reach. Demand for value added products is improving and so is the company's performance in the domestic market. Currently, GTFL operates in fisheries, IPD and geo synthetics segment in India. The Company's focus is to realign its sales of value added products in the domestic market and is optimistic of growing in the region. The current ratio of exports to domestic is 60:40 and the Company plans to increase the share of domestic to 45% over the next 3-4 years. The management is also refocusing to streamline its product, "value added ropes" in domestic as well as export market. The Company believes it to be a strong area for growth. With 28 patents and over 20,000 SKUs, GTFL possesses 35-40% global market share in salmon farming. Therefore, it wishes to gain market share in non-salmon farming as well which has great opportunity in the countries of Latin America where fish farming is done extensively.



The stock currently trades at 38.8x FY25e EPS of Rs 23.97 and 33.9x FY26e EPS of Rs 27.40. Aquaculture is one of the most lucrative businesses for Garware. The Company is constantly thriving by maintaining its market share in the global markets accompanied with new product development aiming to reduce carbon footprint. Apart from aquaculture being the biggest contributor to the revenue in the past few years, geo synthetics saw immense recognition. Demand from infrastructure and environmental protection projects in both domestic and international markets led to higher sales of geo synthetics last fiscal. Revenue share of geo synthetics has grown from 10% to 15% in recent times and seems to be a strong driver. GTFL also faces competition from the unorganized fisheries market domestically and from organized players in the global markets. Weighing odds, we assign 'hold' rating on the stock with target price of Rs 877 (previous target: Rs 705) based on 32x FY26e earnings. For more information refer to our Sep 2023 report.

Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q2FY25	Q2FY24	% chg	H1FY25	H1FY24	% chg
Income From Operations (Net)	420.59	328.30	28.1	756.84	653.97	15.7
Other Income	9.68	10.08	-4.0	20.23	19.44	4.1
Total Income	430.27	338.38	27.2	777.08	673.40	15.4
Total Expenditure	329.13	259.74	26.7	600.99	527.18	14.0
EBITDA (other income included)	101.14	78.64	28.6	176.08	146.22	20.4
Interest	6.42	4.22	52.2	12.59	8.61	46.3
Depreciation	7.04	6.29	11.9	13.75	12.39	11.0
PBT	87.67	68.13	28.7	149.74	125.23	19.6
Tax	21.71	15.65	38.7	37.02	29.78	24.3
PAT	65.96	52.48	25.7	112.72	95.44	18.1
Share of profit/(loss) of Associate	-0.07	-0.09	-	-	-	-
PAT after Associate Profit	65.90	52.39	25.8	112.72	95.44	18.1
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	65.90	52.39	25.8	112.72	95.44	18.1
EPS(Rs)*	6.64	5.14	29.1	11.36	9.37	21.2

*adjusted for bonus

Consolidated Segment Results

Figures in Rs crs

	Q2FY25	Q2FY24	% chg	H1FY25	H1FY24	% chg
Segment Revenue						
Fibre & Industrial Products & Projects	78.45	51.57	52.1	144.67	125.58	15.2
Synthetic Cordage	350.86	281.44	24.7	627.54	540.96	16.0
less: Inter-segment sales	8.71	4.71	84.8	15.37	12.57	22.3
Segment Revenue	420.59	328.30	28.1	756.84	653.97	15.7
Segment EBIT						
Fibre & Industrial Products & Projects	14.01	9.30	50.6	23.92	19.56	22.3
Synthetic Cordage	79.78	63.31	26.0	138.04	115.05	20.0
Sub Total	93.80	72.61	29.2	161.96	134.61	20.3
Interest	6.42	4.22	52.2	12.59	8.61	46.3
Other Unallocable Exp. (net)	-0.30	0.26	-214.1	-0.38	0.78	-148.7
PBT	87.67	68.13	28.7	149.74	125.23	19.6

Consolidated Income Statement

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Income From Operations (Net)	1189.40	1305.55	1325.61	1548.87	1742.85
Growth (%)	15.0	9.8	1.5	16.8	12.5
Other Income	25.54	27.90	43.19	47.91	52.01
Total Income	1214.94	1333.45	1368.80	1596.78	1794.86
Total Expenditure	966.49	1076.01	1054.00	1234.81	1380.45
EBITDA (other income included)	248.45	257.44	314.81	361.96	414.41
Interest	10.57	11.95	17.21	20.94	24.50
Depreciation	21.46	22.31	25.88	28.00	32.00
PBT	216.41	223.18	271.71	313.02	357.91
Tax	51.63	50.98	63.53	75.13	85.90
PAT	164.78	172.20	208.18	237.90	272.01
Share of profit/(loss) of Associate	0.00	0.00	0.01	-	-
PAT after Associate Profit	164.78	172.20	208.19	237.90	272.01
Extraordinary Item	-0.16	-0.22	-0.23	-	-
Adjusted Net Profit	164.94	172.42	208.42	237.90	272.01
EPS (Rs)*	16.00	16.92	20.46	23.97	27.40

*adjusted for bonus

Consolidated Segment Results

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Segment Revenue					
Fibre & Industrial Products & Projects	184.20	222.14	240.05	276.06	317.46
Synthetic Cordage	1030.32	1103.87	1114.89	1304.42	1460.95
less: Inter-segment sales	25.12	20.46	29.33	31.61	35.57
Segment Revenue	1189.40	1305.55	1325.61	1548.87	1742.85
Segment EBIT					
Fibre & Industrial Products & Projects	22.13	26.40	39.88	45.55	53.97
Synthetic Cordage	213.56	219.09	245.45	286.97	328.71
Sub Total	235.69	245.49	285.33	332.52	382.68
Interest	10.57	11.95	17.21	20.94	24.50
Other Unallocable Exp. (net)	8.70	10.36	-3.59	-1.44	0.28
PBT	216.41	223.18	271.71	313.02	357.91

Consolidated Balance Sheet

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Sources of Funds					
Share Capital	20.62	20.38	20.38	99.27	99.27
Reserves & Surplus	949.97	996.02	1213.48	1148.88	1414.94
Total Shareholders' Funds	970.59	1016.40	1233.86	1248.15	1514.20
Long Term Debt	-	-	-	-	-
Total Liabilities	970.59	1016.40	1233.86	1248.15	1514.20
Application of Funds					
Gross Block	335.60	361.40	401.75	456.75	506.75
Less: Accumulated Depreciation	95.58	115.88	139.98	167.98	199.98
Net Block	240.02	245.52	261.77	288.77	306.77
Capital Work in Progress	-	-	-	-	-
Investments	520.76	617.39	689.24	689.24	689.24
Current Assets, Loans & Advances					
Inventory	223.93	214.37	256.74	309.77	331.14
Trade Receivables	257.94	234.04	262.37	294.29	331.14
Cash and Bank	40.47	45.82	173.74	96.71	310.44
Short term loans & advances (incl. other CA)	112.93	105.57	94.14	113.36	124.52
Total CA & LA	635.27	599.80	786.99	814.13	1097.24
Current Liabilities	392.45	426.58	476.93	516.94	554.71
Provisions-Short term	4.65	4.29	6.16	6.51	7.29
Total Current Liabilities	397.10	430.87	483.09	523.44	562.00
Net Current Assets	238.18	168.93	303.90	290.69	535.24
Net Deferred Tax	-33.51	-30.47	-34.57	-38.34	-41.09
Net long term assets	5.14	15.02	13.51	17.79	24.03
Total Assets	970.59	1016.40	1233.86	1248.15	1514.20

Key Financial Ratios

	FY22	FY23	FY24	FY25e	FY26e
Growth Ratios (%)					
Revenue	15.0	9.8	1.5	16.8	12.5
EBITDA	4.0	3.6	22.3	14.9	14.5
Net Profit	4.1	4.5	20.9	14.1	14.3
EPS	4.1	5.8	20.9	17.2	14.3
Margins (%)					
Operating Profit Margin	18.8	17.6	20.5	20.3	20.8
Gross profit Margin	20.0	18.8	22.5	22.0	22.4
Net Profit Margin	13.9	13.2	15.7	15.4	15.6
Return (%)					
ROCE	17.8	16.7	17.8	18.6	19.1
ROE	18.7	17.5	18.6	19.3	19.8
Valuations					
Market Cap/ Sales	4.9	4.5	5.1	6.0	5.3
EV/EBITDA	21.5	21.0	19.2	24.1	21.0
P/E	35.3	34.4	32.5	38.8	33.9
P/BV	6.1	5.9	5.5	7.4	6.1
Other Ratios					
Interest Coverage	21.5	19.7	16.8	15.9	15.6
Debt Equity	0.1	0.1	0.1	0.1	0.1
Current Ratio	2.6	2.6	3.0	2.8	3.1
Turnover Ratios					
Fixed Asset Turnover	4.9	5.4	5.2	5.6	5.9
Total Asset Turnover	1.3	1.3	1.2	1.3	1.3
Debtors Turnover	4.8	5.3	5.3	5.6	5.6
Inventory Turnover	4.7	4.9	4.5	4.4	4.3
Creditor Turnover	4.2	5.3	5.0	5.3	5.6
WC Ratios					
Debtor Days	76.7	68.8	68.3	65.6	65.5
Inventory Days	78.3	74.4	81.6	83.7	84.7
Creditor Days	87.0	68.6	72.9	68.8	64.6
Cash Conversion Cycle	68.0	74.5	77.0	80.5	85.6

Cumulative Financial Data

Rs crs	FY18-20	FY21-23	FY24-26e
Income from operations	2856	3530	4617
Operating profit	530	657	948
EBIT	550	681	1006
PBT	514	648	943
PAT	372	496	718
Dividends	62	27	19
Sales growth (%)	-	23.6	30.8
PAT growth (%)	-	33.4	44.9
OPM (%)	18.6	18.6	20.5
GPM (%)	19.8	20.2	22.3
NPM (%)	13.0	14.0	15.6
Interest coverage	15.6	20.7	16.1
ROE (%)	21.1	18.9	19.0
ROCE (%)	19.0	17.2	18.2
Debt-Equity ratio*	0.2	0.1	0.1
Fixed asset turnover	4.3	4.8	5.6
Total asset turnover	1.6	1.3	1.2
Debtors turnover	4.4	5.0	5.4
Creditors turnover	4.0	5.1	5.5
Inventory turnover	4.7	4.7	4.5
Debtor days	83.0	72.8	67.0
Creditor days	90.2	72.2	66.3
Inventory days	78.3	77.4	81.4
Cash conversion cycle	71.2	78.0	82.1
Dividend payout ratio (%)	16.8	5.4	2.6

FY 18-20 implies three year period ending fiscal 20; *as on terminal year

With regular introduction of innovative products in its product portfolio, GTFL is poised to add value to its customers through their cost reduction and optimization. This will help the Company in achieving a cumulative sales growth rate of 30.8% in the three year period ending FY26e. Being a cash rich company, GTFL does not intend to take any debt going forward. Hence, it will maintain the debt-equity ratio at 0.1 in FY24-26e period. The cash may be utilized for potential acquisitions.

GTFL plans to increase its proportion of business coming from value added products by continued investments in research and development. This will lead GTFL to achieve OPM of 20.5% during FY24-26e from 18.6% in FY21-23. By achieving healthy sales of products with higher margins and tapping geographies with growth opportunities, we expect Garware to post PAT growth of ~45.0% in the period FY24-26e. As 60% of its business comes from overseas market, overcoming hurdles in global supply chain issues and reducing the lead time for its customers will remain key challenges.

Financial Summary- US Dollar denominated

million \$	FY22	FY23	FY24	FY25e	FY26e
Equity capital	2.7	2.5	2.4	11.6	11.6
Shareholders' funds	126.1	122.8	147.3	144.8	175.7
Total debt	10.5	16.2	14.2	16.3	17.5
Net fixed assets (including CWIP)	31.7	29.9	31.4	33.7	35.8
Investments	68.7	75.1	82.7	80.3	80.3
Net current assets	29.5	19.7	35.7	33.2	61.6
Total assets	126.1	122.8	147.3	144.8	175.7
Revenues	159.6	162.4	160.1	180.6	203.2
EBITDA	33.4	32.1	38.1	42.2	48.3
EBDT	32.0	30.6	36.0	39.8	45.5
PBT	29.1	27.8	32.9	36.5	41.7
PAT	22.1	21.4	25.2	27.7	31.7
EPS(\$)	0.21	0.21	0.25	0.28	0.32
Book value (\$)	1.22	1.20	1.45	1.46	1.77

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 85.79/\$).
All dollar denominated figures are adjusted for extraordinary items.



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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY20	FY21	FY22	FY23	FY24
Average	70.88	74.20	74.51	80.39	83.37
Year end	75.39	73.50	75.81	82.22	82.79

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.