

Initiating Coverage Garware Hi-tech Films Ltd

09-August-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Packaging	Rs. 1143	Buy in the 1135-1150 band & add on dips to Rs 1004	Rs. 1312	Rs.1434	2 quarters

HDFC Scrip Code	GARFILEQNR
BSE Code	500655
NSE Code	
Bloomberg	GWPL:IN
CMP	1143
Equity Capital (Rscr)	23
Face Value (Re)	10
Equity Share O/S (cr)	2.3
Market Cap (Rscrs)	2657
Book Value (Rs)	673
Avg. 52 Wk Volumes	26500
52 Week High	1225
52 Week Low	231

Share holding Pattern % (June, 2021)	
Promoters	60.7
Institutions	3.8
Non Institutions	35.5
Total	100.0

Retail Research Risk Rating:

	Blue*	
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* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

Garware Hi-tech Ltd (GHL), for the last 6 decades has been one of the leaders in the specialty polyester films industry both in India as well as in international markets. It exports to over 80+ countries that contributes almost 3/4th of its revenues. GHL branded products have a strong recall in US, EU and Middle-East markets. Its unique diversified product portfolio; constant focus on scaling-up of export markets along with higher share of margin accretive value-add products and strong bouquet of global patents have been the key growth drivers for the company. The company has transformed itself from commoditized player mainly catering to the industrial applications to a strong value-add products company (FY21: 75.8% v/s 48% in FY17) with higher focus on consumer products (FY21: 46% of revenue v/s 30% in FY17). It is among the few companies in the world that has a vertically integrated chips-to-films plant with multiple and adaptable manufacturing lines that can produce a highly flexible product-mix. The company has strong presence in both industrial and consumer products space and caters to varied applications in Automobiles, Packaging, Architectural, Solar control, Electrical and thermal insulations etc.

We believe, the company is at an inflection point and we have a positive view on the stock on the back of 1) Commissioning of new Paint protection films (PPF) plant 2) Capacity expansion of the laminate line from current 2400 lakhs Sqft/ p.a to 4200 lakhs sqft/p.a by Mar 2022 3) Higher growth in consumer products and value-add segment to be margin accretive for the company 4) Aggressive management guidance of achieving a milestone of Rs.1,500Cr of revenue by FY23 which translates into a revenue growth of 23% CAGR over FY21-23E.

Valuations & Recommendation:

GHL's earnings grew at a CAGR 50% over FY16-21. Going forward, in our view, GHL revenue and PAT is likely to record a growth of 20% and 23% CAGR over FY21-23E along with consistent FCF generation, low working capital and improvement in return ratios. The stock is currently trading at valuation of 14x FY23E earnings. GHL trades at a premium as compared to other poly film peers. This is justified as the company derives 76% of its revenue from value-added products as compared to other companies which primarily deal in commodity (packaging films) products. The EBITDA margin of commodity film companies are cyclical, while the margins of GHFL are structural. GHL is a B2C company selling branded products to customers while other polyfilm companies are B2B companies. Also with two growth kickers over the next two years, the topline growth could accelerate over FY21-23. GHL sells its products under brand names 'GLOBAL WINDOW FILMS' and "Garware Sun Control".

Xpel Inc. is a company listed on NASDAQ and in terms of product mix it is broadly similar to GHL except the fact that it has been selling PPF for some time. Xpel Inc. is currently trading at TTM P/E of 98x.

Financial Summary –Xpel Inc.

Particulars (\$Mn)	CY17	CY18	CY19	CY20
Total Revenue	67.8	110	130	159
Gross Profit	16.8	33	44	54
Operating Income	2.2	12	17	23
EBITDA Margin	3.3%	10.8%	13.2%	14.7%
Net Income	1.2	9	14	18
PAT Margin	1.8%	7.9%	10.8%	11.5%

(Source: Bloomberg, HDFC sec)

We feel the base case fair value of the stock is Rs. 1312 (16x FY23E) and bull case fair value is Rs. 1434 (17.5x FY23E). Investors willing to take risk can buy the stock in the range of Rs. 1135-1150 and add on dips at Rs 1004.

Financial Summary -GHL

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	306	169	80	288	6	948	925	989	1,232	1,425
EBITDA	59	29	103	52	14	144	162	218	249	282
Depreciation	7	6	19	7	1	14	20	24	30	37
Other Income	7	2	272	6	8	9	12	16	20	23
Interest Cost	4	5	-4	5	-10	19	18	20	18	14
Tax	19	7	168	15	28	38	49	64	63	63
PAT	36	14	163	32	13	82	86	126	158	190
Diluted EPS (Rs)						35.1	37.0	54.2	67.8	82.0
RoE						6%	6%	8%	10%	11%
P/E (x)						33	31	21	17	14
EV/EBITDA						19	17	12	11	9

(Source: Company, HDFC sec)

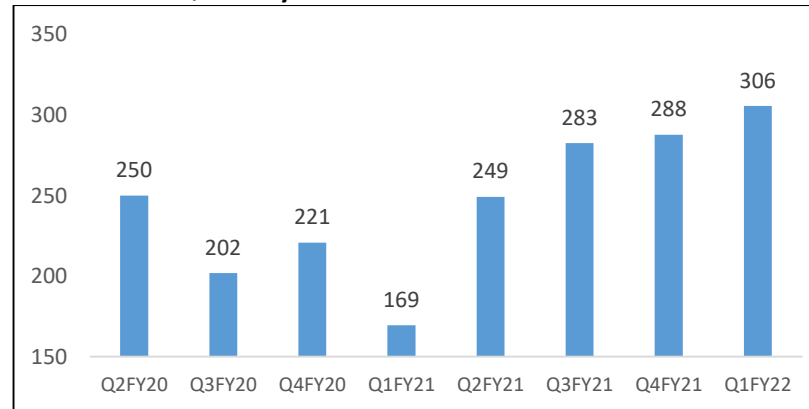
Q1FY22 Result Review

- Despite the pandemic led slowdown, GHL in Q1FY22 reported decent performance. Overall revenues stood at Rs. 306Cr which grew by 80% on YoY and 6% on sequential basis while EBITDA stood at Rs.59Cr registering a growth of 103/14% on YoY/QoQ basis. Consequently, PAT reported a growth of 163/13% on YoY/QoQ basis.
- In Q1FY22, Exports stood at Rs. 249Cr contributing ~81% of overall revenues v/s Rs. 142Cr in Q1FY21. During the quarter the company announced a capex of Rs. 135cr for the new lamination window film line to materialize the company's aim to expand window films category across safety, architectural and front window screen glasses.
- Going forward, as per the management, the outlook for FY22 is extremely positive. Higher growth will be mainly driven by incremental revenue contribution from newly launched PPF line.

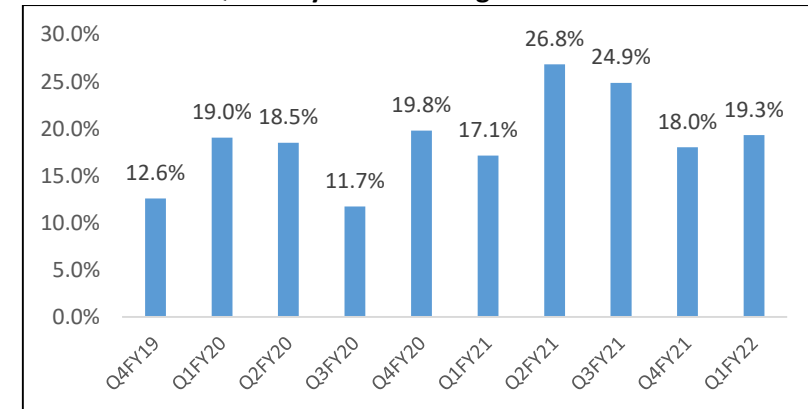
Recent Triggers

Best ever operating performance despite pandemic led slowdown

Quarterly Revenue Growth Trend



Quarterly EBITDA Margin Trend



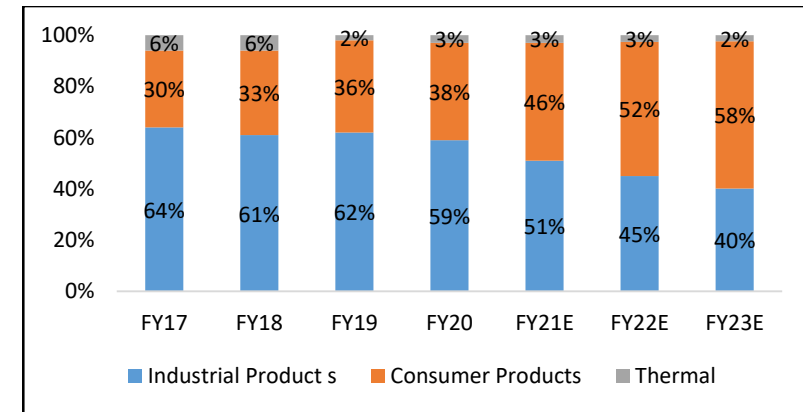
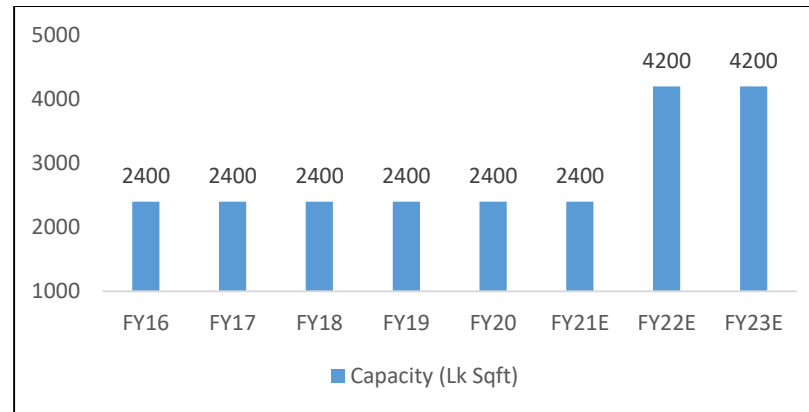
(Source: Company, HDFC sec)

Long Term Triggers

Capacity expansion in Sun Protection (SPF) and Paint Protection Films (PPF) provides strong visibility of growth

In the Sun Protection- Automotive films, GHL is the 3rd largest branded player in US & EU and the largest exporter of these products from India. It is the only Indian company to have a fully integrated SPF manufacturing facility. The company manufactures films which provide 99% UV rejection with uniform cooling and comfort, thereby reducing hot spots. SPF has been the fastest growing segment for GHL and key growth driver behind scale-up of consumer products segment which registered a growth of CAGR 15% over FY17-21. SPF contribution to overall revenue has increased from 36% in FY19 to 46% as on FY21.

Going forward, GHL plans to expand its capacity in SPF segment by 75% from current 2400 lakh Sqft to 4200 lakh sqft by Mar 2022. The company has planned a capex outlay of Rs. 135Cr behind the expansion of new greenfield facility in Waluj. It plans to achieve full capacity utilization in a staggered manner by FY24. The new capacity can give an incremental revenue of ~Rs. 300Cr at optimal utilization levels.



(Source: Company, HDFC sec)

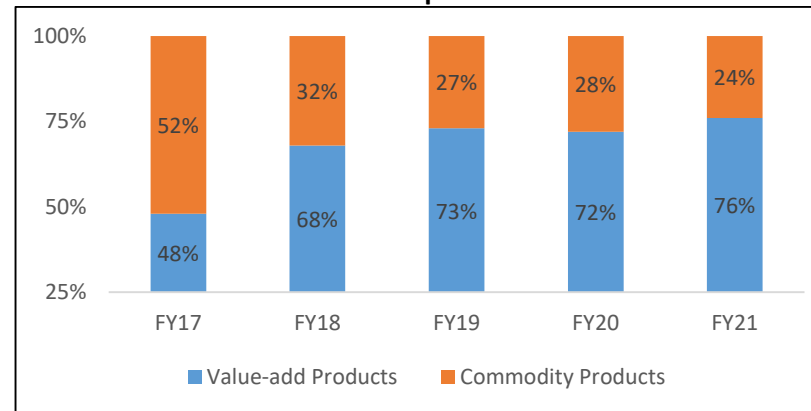
Apart from this, the company has also setup a new surface and Paint Protection Film (PPF) manufacturing line which has commenced production from Dec 2020 onwards. These films designed to deliver the highest level of protection and impact resistance has applications

in many sectors. Currently GHL is the only company in India to manufacture this product which is mainly focused on export markets like US, EU and Middle East. The company plans to leverage its existing taintner network in US and other global markets for scale-up of this product. The company has set-up a 300 lakh sqft capacity of PPF which at optimal utilization levels can generate a Rs. 300Cr incremental revenue. As per the management, the company is experiencing strong traction in this segment with commercial orders of PPF had started from Jan '21 and it expects to achieve a Rs. 300Cr revenue in FY22 itself.

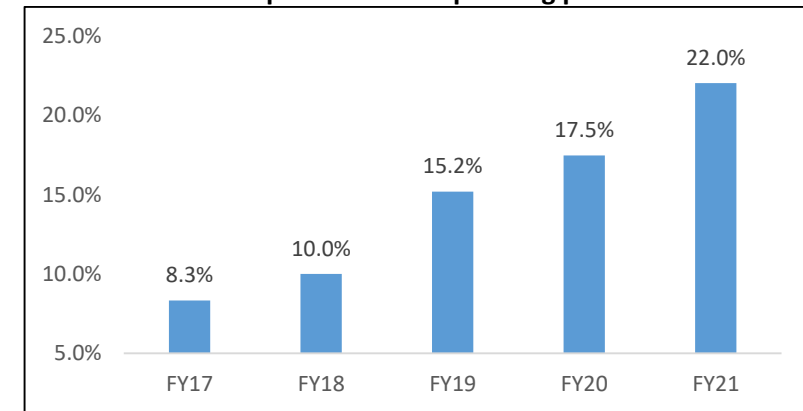
Aggressive ramp-up in the margin accretive value-add business

Over the years, GHL has transformed itself from a commoditized polyester film company with products catering mainly to the industrial applications to a leading consumer product company with a major share in value-add margin accretive products. The share of value-add products of the company has increased from 48% of overall revenues in FY17 to 76% as on FY21. Value-add products portfolio mainly comprises Sun Protect films, shrink films, paint protection films and low oligomer products which are used in industrial applications.

Constant scale-up of value-add business



Consistent improvement in operating performance

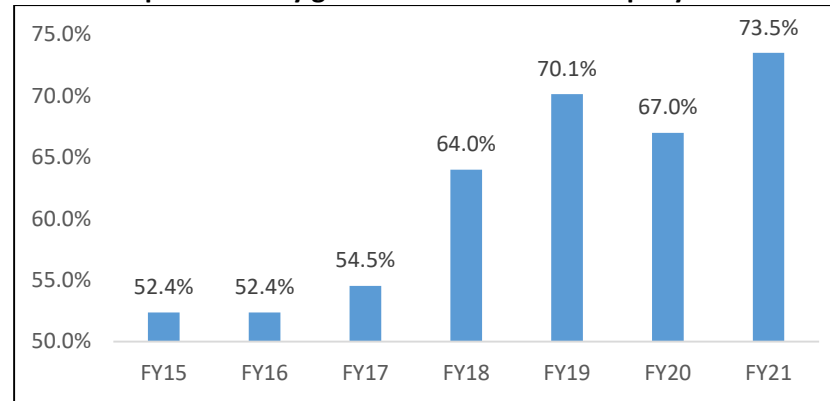


(Source: Company, HDFC sec)

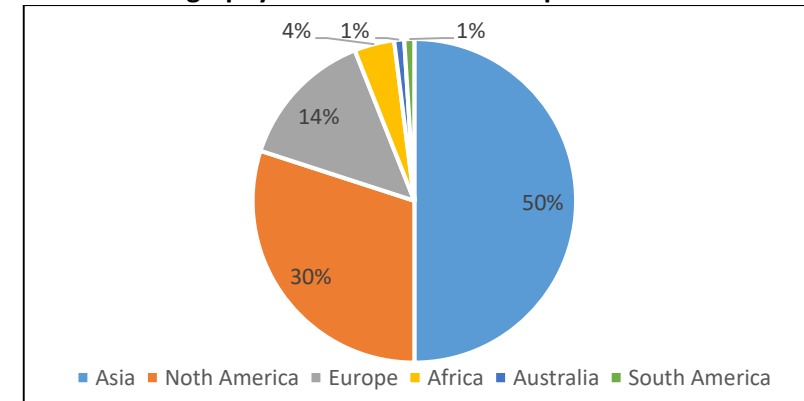
Consistent growth in international business

GHL is India's largest exporter of polyester films with presence across 80+ countries globally and is 3rd largest brand after 3M and Llumar for Sun Control films in leading markets like US, Europe and Middle East. It is one of the premier Solar Control window film manufacturers and have been a trend-setter in sun control/window film industry with a history of more than 30 years of technological development. The brand 'GLOBAL WINDOW FILMS' is registered in the US and is one the most popular brands there. GHL in the Sun control business is amongst one of the three companies worldwide which possesses the competency to produce dyed polyester film. Garware Sun control window films are applied on the glasses of any automobile. The prime benefit of Garware Sun control auto films is to reduce the heat generated by the rays of the sun falling on the automobile. Over the years, company has built a strong brand recognition and has a long standing relationship with the tainters community across large global markets. The company operates a cash-n-carry model through large distributors in the international markets.

Exports the key growth driver for the company



Geography-wise revenue Break-up



(Source: Company, HDFC sec)

Recently, GHL has also forayed in the paint protection films (PPF) business which also caters to international market. The global paint protection film market size was valued at USD 297.15 million in 2020 and is expected to grow at a compound annual growth rate (CAGR) of 5.4% from 2021 to 2028. In North America, automotive and transportation films accounted for a prominent market share, with most of the demand from the U.S. Going forward, with incremental SPF and new PPF capacity, we expect further acceleration in the exports business.

Integrated operations provides entry barrier and higher margins

GHL manufactures chips from PTA, then makes films, then dyes and color's them. These are critical process and only two companies have this tech out of which GHL is one.

Comparison Table of Manufacturer Capabilities:

	Global	Llumar/CP	Solar-Gard	Madico	3M	Johnson	Sun-Gard	Sun-Tek
Produce DMT from petroleum distillates	Yes	-	-	-	-	-	-	-
Produce chips from DMT	Yes	-	-	-	-	-	-	-
Produce polyester films directly from chips	Yes	-	-	-	-	-	-	-
Produce silicone liner material	Yes	Yes	-	-	-	-	-	-
Dyeing of polyester films	Yes	Yes	-	-	-	-	-	-
Metalizing of polyester films	Yes	Yes	Yes	Yes	-	-	-	-
Publicly Owned Company	Yes	Yes	Yes	Yes	Yes	-	-	-
Coating & laminating	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Converting & packaging	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

(Source: Company, HDFC sec)

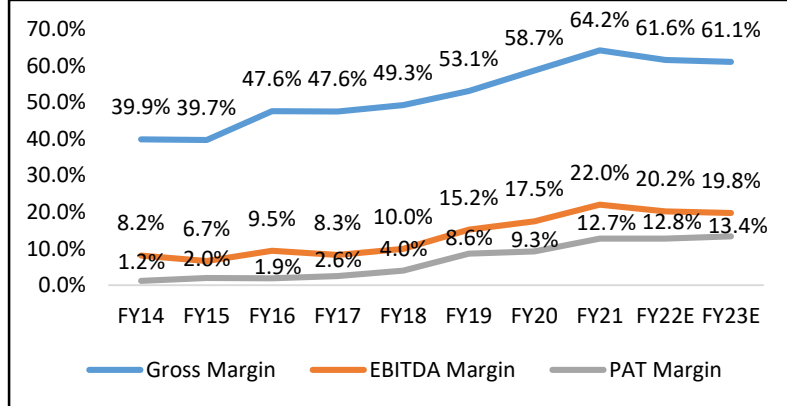
PPF product has big potential abroad

PPF caters to demand from high-end premium and luxury cars exterior and interior surfaces. It is virtually invisible and provides protection from everyday damages including scuffs, scratches, chips and more. These products are applied to car's most vulnerable areas which includes front hood, bumpers, door edges, side-view mirrors, and more. These products restores surfaces - conceals existing damage, providing a renewed finish that's protected for even longer.

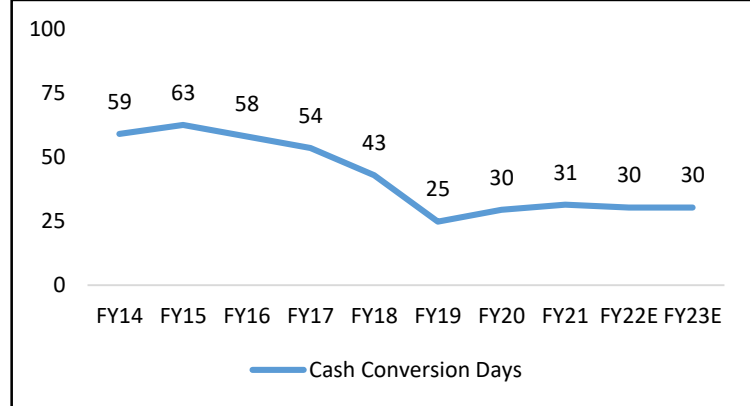
Key Financial Summary

- GHL has delivered a revenue growth of CAGR 3% over FY17-21 aided by its consistent focus on enriching its product portfolio through consistent efforts on product innovation and expansion of its distribution network in international markets. The high margin, consumer products (CPD) business grew at CAGR 14.8% over the same period. This segment contributed 46% of overall revenues in FY21 v/s 30% in FY17. In that period, OPM improved dramatically from 8.5% to 22% showing the impact of product mix changes. Going forward, we are expecting the company to report revenue CAGR of 20% over FY21-23E which will be mainly driven by accelerated growth in CPD business which is likely to register a revenue CAGR of 34% over FY21-23E.
- Its EBITDA and PAT grew by CAGR 25%/40% respectively over FY17-21. In FY21, despite the pandemic led slowdown, GHL reported best ever operating performance was mainly on the back of favourable raw material prices and strong demand from export markets in H2FY21. Going forward, with higher incremental revenue from exports and value-add products we expect the sustainable margins for the company to be in the range of 19-20%. In the consumer product segment, the company has an inherent advantage of passing on the higher raw material prices which insulates it higher volatility in PTA and MEG prices.
- On the working capital side, GHL has been consistently driving efficiency with a clear strategy of dispatch to distributors and has adopted a cash-n-carry model. This has resulted in lower receivable days and consistent debt reduction. Inventory levels rose in FY21 due to higher inventory levels of export goods at the end of the year (March) as the material was in transit.

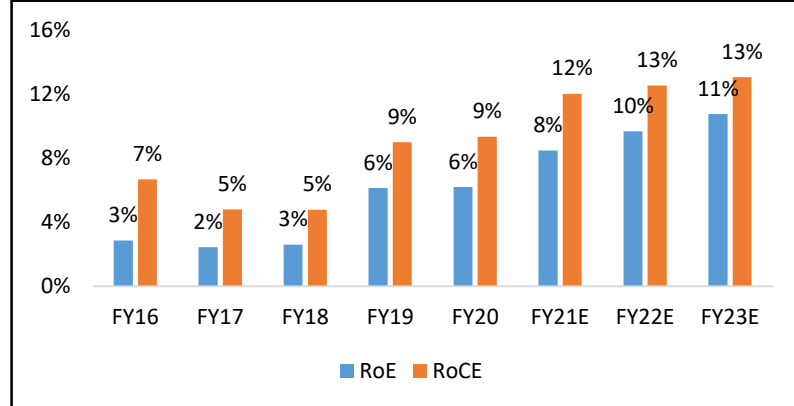
Stable Operating Performance



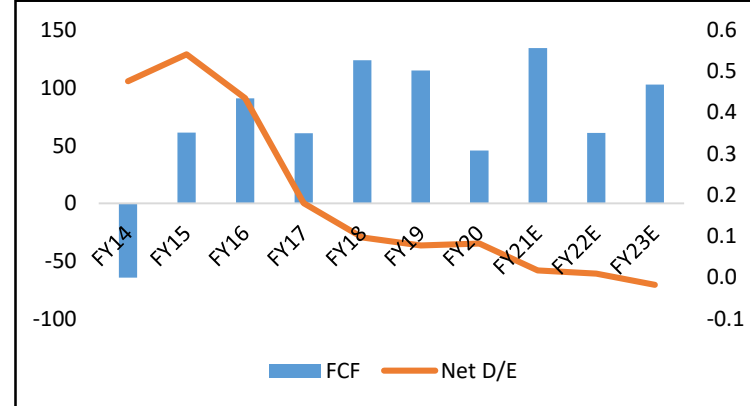
Robust Terms of trade resulting lower CCD's



Superior Return Ratio's



Consistent Debt reduction with strong FCF generation



(Source: Company, HDFC sec)

What could go wrong?

- **Sharp rise in Competition Intensity**

GHL for decades have been competing with large global companies like 3M, Llummar, Xpel etc. In the event of any aggressive disruption or stiff competition in the marketplace, there can be an impact of its overall growth and earnings trajectory.

- **Inability to scale-up SPF and PPF business post expansion**

The company has given a strong guidance of Rs. 300Cr of revenue from PPF business by FY23 and it also aims to achieve incremental Rs. 300Cr revenue from SPF facility by FY23 which is likely to come on-stream by Mar '22. In case, if the company is unable to scale-up these high margin businesses or there is a big delay in ramping-up there can be a significant impact on company's growth outlook and earnings trajectory.

- **Sharp rise in Raw material Inflation**

The volatility of crude oil prices and depreciation / appreciation of Rupee vis-à-vis US dollar, the raw material prices have been exhibiting a volatile trend. The Company is subject to risks arising from volatile foreign exchange market as well as interest rate fluctuations, which could adversely affect its business operational results. Volatility in crude prices and its derivatives is passed over to the customers with a lag of 1-2 quarters. Hence there may be volatility in margins from quarter to quarter but over the year it may even out.

- **Prolonged sluggish economic growth due Covid-19 related slowdown**

GHL products are mainly used in industries like Automobiles, Packaging, Architectural, Solar control, Electrical and thermal insulations etc which are highly sensitive to overall growth and stability of global economy. In possible 3rd wave of pandemic led lockdowns can impact the growth outlook of the company in short to medium term.

- **Risks of rise in Freight and packaging costs**

Since the majority of products are exported the company has to incur more packaging and transportation cost and compared to domestic sales. The shortage of containers during FY21 led to a further increase in freight costs for the company. Such cost increases can recur in future.

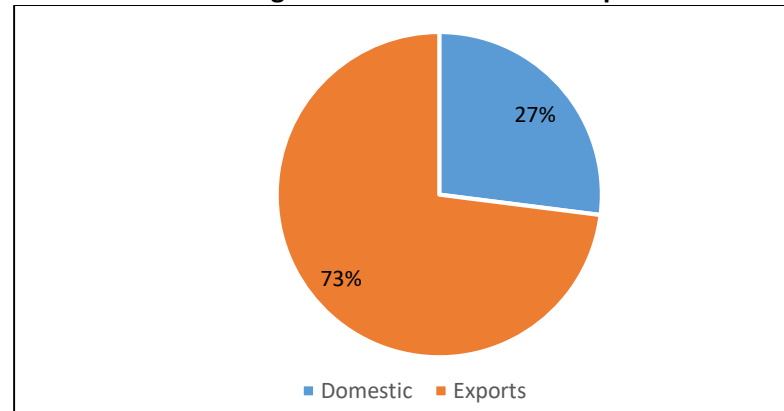
The stock is currently listed only on the BSE and is trading under ASM (Additional Surveillance measures) IV segment.

Company Profile:

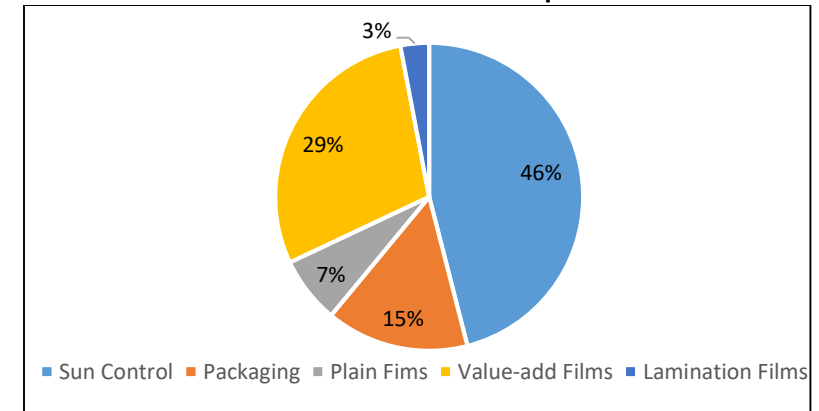
Garware HI-tech, is the pioneers in the polyester film manufacturing and the largest exported from India. Its manufacturing facility in Aurangabad is vertically integrated with the manufacturing of Polyester chips being the raw material to manufacture polyester films. Polyester Films are used for variety of end applications such as PET Shrink films for Label application, Low Oligomer PET films for insulation of hermetically sealed compressors motors, Electric motor insulation and cable insulation, sequin application films, TV and LCD screen application, packaging applications etc. GHFL is also the market Leader and India's only manufacturer of Sun Control window films for Building, safety and auto applications. The company has also developed surface-protection films and Paint Protection Films designed to deliver the highest level of protection and impact resistance which has applications in many sectors.

The company's subsidiary in the US, Global pet films Inc. increased its revenue from Rs 33Cr in FY12 to Rs 195Cr in FY20 at a CAGR of 25% which shows the company's penetration and growth in the US market.

Region-wise Revenue Break-up



User-wise Revenue Break-up



(Source: Company, HDFC sec)

Garware Hi-tech Films Ltd

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	948	925	989	1232	1425
Growth (%)	14%	-2%	7%	25%	16%
Operating Expenses	804	763	771	983	1143
EBITDA	144	162	218	249	282
Growth (%)	73%	12%	35%	14%	13%
EBITDA Margin (%)	15.2	17.5	22.0	20.2	19.8
Depreciation	14	20	24	30	37
EBIT	130	141	194	219	245
Other Income	9	12	16	20	23
Interest expenses	19	18	20	18	14
PBT	120	135	190	220	254
Tax	38	49	64	63	63
RPAT	82	86	126	158	190
APAT	83	87	160	158	190
Growth (%)	146%	5%	46%	25%	21%
EPS	35	37	54	68	82

Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	23	23	23	23	23
Reserves	1349	1380	1540	1670	1826
Shareholders' Funds	1372	1404	1564	1693	1849
Total Debt	149	147	97	97	72
Net Deferred Taxes	-47	-25	6	6	6
Other Liabilities	11	19	15	16	17
Minority Interest					
Total Source of Funds	1485	1545	1681	1812	1943
APPLICATION OF FUNDS					
Net Block & Goodwill	1238	1279	1329	1450	1513
CWIP	11	20	11	11	11
Other Non-Current Assets	21	23	26	26	27
Total Non-Current Assets	1270	1322	1366	1486	1550
Current Investments	120.2	115.8	225.9	230.4	235.0
Inventories	85	105	124	135	156
Trade Receivables	56	52	42	61	70
Cash & Equivalents	43	32	70	80	105
Other Current Assets	25	27	38	37	71
Total Current Assets	287	300	430	463	533
Trade Payables	83	66	87	93	108
Other Current Liab & Provisions	31	43	98	125	137
Total Current Liabilities	114	109	185	218	244
Net Current Assets	173	191	246	245	288
Total Application of Funds	1485	1545	1681	1812	1943

Cash Flow Statement

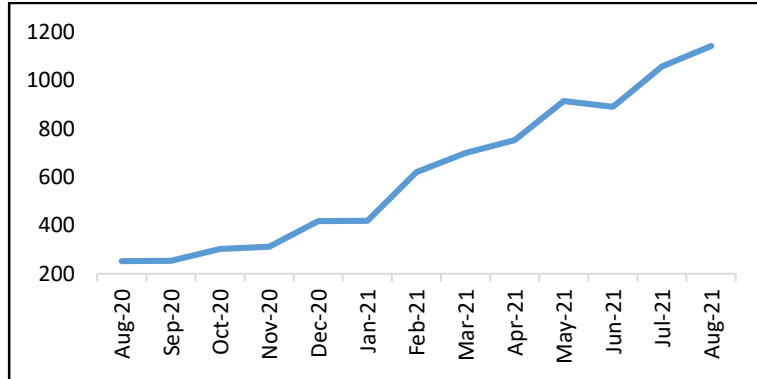
(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	120	135	190	220	254
Non-operating & EO items	-5	-9	-9	0	0
Interest Expenses	19	18	20	18	14
Depreciation	14	20	24	30	37
Working Capital Change	19	-37	12	5	-39
Tax Paid	-25	-28	-38	-63	-63
OPERATING CASH FLOW (a)	142	99	198	211	203
Capex	-27	-54	-64	-150	-100
Free Cash Flow	115	46	134	61	103
Investments	-77	6	-66	-5	-5
Non-operating income	3	14	4	8	-1
INVESTING CASH FLOW (b)	-101	-34	-126	-147	-105
Debt Issuance / (Repaid)	-18	11	-15	0	-25
Interest Expenses	-19	-17	-21	-18	-14
FCFE	78	39	99	43	63
Share Capital Issuance	0	0	0	0	0
Others	-6	-5	0	1	1
FINANCING CASH FLOW (c)	-43	-12	-36	-17	-38
NET CASH FLOW (a+b+c)	-1	54	37	47	59

Key Ratios

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin	15.2%	17.5%	22.0%	20.2%	19.8%
EBIT Margin	13.7%	15.3%	19.6%	17.8%	17.2%
APAT Margin	8.8%	9.4%	16.1%	12.8%	13.4%
RoE	6%	6%	8%	10%	11%
RoCE	9%	9%	12%	13%	13%
Solvency Ratio					
Net Debt/EBITDA (x)	0.7	0.7	0.1	0.1	-0.1
Net D/E	0.1	0.1	0.0	0.0	0.0
PER SHARE DATA					
EPS	35	37	54	68	82
CEPS	33	31	21	17	14
Dividend	10	10	10	12	15
BVPS	591	604	673	729	796
Turnover Ratios (days)					
Debtor days	18	21	17	18	18
Inventory days	35	37	42	40	40
Creditors days	28	29	28	28	28
VALUATION					
P/E	33	31	21	17	14
P/BV	1.9	1.9	1.7	1.6	1.4
EV/EBITDA	19.2	17.1	12.3	10.7	9.3
EV / Revenues	2.7	2.8	2.7	2.1	1.8
Dividend Yield (%)	0.9%	0.9%	0.9%	1.0%	1.3%
Dividend Payout (%)	28	27	18	18	18

(Source: Company, HDFC sec)

One Year Stock Price Chart



(Source: Company, HDFC sec)

HDFCsec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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