

# GARWARE TECHNICAL FIBRES LTD



## Casting a Wide Net

Garware Technical Fibres Ltd. ('the Company' or 'GTFL') is a B2B (Business to Business) technical textile Company that manufactures a diversified set of products ranging from tennis nets used in Wimbledon to protection nets used in agriculture. The Company's products are marketed in over 75 countries and have 6 overseas offices. The majority of the revenue is generated from exports with its presence in key geographical markets like the U.K., Norway, Canada, Australia, and Chile.

The Company caters to the businesses in the following Industries:

- Fishing
- Aquaculture
- Sports
- Shipping and Industrial
- Agriculture
- Geo-synthetics
- Defense
- Yarns and Threads

## How was GTFL born?

GTFL was founded by Shri B.D Garware. He was fondly known as Abasaheb Garware and had been a recipient of the Padma Bhushan award. The Company was initially formed in partnership with the U.S.-based Wall Rope Works in 1976, to manufacture corded ropes for the Indian fishing industry. However, after a few years Garware bought them out. The Company is now headed by his grandson, Wharton-educated, Chairman and Managing Director (CMD) Mr. Vayu Garware. He started working at the factory floor when his father headed the Company. After taking the helm of the Company in 2011, he shifted the strategy of the Company from supplying commoditized products like ropes to more innovation-based products based on the customers' needs (like V2 nets, predator nets, cages), this strategy started to bear fruits in FY15 with a jump in EBITDA margin and net earnings in the later years.



Vayu Garware, CMD

## Indian Technical Textiles Industry

1. Technical textile is a subset of the much larger textile sector. Technical textile products are manufactured using natural as well as man-made fibers such as nomex, kevlar, spandex, Twaron, etc. These fibers are used in various industries because they exhibit enhanced functional properties like higher tenacity, excellent insulation, improved thermal resistance, etc.
2. Technical textiles are divided into many categories, depending on their functionality and areas of application. Some of the highest value segments in India are:
  - **Packtech:** This segment is related to the packing technology like tetra packs, shopping bags and soft luggage.
  - **Indutech:** This segment includes textile products made for industrial use like conveyor belts, coated abrasives and composites.
  - **Hometech:** This includes products like furniture fabrics and mosquito nets.

- **Mobiltech:** This segment includes textile products used in automobile industry like airbags, seat covers, tyre cords, etc.
  - **Sportech:** Includes products like artificial turfs, parachute fabrics, sporting nets, etc.
3. Despite showing impressive growth over the years, the per capita consumption of technical textiles in India is very less (1.7 kgs) in comparison to other developing countries (10-12 kgs).
  4. The lower consumption in the Indian market is mainly because 41.6% of the technical textiles in India focuses on Packtech, which is primarily a low-value low-technology product. However, the adoption of technologically advanced products, changing preferences of the consumers and industries coupled with a growing economy are expected to act as a catalyst and boost the industry growth in the coming years.
  5. Currently, textile products in India are made from fibers like cotton, wool, silk, etc. for apparel and yarns, but now the share of technical textile products stands at 13% in the value chain and with the growth potential of various related sectors, technical textiles are forecasted to grow at 18% CAGR during the period 2018-25.
  6. During 2014-19, the exports of technical textile products from India has grown at a 6.5% CAGR, whereas the imports have grown at 8.5% CAGR during the same period. India depends on imports for high-value technical textile products to meet its demands.
  7. Growth drivers of the industry are the abundant availability of raw materials such as natural fibers, synthetic fibers, processing chemicals, and the availability of young and affordable manpower.
  8. The Government has taken various initiatives that have turned out to be beneficial for the industry such as improving the availability of skilled manpower, incentivizing the production of technical textiles machinery, standardization of products, coupled with 100% FDI (Foreign Direct Investment) in this sector has opened doors to significant opportunities for joint ventures.
  9. The technical textile global market is anticipated to grow from \$176.83 billion in 2018 to \$220.37 billion by 2022 with a CAGR of 5.89%.
  10. The Industry is characterized by the presence of multinationals like Procter & Gamble, Johnson & Johnson, 3M, and Du Pont as well as some domestic players like Kusumgarh Corporates, Century Enka, Supreme Nonwovens, Garware Technical Fibres, and Vardhman.

## Business Model

- The Company designs and manufactures application-based quality products with the primary goal of increasing customer's profits.
- The Company has 2 manufacturing facilities in Maharashtra, one in Pune and the other in a nearby small town of Wai where its products like ropes, nets and, cages are manufactured.
- Its production process includes extruding raw material (plastic granules) which transforms into yarn in the melting process. Then the process involves twisting, weaving, dyeing, stretching and, finally the packaging process.
- In the domestic market the products are distributed through its local distribution network whereas for international markets the Company has collaborations with W&J Knox (Scotland) and Selstad (Norway) to market its products.
- The Company operates in one of the major industries, Salmon aquaculture, wherein the Company supplies cage nets and has 90% market share in Canada, 80% in Scotland, 30-35% in Chile, and 30-35% in Norway.
- Some of the Company's customers are aquaculture farmers, fisheries, shipping companies, sports teams, and farmers in the agriculture sector.
- The Company is developing new product segments like agriculture, geo-synthetics, and defense which hold high growth potential in India and abroad.



## A Summary of GTFL's Product Portfolio



### FISHERIES AND AQUACULTURE

- Fishing nets, twines and ropes
- Predator and grow-out cages
- Lice shields



### SPORTS

- Sports nets
- Fitness ropes



### AGRICULTURE

- Protection nets like shade nets and anti-bird and insect nets



### GEO-SYNTHETICS

- Reinforced Soil Structure
- Geosynthetic Lining of Reservoir & Canal



### DEFENCE

- Camouflage nets
- Aerostat ballons
- Helimats

Source: Company, Leveraged Growth

## COVID-19-Impact on the Company

The COVID-19 has disrupted operations globally. During Q4FY20, the Company's logistical operations were affected in International as well as in the domestic markets resulting in reduced sales and deliveries. Around 60% of the Company's business caters to end-users in food-related industries like fisheries and aquaculture which are experiencing high demand during the pandemic resulting in no substantial impact on the Company's operations. The Company is being diversified into different product streams and international geographical markets which gives GTFL considerable insulation from recessionary trends.



## Differentiating Strategies

### 1. Focus on Value Addition

The Company used to manufacture commoditized products (like ropes for the fishing industry) that were generalized and had no real differentiation with the competitor's products, this stalled the growth of the Company by declining sales and profit margins. The Company shifted to a new strategy of offering innovation-based value-added products like predator nets, lice shields, which are differentiated products backed by patented technology and now contribute more than 60% of the revenues. This shift in strategy has resulted in increased revenue growth, better profit margins, development of new product segments like geo-synthetics, agriculture, defense, and expansion into new geographies.

## 2. Business Partnerships in International Markets

GTFL entered into technical and distribution collaboration with strong partners in foreign markets. In 2004, the Company entered into an association with Scottish net makers with over 200 years in business. W&J Knox decided to outsource their net making activity to India. GTFL also has a distribution partner Selstad in Norway. With over 58% revenue coming in from exports in FY20, these business associations give GTFL access to customers and the ability to innovate new products based on the critical feedback received from those customers.

## 3. Cost-effective Strategy

The management has created a culture of running operations smoothly at the factory level by incorporating lean management principles. Special attention is paid to training the staff to identify problems and wastages and come together as a team to solve the problems. Staff is rewarded and incentivized to come up with ideas and solutions that improve operations while supervisors and divisional heads are empowered to running their teams efficiently. This culture of being cost-conscious and running operations as efficiently as possible from the bottom all the way to the top allows the Company to generate better margins.

## 4. R&D and New product launches

GTFL's products like fishing nets and cages are highly critical to customers' operations. In trawl fishing where fishermen take their boats out to open water for fishing, diesel is the main operating cost instead of fishing nets. Therefore, if the Company's products do not meet the customers' expectations or the level of performance required, GTFL can suffer reputational damage and loss of customers. Hence, GTFL's products solve some of the biggest problems in the fisheries and aquaculture industry i.e., protecting the catch from predators and preventing escape. By providing the best quality products GTFL helps its customers prevent millions of dollars in losses which can result from using inferior products. During FY16-20, the Company has filed close to 43 patents in various geographies.

GTFL's latest product launch is V2 nets with patented technology for anti-fouling which prevents bio-organisms from settling on the surface of the nets. One of the biggest hassles in fishing and aquaculture is regularly cleaning the nets. V2 nets can reduce cleaning costs up to 50% and during a test with a Chilean customer V2 net increased the cleaning cycle from normal 15 days to 64 days. With increasing environment-friendly consciousness V2 nets leave no sediments after the cleaning process. Making positive bio impact for customers, the fishes, and our oceans. The result is cost savings and improved operational efficiency of its customers. Thus, GTFL's products can command a premium compared to other products.

## 5. Foray into New segments

Although GTFL has a dominant position in the global aquaculture industry, the Company is developing products for new applications. Some of the products in the Agriculture industry are shade nets, anti-bird nets, and crop support nets, in the geo-synthetics industry products include rockfall protection, railway track stabilization, and hazardous waste landfill design. While products in the defense industry include inflated structures for radars, flexible helimats, and military camouflage. Currently, these segments' contribution to the revenue is small but they hold great potential for substantial growth in the coming years as awareness about their uses and benefits results in greater adoption.



## SWOT Analysis

### Strengths

- **Customer feedback loop:** Working together with distribution partners and with the Company's overseas offices in core geographies helps the Company to work directly with its customers. The management of the Company has taken full advantage and used inputs directly from customers to design innovative new products with the help of its world-class R&D in India.
- **Great product-market fit:** GTFL's focus is only on supplying nets and cages in the fishing and aquaculture industry which gives it an edge in developing superior products that solve problems and meet customers' needs over some of the competitors who provide a whole range of solutions from feeding systems to net washers. This has allowed the Company to become a global leader and sought-after provider of nets and cages in the salmon aquaculture industry.

### Weaknesses

- **Price sensitive domestic market:** The Company has been facing competition from the unorganized sector in price-sensitive segments like nets in India, which has led the Company to focus on consumer markets by building its brand and development of new product segments like agriculture and geo-synthetics.

### Opportunities

- **Growing economy fueling demand for technical textiles:** Growing Indian economy has led to higher disposable income and demand for functional products among Indians. This growth has led to increased demand for technical textile products in various industries like healthcare, packtech, hometech, etc. this provides the Company a huge growth opportunity for its new segments like agriculture and geo-synthetics.
- **Untapped domestic market:** Functional products are still in the nascent stage in India. With growing awareness among the Indian population about the benefits of the technical textile products, the market has significant potential to grow. Institutional buyers such as hospitals, railways, and defense forces, etc. are heavily dependent on imports for high-value technologically intensive technical textile products. However, companies like GTFL are working with such institutional buyers to show the benefits of the products and develop products specific to their needs. For example, the Company is working with railways for its railway track stabilization and the Company developed radar domes with DRDO (Defense Research and Development organization) for the defense department.

### Threats

- **Ease of availability of technical textile products through imports:** Institutional buyers like defense forces and hospitals have always relied on imports for technical textiles as they were readily available and in accordance to international standards, and continue to do so till date. Import substitution will only be possible if the Government undertakes necessary infrastructure and technology upgradation to help the key players in this industry.
- **Competition:** Although the Company doesn't face much competition from the organized sector towards its aquaculture and fisheries product segment, it faces higher competition in its geo-synthetics segment from other domestic players.

- **Natural calamities:** Cyclones impacted Indian fisheries during FY20 which affected the Company's revenues. Environmental factors like cyclones remain a threat affecting the aquaculture industry and fisheries along the coastline of India.

## Michael Porter's 5-Forces Analysis

### Barriers to Entry

- **Huge capital investment:** Barriers to entry remain high in the industry due to the requirement of high-quality expensive machinery to manufacture the products.
- **Technical expertise:** To manufacture products in the technical textiles market, people with technical expertise are required in the R&D department and management with a core understanding of the customer's needs.
- **Trusted Brand:** In the aquaculture industry due to the critical nature of the products like nets and cages to the customers, reputation, and trust in the product is highly important, otherwise, it can result in huge losses to the customers.

### Bargaining Power of Suppliers

- The Company's raw materials are different forms of polymers which are derivatives of crude oil with a few big firms holding the majority of the share in polymers. However, rising demand due to its increased application in various industries (pipes, toys, chemical containers, etc.), combined with an increase in the supply of polymers has resulted in moderate bargaining power of suppliers.
- GTFL is heavily dependent on its human resources because of a part of the production process is labor-intensive. However, the bargaining power is largely exercised by GTFL because the Company is a major source of employment in a small town like Wai in Maharashtra.

### Bargaining Power of Buyers

- The bargaining power of the customers remains low given GTFLs highly critical and superior quality products which are able to command a premium in the market.

### Threat of Substitutes

- The threat of substitutes is moderate due to the ever-changing nature of technical textile products. The Aquaculture industry is quite competitive which leads to customers utilizing the best equipment available to meet their demands.

### Rivalry among Competitors

- The Aquaculture Cages market appears to be fragmented and with the presence of several companies including Aqualine and Badinotti Group, the competitive environment is quite intense.

## Branding and Other Initiatives

### 1. Rebranding Initiative

The Company was founded more than 40 years ago as Garware-Wall Ropes Limited to manufacture polyester ropes for the Indian fishing industry. The Company has shifted its focus from just ropes to providing application-based innovative solutions to enhance the value of its customers. To better reflect its new values and focus on customers' needs by providing highly technical products the company changed its name to Garware Technical Fibres w.e.f. August 13, 2018.

### 2. Employee Retention

Much of the staff has worked at GTFL for 20 to 30 years and there has not been a single a day of labor unrest in 43 years. The Company was certified as one of India's 'Best Companies to Work for' in the mid-size category for the third year in a row in FY20. After the machines have made the net, the rest of the process is labor-intensive. Under the program, 'Bachat Gat', the Company employs

women in villages on a part-time basis and provides them with a source of income. This initiative is going on for 15 years and has affected the lives of thousands of women.

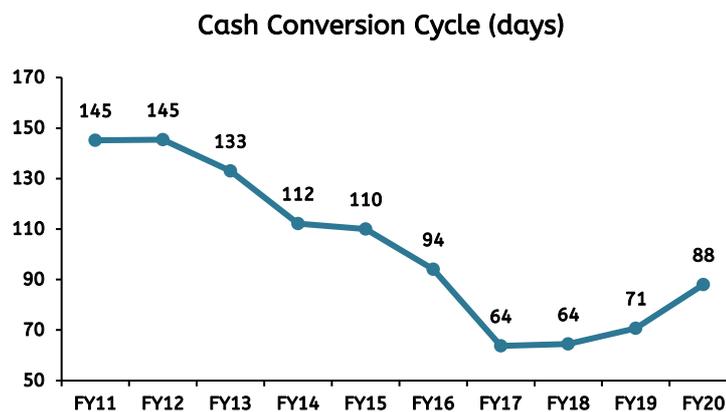
### 3. Corporate Social Responsibility (CSR) activities

Abasaheb Garware created a legacy of giving back to the society which still resonates today. He supported several educational institutes, charities, and hospitals. There are Abasaheb Garware College of Commerce in Pune established in 1971, Garware College of Commerce, Pune and Garware Institute of Career Education and Development in Mumbai. The Company focuses its CSR activities in education, health care, and social welfare.

## Financial Analysis

### 1. Working capital Management

The Company managed to improve its cash conversion cycle mainly by improving its inventory turnover and increasing its creditor days. Since FY12, the shift in strategy to focus on value-added products resulted in better margins and improved the Company's inventory turnover. However, since FY18 the Company's inventory days increased while there was no improvement in receivables days. The jump from 71 in FY19 to 88 in FY20 was due to the impact of COVID-19 in Q4FY20, which halted the Company's deliveries and led to an increase in inventory at the end of the year.

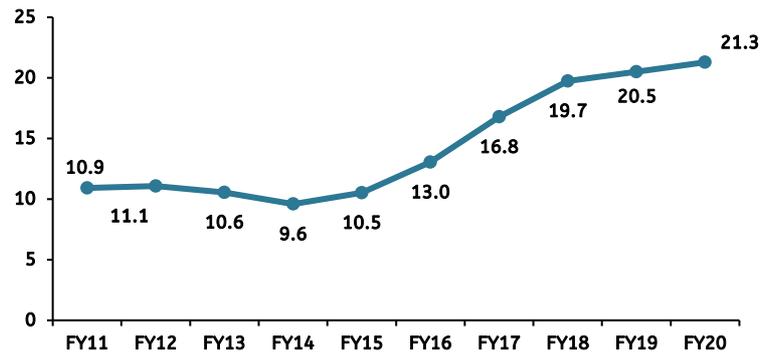


Source: Company, Leveraged Growth

### 2. Focus on Application-based Innovative Products to drive Growth

The Company's majority of the revenue was generated from commoditized products like ropes and tarps which resulted in declining EBITDA margins over the years. However, in FY12 the Management shifted the strategy of the Company from supplying commoditized products to application-based innovative products that bring real value to customers. Due to this new strategy, the new product mix and development of new product segments contributed to better profit margins since FY12 except in FY14 where the EBITDA margin was impacted due to higher raw material prices.

**EBITDA margin (%)**

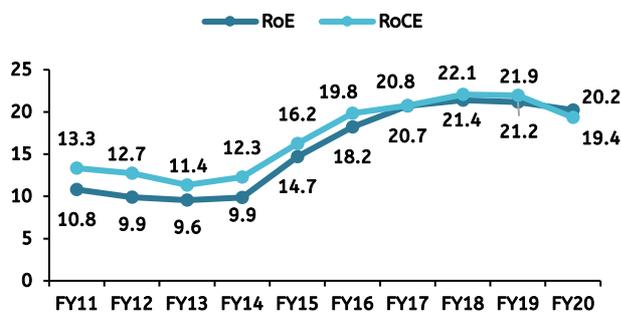


Source: Company, Leveraged Growth

### 3. RoE and RoCE

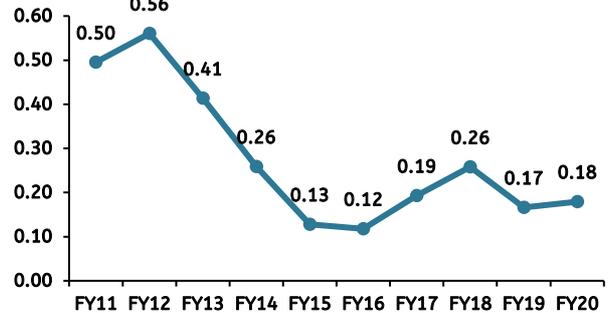
Managements' long-term vision and ability to enhance and grow its people, a process-oriented approach, innovative products, and relationships with partners and customers have given the Company a competitive advantage to be a market leader and sustainably grow the business in future. This resulted in the Company generating consistently high RoCE by utilizing capital efficiently and healthy RoE for its shareholders. In the chart below the closeness of RoE with RoCE indicate that all interests of its stakeholders are aligned in enhancing the long-term value proposition of the Company. The improvement in RoCE since FY14 can be attributed to the management's strategy of designing and manufacturing innovation products with high value to the customers. The management's focus on reducing debt since FY12 (Debt/Equity Ratio) resulted in improving the D/E ratio by putting the Company in a strong financial position and led to the improvement of RoE up to the level of RoCE due to lower interest payments. However, during FY16-18, the Company increased its borrowings to meet its working capital needs which resulted in the increase of the D/E ratio.

**RoE and RoCE (%)**



Source: Company, Leveraged Growth

**Debt/Equity Ratio (in x)**

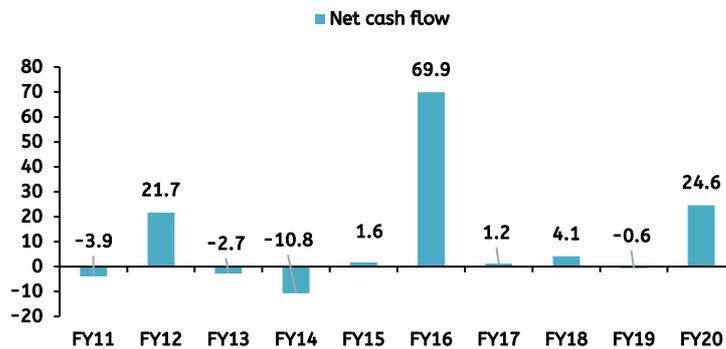


Source: Company, Leveraged Growth

### 4. Strong Cash Flows

The Company's negligible long-term borrowings and low debt to equity ratio combined with free cash flow generation have allowed the management to fund its expansion (development of new products and entry into new markets like Chile) through internal resources. In quite a few years in the last decade, the Company had negative net cash positions due to higher investments and financing cash outflows. The spike in net cash during FY16 was the result of negligible current investments by the Company during the year. However, the decline in net cash during FY17 to FY19 was the result of higher current investments and payments of short-term debt by the Company. The Company maintained a higher net cash position in FY20 due to the pandemic and reduced its investments accordingly to improve its liquidity during the crisis.

### Net Cash Flow (in Rs. Crore)



Source: Company, Leveraged Growth

The ratings of GTFL were reaffirmed with no change, the main influencing factors were Company's conservative capital structure, strong liquidity position, and healthy profitability indicators supported by improved product mix, prudent working capital management, and strong cash flow generation from the business.

### Summary of Rating Action

Instrument Type	Current rated Amount	
	Rs (in Crore)	Rating Action
Fund Based	145.39	ICRA AA (stable) Reaffirmed
Non-Fund Based Facilities	135.00	ICRA A1+Reaffirmed
Commercial Paper	15.00	ICRA A1+Reaffirmed
<b>Total</b>	<b>295.39</b>	

Source: ICRA

## Risk Analysis

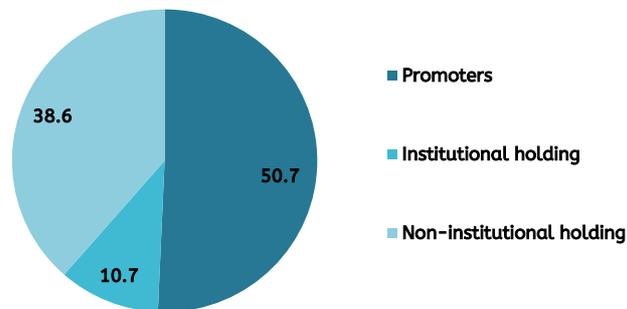
- Foreign Exchange and Commodity price risk:** With a presence in over 75 countries and 58% of revenue from international markets in FY20 leaves the Company exposed to commodity price risk and significant foreign exchange risk.
- Competition:** Although the Company faces limited organized competition in the domestic market, the Company witnessed muted sales growth. It is critical for the Company to increase domestic sales to maintain its revenue and net earnings growth rate.
- Volatility in crude oil prices:** The Company's raw materials like polymers are derivatives of crude oil. Therefore, any adverse economic or political situation resulting in an unanticipated rise in the price of crude oil can adversely affect the profitability of the Company.

## Corporate Governance

- The Company's Board consists of 7 Directors out of which 4 Directors are independent. Ms. M. V. Garware the wife of Chairman and Managing Director Mr. Vayu Garware also sits on the Board.
- None of the Directors held the membership in other companies except Mr. Vayu Garware who holds Directorships in 3 other companies.

3. Audit Committee, Nomination & Remuneration Committee, CSR Committee, and Stakeholders Relationship Committee are headed by an independent director, whereas the Risk Management Committee is headed by CMD Mr. Vayu Garware.
4. There were no materially significant related-party transactions during the year.
5. As of 31<sup>st</sup> March 2020, promoters hold the majority stake in the company with a holding of 50.71%.

#### Shareholding pattern of GTFL as of FY20 (%)

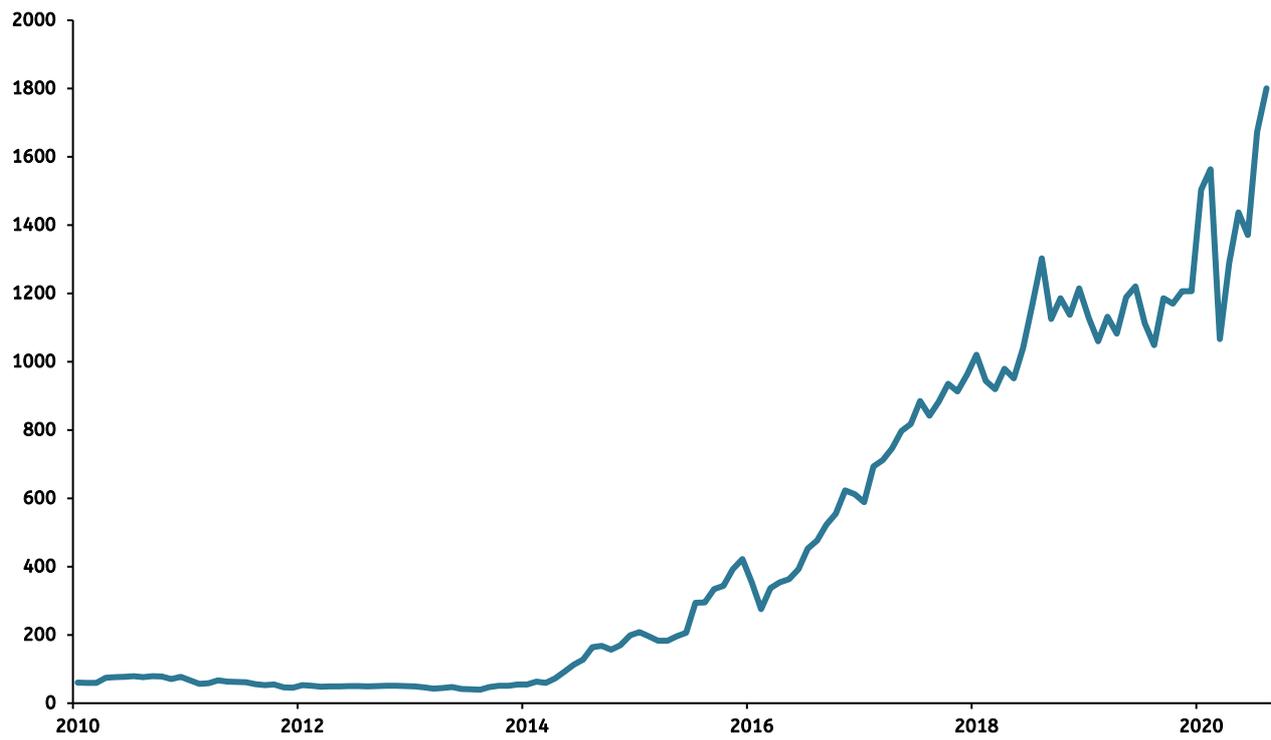


Source: Company, Leveraged Growth

### The EndNote

- GTFL is one of the few small-cap companies that has generated returns for its shareholders at an impressive growth rate in the last decade. The Management is focused on sustainability and long-term opportunities to further drive its business growth.
- Initiatives like 'Make in India' are the impetus for the Company to greater opportunities within the domestic market.
- The Impact of COVID-19 is limited and the Company's core market segment, salmon aquaculture has been experiencing high demand during this period.
- The Company has a strong credit profile and can tap into its unutilized bank lines or can further take on more debt to fuel its growth. However, the Management needs to focus on increasing demand in the price-sensitive domestic market.
- The Company plans to expand into new geographies and develop more value-added products. GTFL is also developing its new product segments like agriculture and geo-synthetics to enter into new markets.

### Performance of GTFL in the last 10 years (Rs.)



Source: BSE

**Disclaimer:** The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. 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 its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Leveraged Growth, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any Company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of Leveraged Growth. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Leveraged Growth to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt Leveraged Growth or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold Leveraged Growth or any of its affiliates or employees responsible for any such misuse and further agrees to hold Leveraged Growth or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.