

13 February 2017

Initiating Coverage (BUY)

## GRAUER &amp; WEIL (INDIA) LTD

CMP

INR 36

Target Price

INR 48

## Stock Details

Industry	COMMODITY CHEMICAL
Bloomberg Code	GW:IN
BSE Code	505710
Face Value (Rs.)	1.00
Market Cap. (Rs. mn)	8,217.9
52wk. Low/High (Adjusted) ((Rs.))	20.10/44.50

## Shareholding Pattern Dec '16

Promoter (%)	69.02
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	30.98
No. of Share Outstanding (mn)	226.7

## Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	10.04	19.49	20.00	21.00
EV/EBITDA (x)	4.44	9.98	10.18	10.93
P/BV (x)	1.54	3.28	3.08	3.26

\*TTM for Current Year

Based on Market Price as on 1<sup>st</sup> Apr is taken for Each FY

## Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	4,180	4,249	4,589	5,048
EBITDA	7,67	810	853	954
Net Profit	462	580	578	668
EPS (Rs.)*	1.5	1.9	2.0	2.3

\*Un adjusted

## Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	18.3	18.9	18.4	18.8
EBIT Margin (%)	14.3	15.6	15.2	15.5
Net Pro. Margin (%)	7.9	9.8	9.6	10.1
Debt/Equity (x)	0.05	0.00	0.00	0.00
RoNW (%)	16.3	18.0	16.4	16.6
RoCE (%)	12.3	14.8	13.9	14.2

One Year Price / Volume



We recommend 'BUY' on GRAUER & WEIL (INDIA) LTD for a target of INR 48 - valuing the company at P/E 21x of FY18E Earning.

## INVESTMENT RATIONALE:

- One-stop-shop for various surface protection solutions with extensive dealer network
- Very strong revenue visibility
- Growel's 101 - high asset valuations with potential to propel the Margins
- Relocation of paint manufacturing plant would help improve the margins
- New technical collaboration should improve the export further
- All set to become zero debt company
- Manufacturing more than 600 chemicals under one roof
- Well organised dealer networks & strong distribution system in multiple locations across India
- Strong R&D with innovation and addition in product
- GWIL is focusing on the Industrial paint & Engineering business as the future growth drivers as their market share is low in these segments providing enough room for growth.
- Good operating profit across the segments

## VALUATIONS AND VIEW:

It has been trail blazer and market leader in the field of manufacture of Electroplating and Allied Chemicals and Engineering Plants to Surface Coating Industry in India. GWIL is the only company in India and one of few in the world, which offers as wide an array of surface treatment products and solutions under one roof - Chemicals, Equipments, Paints & Lubricants. We value the business at 21x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 48 per share.

## RISK & CONCERN

- **Competition:** Low cost products from Chinese market are the major concern in chemical business. This may hurt the margin profile of the company.
- **Discounts:** Online shopping and heavy discount on products via e-shopping may change the dynamics of mall business unfavourably.
- Small size of mall with single location
- **Economy slowdown:** Slowdown in economy will adversely impact chemical as well as mall business

## COMPANY BACKGROUND:

Grauer & Weil (India) Ltd (GWIL), incorporated in 1957, has been trail blazer and market leader in the field of manufacture of Electroplating and Allied Chemicals and Engineering Plants to Surface Coating Industry in India. GWIL is the only company in India and one of few in the world, which offers as wide an array of surface treatment products and solutions under one roof - Chemicals, Equipments, Paints & Lubricants. GWIL had a large tract of 10 acres Surplus land in Mumbai's western suburb Kandivali, which has been developed into a Mall - Growel's 101, which is a highly valuable asset generating significant cash flows for the company.

Grauer & Weil relentless commitment to Research & Development of products and processes and various global alliances has enabled to offer the most comprehensive range of Surface Finishing Processes, complemented by state-of-art equipment and plating plants to the end user Industry.

It is one of the very few surface finishing solution providers across the Globe, who can offer integrated packages of Electroplating and Allied Chemicals such as Anodising / Phosphating / Pre-treatment and Topcoats. It also develop Engineering Plants, Effluent Treatment & Waste Recovery Systems, Industrial Lubricants, High Performance Protective Paints and Coatings also for Automotive and Marine Industry to name a few.

### Products-

- Chemicals
- Engineering
- Lubricants
- Paints
- Mall

## INDUSTRY OVERVIEW:

The global commodity chemicals market is expected to grow at an approximate CAGR of 7% for the period between 2012 and 2017 reaching a market value worth \$2440.6 billion by the end of 2017. Commodity chemicals, also known as bulk chemicals refer to that set of chemicals that are manufactured on a massive scale for the production of other chemicals. These other chemicals are used extensively for manufacturing final products like plastics, tires, construction materials, adhesive and apparel.

The biggest segment in the chemical industry is that of commodity chemicals. Commodity chemicals are applied directly or indirectly in almost each and every type of manufacturing industry. These industries range from personal care industries to aerospace industries.

## Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div. Yld (%)	NP Qtr. (Rs Cr)	Qtr. Profit Var (%)	Sales Qtr. (Rs Cr)	Qtr. Sales Var (%)	CMP/BV
Tata Chemicals	567	12.8	14,453.8	1.76	318.4	31.65	3,416.7	(12.83)	2.01
Jindal Poly Film	166	20.3	1,503.4	0.29	77.1	(20.86)	1,842.8	(0.06)	5.24
GHCL	265	7.5	2,652.0	1.32	80.5	21.13	616.8	(6.42)	2.11
Guj Alkalies	389	8.5	2,858.3	1.16	47.3	229.53	485.8	3.20	1.13
Aarti Inds.	788	21.7	6,564.4	1.08	73.8	21.61	770.2	3.40	5.04
Godrej Inds.	518	61.4	17,425.5	0.34	80.8	44.93	2,234.0	(15.37)	4.80
Polyplex Corpn	377	5.4	1,204.2	0.80	63.8	404.50	797.7	(0.09)	0.49
<b>Grauer &amp; Weil</b>	<b>38</b>	<b>20.0</b>	<b>821.8</b>	<b>0.74</b>	<b>15.5</b>	<b>10.94</b>	<b>105.6</b>	<b>3.40</b>	<b>3.28</b>

\*TTM

## FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight							
(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	102.21	96.36	133.67	95.63	105.58	3.30%	10.40%
Other Income	1.26	2.11	0.83	0.79	0.46		
Total Income	103.47	98.47	134.50	96.42	106.04	2.48%	9.98%
Expenditure	-79.84	-82.94	-113.02	-75.32	-80.09		
As a % of Sales	78.11%	86.07%	84.55%	78.76%	75.86%		
Interest	-2.64	-2.12	-1.88	-1.58	-1.41	-46.59%	-10.76%
PBDT	20.99	13.41	19.6	19.52	24.54		
As a % of Sales	20.54%	13.92%	14.66%	20.41%	23.24%		
Depreciation	-3.3	-3.74	-3.51	-3.49	-3.38		
PBT	17.69	9.67	16.09	16.03	21.16	19.62%	32.00%
As a % of Sales	17.31%	10.04%	12.04%	16.76%	20.04%		
Tax	-3.7	-2	-5.88	-3.41	-5.64	52.43%	65.40%
Net Profit	13.99	7.67	10.21	12.62	15.52	10.94%	22.98%
As a % of Sales	13.69%	7.96%	7.64%	13.20%	14.70%		
Equity	22.67	22.67	22.67	22.67	22.67	0.00%	0.00%
EPS (Rs)	0.02	0.34	0.45	0.56	0.68	3300.00%	21.43%
CEPS (Rs)	0.76	0.5	0.61	0.71	0.83		
OPM %	23.12	16.12	16.07	22.06	24.58		
NPM %	13.69	7.96	7.64	13.2	14.7		

### Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	3,364	3,875	4,180	4,249	4,589	5,048	5,553
Other Operating Income	22	29	19	44	34	38	41
<b>Expenditure</b>	<b>2,832</b>	<b>3,267</b>	<b>3,432</b>	<b>3,483</b>	<b>3,771</b>	<b>4,132</b>	<b>4,537</b>
<b>EBITDA</b>	<b>554</b>	<b>636</b>	<b>767</b>	<b>810</b>	<b>853</b>	<b>954</b>	<b>1,057</b>
Depreciation	110	115	164	142	150	165	179
<b>EBIT</b>	<b>444</b>	<b>521</b>	<b>602</b>	<b>669</b>	<b>703</b>	<b>789</b>	<b>879</b>
Interest Expenses	205	167	141	88	125	121	142
<b>PBT</b>	<b>238</b>	<b>354</b>	<b>462</b>	<b>580</b>	<b>578</b>	<b>668</b>	<b>736</b>
Tax	40	51	128	135	135	155	171
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	(24)	-	-	-
<b>Net Income Before Adjustment</b>	<b>198</b>	<b>303</b>	<b>334</b>	<b>421</b>	<b>443</b>	<b>513</b>	<b>566</b>
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>198</b>	<b>303</b>	<b>334</b>	<b>421</b>	<b>443</b>	<b>513</b>	<b>566</b>

### Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	227	227	227	227	227	227	227
Reserves & surplus	1,454	1,708	1,944	2,280	2,653	3,074	3,538
Share Warrants	-	-	-	-	-	-	-
<b>Net worth</b>	<b>1,680</b>	<b>1,934</b>	<b>2,171</b>	<b>2,507</b>	<b>2,880</b>	<b>3,301</b>	<b>3,764</b>
Minority Interest	-	-	-	-	-	-	-
<b>Loan Funds</b>	<b>579</b>	<b>380</b>	<b>107</b>	<b>3</b>	<b>5</b>	<b>3</b>	<b>1</b>
Net deferred tax liability	169	178	169	173	173	173	173
Other Long-term Liabilities	116	134	140	165	179	196	216
Long-term Provisions	81	92	107	131	141	155	171
<b>Total Liabilities</b>	<b>2,626</b>	<b>2,720</b>	<b>2,694</b>	<b>2,981</b>	<b>3,379</b>	<b>3,830</b>	<b>4,327</b>
<b>Net block</b>	<b>2,310</b>	<b>2,264</b>	<b>2,160</b>	<b>2,100</b>	<b>2,246</b>	<b>2,399</b>	<b>2,513</b>
<b>Investment, Loan &amp; Adv.</b>	<b>188</b>	<b>216</b>	<b>177</b>	<b>161</b>	<b>160</b>	<b>175</b>	<b>193</b>
<b>Total Current Assets</b>	<b>1,624</b>	<b>1,754</b>	<b>1,761</b>	<b>1,711</b>	<b>1,857</b>	<b>2,186</b>	<b>2,610</b>
<b>Current Liabilities &amp; Provisions</b>	<b>1,496</b>	<b>1,515</b>	<b>1,405</b>	<b>994</b>	<b>885</b>	<b>932</b>	<b>990</b>
<b>Net Current Assets</b>	<b>128</b>	<b>239</b>	<b>357</b>	<b>717</b>	<b>972</b>	<b>1,254</b>	<b>1,620</b>
<b>Total Assets</b>	<b>2,626</b>	<b>2,720</b>	<b>2,694</b>	<b>2,981</b>	<b>3,379</b>	<b>3,830</b>	<b>4,327</b>

### Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
<b>Operating Cash Flow</b>	<b>772</b>	<b>480</b>	<b>679</b>	<b>765</b>
<b>Cash Flow from Investments</b>	<b>(75)</b>	<b>(299)</b>	<b>(339)</b>	<b>(318)</b>
<b>Cash Flow from Financing</b>	<b>(615)</b>	<b>(134)</b>	<b>(175)</b>	<b>(206)</b>
<b>Net Changes in Cash</b>	<b>81</b>	<b>47</b>	<b>164</b>	<b>241</b>
Opening Cash	52	133	179	344
<b>Closing Cash Balance</b>	<b>133</b>	<b>179</b>	<b>344</b>	<b>585</b>

**Disclaimer:** This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company (ies). This report is for personal information of the selected recipient/s and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Wealth Discovery Securities Private Limited (hereinafter referred as WD) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc., and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD 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. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and no infringement. The recipients of this report should rely on their own investigations.

WD and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Grauer & Weil (India) Ltd.
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

#### Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.

# Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.  
Optimising returns...

## Head Office

**Wealth Discovery Securities Pvt. Ltd.**

1206, 12th Floor,  
Kailash Building K.G. Marg.  
Connaught Place  
New Delhi-110001

Telephone:  
91 +11-43444-666  
91 +11-43444-623

Email:  
[info@wealthdiscovery.in](mailto:info@wealthdiscovery.in)

Website:  
<http://www.wealthdiscovery.in>