

13 February 2017

Initiating Coverage (BUY)

GRAUER & 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 1st 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
Grauer & Weil	38	20.0	821.8	0.74	15.5	10.94	105.6	3.40	3.28

*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
Expenditure	2,832	3,267	3,432	3,483	3,771	4,132	4,537
EBITDA	554	636	767	810	853	954	1,057
Depreciation	110	115	164	142	150	165	179
EBIT	444	521	602	669	703	789	879
Interest Expenses	205	167	141	88	125	121	142
PBT	238	354	462	580	578	668	736
Tax	40	51	128	135	135	155	171
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	(24)	-	-	-
Net Income Before Adjustment	198	303	334	421	443	513	566
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	198	303	334	421	443	513	566

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	-	-	-	-	-	-	-
Net worth	1,680	1,934	2,171	2,507	2,880	3,301	3,764
Minority Interest	-	-	-	-	-	-	-
Loan Funds	579	380	107	3	5	3	1
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
Total Liabilities	2,626	2,720	2,694	2,981	3,379	3,830	4,327
Net block	2,310	2,264	2,160	2,100	2,246	2,399	2,513
Investment, Loan & Adv.	188	216	177	161	160	175	193
Total Current Assets	1,624	1,754	1,761	1,711	1,857	2,186	2,610
Current Liabilities & Provisions	1,496	1,515	1,405	994	885	932	990
Net Current Assets	128	239	357	717	972	1,254	1,620
Total Assets	2,626	2,720	2,694	2,981	3,379	3,830	4,327

Cash Flow (Consolidated)

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

Research Analyst Details

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