



### 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green with check	Grey	Red

+ Positive    = Neutral    - Negative

### What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

### Company details

Market cap:	Rs. 7,409 cr
52-week high/low:	Rs. 3,370/887
NSE volume: (No of shares)	0.7 lakh
BSE code:	500655
NSE code:	GRWRHITECH
Free float: (No of shares)	0.9 cr

### Shareholding (%)

Promoters	61
FII	1
DII	5
Others	34

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	33.4	103.1	61.5	220.2
Relative to Sensex	34.2	94.7	50.1	199.5

Sharekhan Research, Bloomberg

## Garware Hi-Tech Films Ltd

### Robust quarter, growth outlook intact

Industrials	Sharekhan code: GRWRHITECH		
Reco/View: Positive	↔	CMP: Rs. 3,189	Upside potential: 20%
↑ Upgrade	↔ Maintain	↓ Downgrade	

### Summary

- Q1FY2025 results were strong with a sharp rise of 25%/86%/102% y-o-y in consolidated revenue/operating profit/PAT to Rs. 474/ 119 /Rs. 88 crore due to strong growth in the PPF and SCF business.
- The architectural segment in the SCF business and the PPF business are doing well. The IPD segment also witnessed a recovery in both specialized and commodity segment with marginal growth.
- Management expects growth momentum to continue, supported by the architectural segment and doubling of capacity of the PPF segment. They have guided for a revenue of Rs. 2500 crore in FY26.
- The company is expected to report a strong growth with a revenue/earnings CAGR of 23%/49% over FY24-26. The stock is currently trading at 16.4x its FY26 EPS. We stay Positive on GHFL and expect a 20% upside.

**Revenues increased by 25% y-o-y to Rs. 474 crore, mainly due to strong growth in the PPF and SCF business. Sale of high-end value added products and expansion into new markets helped drive the growth. For the quarter, sales of value-added products (VAP) increased to 88% from 83% last year. Also, the share of Consumer Product Division (CPD – SPF +PPF) in the revenue has increased to 67% from 55% last year. Company's operating profit margin of 25% reported a robust growth of 819bps y-o-y due to higher value added products and decrease in RM cost. Consequently, Operating profit of Rs. 119 crore was up 86% y-o-y. Company reported PAT stood at Rs. 88 crore, a growth of 102% y-o-y.**

### Key positives

- OPM increased by 819bps y-o-y to 25%.

### Management Commentary

- The PPF business registered good growth in the quarter. The segment capacity is going to be doubled to 600 LSF by Q2FY26 at a capex of Rs. 125 crore. GHIL expects this business to grow by 30-40% in the next two years and settle at 20% thereafter.
- Management expects the architectural film segment to drive the SCF growth and grow by 50% in FY25. Overall, SCF segment is doing well with sale of higher value added products and expansion into new international markets.
- The IPD segment recovered well and had marginal growth for the quarter.
- Management has guided for a revenue of Rs. 2500 crore in FY26 and margins to improve with better product mix.

**Revision in estimates** – We have raised our estimates for FY2025-26 to reflect the strong performance in revenue and margins.

### Our Call

**Valuation – Maintain Positive view; expect a 20% upside:** Capacity expansion (PPF) and strong traction in architectural segment act as key catalysts for the company's growth. Company is going to double the PPF capacity with a capex of Rs. 125 crore and it will drive additional Rs. 300-350 crore revenue. Moreover, the valuation of 16.4x its FY2026E EPS looks reasonable, considering strong revenue/profit growth CAGR of 23%/49% which is expected over FY24-26 and makes it a compelling investment case. Hence, we maintain our Positive view on the stock and expect an upside of 20% from the CMP.

### Key Risks

- Sharp surge in oil prices could impact margin/earnings.
- Sluggish demand in the automotive and real estate industry.

### Valuation (Consolidated)

Particulars	Rs cr			
	FY23	FY24	FY25E	FY26E
Revenue	1,438	1,677	2,065	2,555
OPM (%)	15.8%	16.8%	22.6%	23.0%
Adjusted PAT	166	203	349	450
% y-o-y growth	-1%	22%	72%	29%
PAT Margin (%)	12%	12%	17%	18%
Adjusted EPS (Rs.)	71.6	90.1	150.4	194.1
P/E (x)	44.5	35.4	21.2	16.4
EV/EBITDA (x)	31.6	24.8	14.7	11.3
P/BV (x)	4.0	3.6	3.1	2.7
RoCE (%)	23.9%	27.2%	34.1%	33.6%
RoE (%)	19.6%	20.1%	25.7%	25.3%

Source: Company; Sharekhan estimates

## Key Q1FY2025 conference call takeaways

- ◆ **Revenue and margin guidance:** Management has maintained its guidance to achieve revenue of Rs. 2,500 crore by FY2026 and margins to improve with sales of higher value added products. Value added products have 20-30% higher margin in general. Company reported strong margins of 25% in the quarter due to change of product mix towards higher value-added products and reduction in RM cost.
- ◆ **PPF business:** The segment delivered good performance in the quarter. It will also do a capex of Rs. 125 crore to expand capacity by Q2FY26. This capex can bring in additional revenues of Rs. 300-350 crore. The management expects the segment to grow at 30-40% for the next two years and then settle around a 20% growth rate. PPF is around 20% of overall company revenue currently.
- ◆ **SCF business:** This business registered a strong growth with good traction in architectural films because of higher value added products and expansion in new markets. Also, seasonally Q1 is a strong quarter for sun control films (SCF) and Q3 is relatively soft. Last year, the segment was facing issues of excess inventory in the global markets. That issue is stabilized now and helped the growth. SCF contributes to around 45-50% of company revenue. In SCF, 75% of revenue comes from auto films and 25% (was 15-18% last year) from the architectural business. Two years ago, company had increased the SCF capacity from 2400 LSF to 4200 LSF – it is fully contributing to growth.
- ◆ **IPD:** The segment witnessed recovery in both specialty and commodity segments with marginal growth in Q1FY25. Focused approach towards high end products like lidding films, PCR / floatable shrink films is leading to margin improvement in the segment.
- ◆ **Capacity Utilization:** All segments – PPF, SCF and IPD are running at 100% or above capacity utilization currently. Some of the capacities are fungible and can be used across all segments.
- ◆ **White label sales:** In exports, typically the share is 50:50 between white label sales and own products. In white label, there are 10 customers which contribute to the maximum volumes.

### Results (Consolidated)

Particulars	Rs cr				
	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Net Sales</b>	<b>474</b>	<b>380</b>	<b>25.0</b>	<b>447</b>	<b>6.2</b>
Material Cost	222	209	6.2	239	(6.8)
<b>Gross Profit</b>	<b>252</b>	<b>170</b>	<b>48.0</b>	<b>208</b>	<b>21.2</b>
Employee Expenses	41	35	15.1	37	9.2
Other Expenses	93	71	30.3	93	0.3
Total expenditure	356	316	12.6	368	(3.4)
<b>Operating profit</b>	<b>119</b>	<b>64</b>	<b>85.9</b>	<b>78</b>	<b>51.7</b>
Other Income	11	9	27.3	12	(1.6)
Depreciation	10	10	5.9	10	7.3
Interest	2	4	(53.1)	2	5.7
<b>PBT</b>	<b>118</b>	<b>59</b>	<b>100.7</b>	<b>78</b>	<b>50.5</b>
Tax	29	15	96.2	20	44.0
<b>RPAT</b>	<b>88</b>	<b>44</b>	<b>102.2</b>	<b>58</b>	<b>52.8</b>
EPS (Rs.)	38.1	18.8	102.2	24.9	52.8
<b>Margin (%)</b>			<b>YoY (BPS)</b>		<b>QoQ (BPS)</b>
Gross profit margin	53.2	44.9	827	46.6	657
Operating profit margin	25.0	16.8	819	17.5	750
Net profit margin	18.6	11.5	711	12.9	568
Tax rate	24.8	25.4	(57)	26.0	(113)

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Healthy growth expected in the global specialty film industry

The growing automobile sector and rising disposable incomes of the middle class are expected to increase consumption of specialty films in the domestic market. The global SCF market is expected to report a CAGR of 5.8% from 2022 to 2032, The Global architectural SCF market is growing mainly due to greater emphasis on the reduction of energy costs and carbon footprint and lowering ultraviolet (UV) rays and infrared emissivity.

### ■ Company Outlook – Market leader; growth prospects robust

Revenues are expected to register a robust 23% CAGR over FY2024-FY2026E, driven by new capacity and higher demand for SCF and increased utilisation of PPF. EBITDA margin is set to improve to 23% in FY2026E from 16.8% in FY2024, driven by increased share of high-margin specialty films, operating leverage benefits, and the introduction of new products. Thus, we expect GHFL to register a strong EBITDA/PAT CAGR of 44%/49% over FY2024-FY2026E along with high return ratios (RoCE/RoE of 33%/25% in FY2026E).

### ■ Valuation – Maintain Positive view; expect a 20% upside

Capacity expansion (PPF) and strong traction in architectural segment act as key catalysts for the company's growth. Company is going to double the PPF capacity with a capex of Rs. 125 crore and it will drive additional Rs. 300-350 crore revenue. Moreover, the valuation of 16.4x its FY2026E EPS looks reasonable, considering strong revenue/profit growth CAGR of 23%/49% which is expected over FY24-26 and makes it a compelling investment case. Hence, we maintain our Positive view on the stock and expect an upside of 20% from the CMP.

#### One-year forward P/E (x) band



Source: Sharekhan Research

## About the company

GHFL is the leading manufacturer and supplier of high-quality, durable, and highly tensile polyester films, solar control films, and paint protection films internationally. The company has fully vertically integrated chips-to-film manufacturing facilities. These capacities are fungible and capable of delivering customised products across a range of over 3,000 SKUs. Backward integration also helps the company's R&D department as it leads to greater customisation, faster time-to-market, and improved quality.

## Investment theme

The company had commissioned a new 1,800 LSF p.a. lamination facility in Q3FY2023. New domestic automotive rules now allow the usage of safety glazing materials in automobiles, which will increase domestic demand of SCF as GHFL is the sole manufacturer of safety glazing film, conforming to new standards. GHFL is the third largest branded player in the U.S. and European SCF markets. Usually, tinters who install SCF films also install PPF films. GHFL can expand PPF's distribution network and increase its visibility by leveraging SCF's existing distribution networks. Globally, there's a huge demand for architectural SCF films. And, company's footprint in the developed markets and strong product capabilities put it in a favourable position.

## Key Risks

- ◆ Sharp surge in oil prices could impact margin/earnings.
- ◆ Sluggish demand in the automotive and real estate industry.

## Additional Data

### Key management personnel

Dr. S. B. Garware	Chairman and Managing Director
Monika Garware	Vice Chairperson and JT. Managing Director
Sarita Garware Ramsay	JT. Managing Director
Pradeep Mehta	Chief Financial Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	GREAT VIEW REAL ESTATES	2.02
2	INVESTOR EDUCATION & PROTECTN FD	1.47
3	LIC Mutual Fund Asset Management C	1.33
4	IDBI Asset Management Ltd	0.22
5	Dimensional Fund Advisors LP	0.11
6	Motilal Oswal Asset Management Co	0.07
7	HDFC Asset Management Co Ltd	0.05
8	AXA SA	0.03
9	State Street Corp	0.02
10	American Century Cos Inc	0.01

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

<b>Right Sector</b>	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
<b>Right Quality</b>	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
<b>Right Valuation</b>	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

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