

3R MATRIX

	+	=	-
Right Sector (RS)	✓	✓	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✗
RQ	✓	↔	✓
RV	✓	↔	✓

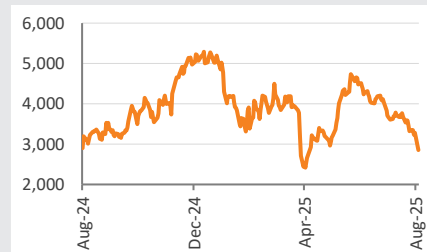
Company details

Market cap:	Rs. 6,614 cr
52-week high/low:	Rs. 5,373 / 2,320
NSE volume: (No of shares)	0.1 lakh
BSE code:	500655
NSE code:	GRWRHITECH
Free float: (No of shares)	0.9 cr

Shareholding (%)

Promoters	61
FII	4
DII	5
Others	31

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-21.0	-11.0	-22.0	-10.8
Relative to Sensex	-18.9	-9.9	-26.5	-12.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Garware Hi-Tech Films Ltd

Tariff uncertainty clouds outlook; downgrade to Neutral

Industrials	Sharekhan code: GRWRHITECH		
Reco/View: Neutral	↔	CMP: Rs. 2,847	Downside potential: 4% ↓

Summary

- Company reported a revenue of Rs. 495 crore, up 4.3% and below estimates. It was impacted by the uncertain tariff environment and preponement of the monsoon season.
- Operating profit of Rs. 110 crore fell 7.6% y-o-y and net profit of Rs. 83 crore decreased 6% y-o-y.
- Management has suspended its Rs. 2,500 crore revenue guidance for FY26 because of the tariff situation. Company expects growth in the future supported by doubling of capacity of the PPF segment, traction in the architectural segment, growth in Middle East & Europe and rise in margins with backward integration (TPU extrusion line).
- We downgrade the stock to Neutral because of the uncertainty and expect a 4% downside on CMP. We assign a 15x multiple on its FY27 EPS and arrive at the TP. The stock trades at 20.9x/15.6x its FY26/27 EPS.

Revenue of Rs. 495 crore was up 4.3% y-o-y. It was affected by the tariff issues and early arrival of the monsoon. There was demand disruption in end-use sectors such as automotive for Suncontrol Films (SCF), and beverages for Shrink Films. The SCF business saw a decline of 7% y-o-y and the Paint Protection business (PPF) grew 28% y-o-y. IPD business had a 3% y-o-y de-growth. The company's operating profit margin (OPM) of 22.1% was down 287 bps y-o-y and consequently operating profit of Rs. 110 crore decreased 7.6% y-o-y. The net profit of Rs. 83 crore declined 6% y-o-y and was lesser than estimates.

Key positives

- The company was able to mitigate some impact of the initial 10% tariffs.

Key negatives

- The US has levied a 50% duty on Indian exports

Management Commentary

- Management has suspended its revenue growth guidance for FY26 (from Rs. 2,500 crore previously) because of the tariff situation. The future exports outlook depends on the final tariff of India and other competing countries like China, South Korea, etc.
- The tariff uncertainty affected the demand for IPD products as the margins are thin in this segment. The shrink film subsegment declined by nearly 29%, influenced by the unusual monsoon patterns, leading to slowdown in beverage industry.
- The 10% tariff was to have a Rs. 100 crore annual impact on the bottomline and Rs. 33 crore in the quarter. The company was able to absorb it by its efforts in the supply chain.
- In the quarter, US was 45% of revenue, Europe 12-13%, ME 3-5% and domestic 23%. Middle East (ME) revenues are growing at 30-40% y-o-y and Europe is growing at 20% y-o-y.

Our Call

Valuation - Downgrade to Neutral on tariff uncertainty and expect a 4% downside

The US levied a 25% tariff on Indian exports. An additional tariff of 25% was also levied taking the total tariff to 50% and higher than the other Asia Pacific nations. Exports to US are ~50% of company's revenue. The management has withdrawn its FY26 revenue guidance because of this. The company's growth catalysts for the long term are capacity expansion (PPF), traction in architectural segment, growth in Middle East & Europe and rise in margins with TPU extrusion line backward integration. Company is going to double the PPF capacity with a capex of Rs. 125 crore and it can drive additional Rs. 450-500 crore revenue. We assign a 15x multiple on its FY27 EPS and arrive at a TP of Rs. 2,730 a downside of 4% from the CMP. The stock trades at 20.9x/15.6x its FY26/27 EPS.

Key Risks

- Sharp surge in oil prices could impact margin/earnings.
- Stronger than expected demand in USA is an upside risk.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25	FY26E	FY27E
Revenue	1,438	1,677	2,109	2,143	2,549
OPM (%)	15.8	16.8	20.9	19.2	20.6
Adjusted PAT	166	203	331	316	423
Y-o-Y growth (%)	-1	22	63	-5	34
Adjusted EPS (Rs.)	71.6	87.5	142.6	136.3	182.2
P/E (x)	39.8	32.5	20.0	20.9	15.6
EV/EBITDA (x)	29.4	23.0	14.7	15.2	11.4
P/BV (x)	3.6	3.2	2.8	2.5	2.2
RoCE (%)	23.9	27.2	33.3	26.2	28.1
RoE (%)	19.6	20.1	24.6	19.1	20.6

Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated)

Particulars						Rs cr
	Q1FY26	Q1FY25	Y-o-Y (%)	Q4FY25	Q-o-Q (%)	
Net Sales	495	474	4.3	548	(9.7)	
Material Cost	237	222	6.8	295	(19.6)	
Gross Profit	258	252	2.2	253	1.9	
Employee Expenses	48	41	19.2	49	(1.7)	
Other Expenses	100	93	7.2	99	0.6	
Total expenditure	385	356	8.3	443	(13.1)	
Operating profit	110	119	(7.6)	104	4.9	
Other Income	13	11	18.1	17	(20.9)	
Depreciation	11	10	1.4	10	2.0	
Interest	2	2	1.0	2	(6.0)	
PBT	110	118	(6.1)	109	1.4	
Tax	27	29	(6.4)	31	(12.0)	
RPAT	83	88	(6.0)	78	6.7	
EPS (Rs.)	35.7	38.1	(6.2)	33.5	6.7	
Margin (%)			YoY (BPS)		QoQ (BPS)	
Gross profit margin	52.1	53.2	(110)	46.1	593	
Operating profit margin	22.1	25.0	(287)	19.1	307	
Net profit margin	16.8	18.6	(185)	14.2	257	
Tax rate	24.8	24.8	(7)	28.5	(376)	

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector View – 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 (PPF) 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; but uncertainty in growth

The company has a global presence and its products have acceptance in developed markets such as the US, Europe, etc. It has strong capabilities in Sun control films (SCF) and Paint Protection Films (PPF). The architectural segment in PPF is growing strong. The company's growth catalysts for the long term are capacity expansion (PPF), traction in architectural segment, growth in Middle East & Europe and rise in margins with TPU extrusion line backward integration. But the tariffs which have been applied by the US on Indian exports can act as a dampener and needs to be watched out.

■ Valuation – Downgrade to Neutral on tariff uncertainty and expect a 2% downside

The US levied a 25% tariff on Indian exports. An additional tariff of 25% was also levied taking the total tariff to 50% and higher than the other Asia Pacific nations. Exports to US are ~50% of company's revenue. The management has withdrawn its FY26 revenue guidance because of this. The company's growth catalysts for the long term are capacity expansion (PPF), traction in architectural segment, growth in Middle East & Europe and rise in margins with TPU extrusion line backward integration. Company is going to double the PPF capacity with a capex of Rs. 125 crore and it can drive additional Rs. 450-500 crore revenue. We assign a 15x multiple on its FY27 EPS and arrive at a TP of Rs. 2,730 a downside of 4% from the CMP. The stock trades at 20.9x/15.6x its FY26/27 EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Garware 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 has a global presence and its products have acceptance in developed markets like US, Europe, etc. It has strong capabilities in Sun control films (SCF) and Paint Protection Films (PPF). The architectural segment in PPF is growing strong. The company's growth catalysts for the long term are capacity expansion (PPF), traction in architectural segment, growth in Middle East & Europe and rise in margins with TPU extrusion line backward integration. But the tariffs which have been applied by the US on Indian exports can act as a dampener and needs to be watched out.

Key Risks

- ♦ Sharp surge in oil prices could impact margin/earnings.
- ♦ Stronger than expected demand in USA is an upside risk.

Additional Data

Key management personnel

Name	Designation
Dr. S. B. Garware	Chairman and Managing Director
Monika Garware	Vice Chairperson and JT. Managing Director
Sarita Garware Ramsay	JT. Managing Director
Deepak Joshi	Director, Sales & Marketing
M.S. Adsul	Director Technical

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIC Mutual Fund Asset Management C	2.34
2	GREAT VIEW REAL ESTATES	2.02
3	Vanguard Group Inc/The	1.53
4	JM Financial Asset Management Ltd	1.40
5	IDFC Mutual Fund/India	0.48
6	IDBI Asset Management Ltd	0.27
7	Dimensional Fund Advisors LP	0.26
8	Blackrock Inc	0.22
9	Motilal Oswal Asset Management	0.13
10	Quadrant Televentures Ltd	0.11

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
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.
Right Quality	
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
Right Valuation	
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: Mirae Asset Sharekhan Research

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