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Garware Technical Fibre

A Technical Textile is a textile product manufactured for non-aesthetic purposes, where function is the primary criteria. GTF manufactures Technical Textiles catering to needs of the fishing, aquaculture, sports, agriculture, defence, shipping and the infra sectors. GTF has been in the Technical Textiles business for over 4 decades. Led by Vayu Garware, it is now the largest net company globally with 2.5x scale advantage over its closest domestic peer. Over the last few years it has evolved its business model to designing more customized products for clients from just selling commodity products. ~ 70% of GTF sales in 2019 came from value-add customised products, up from 35% in 2015.

Customization is creating more end value for customers. Some examples:

- Its Fishing nets have improved yields and reduce costs for fishing trawlers – Some of its nets are as strong as steel but nearly 7 times lighter, which lowers drag helping save fuel costs by up to 40%.
- Its aquaculture cage nets reduces in site cleaning cost by 50% and ensure better cleaner fish through lower disease rate. Its predator cages protect salmon farms from seals resulting in record decrease of its licenced culling.

This has also resulted in significant market share. It is the domestic market leader in Fishing Nets (65% market share) and Shipping ropes, and has almost monopoly status in aquaculture in Scotland & Canada.

What makes GTF a core part of our portfolio is:

- The focus on customization and new product development. ~ 30% of GTF revenue is from products which are < 2 years old . We don't come across many Indian companies who are global and investing to build competitive advantage through product differentiation. Value addition through customization builds customer intimacy, which is a key differentiator in a B2B business.
- The financially attractive business model. As more value is created for the customer, there is a clear differentiator vs other competing products. Customers are more willing to allow some pricing premium and there is higher ability to pass on RM price increases. Further, a labourintensive product manufactured in India provides a cost advantage. This is reflected in its financial numbers as EBITDA has expanded from 10% in FY 2015 to ~18% in FY 2019 with a ROIC post tax of ~30% in FY 2019 – quite exceptional for a Manufacturing B2B business
- The growth opportunity ahead of it. GTF is still a USD 140M company while the total Technical Textiles market is worth USD 165 B. There are multiple drivers of growth – ability to expand into new segments, new markets and upsell higher margin products. GTF has ~3000 products which serve needs in 7 Sectors today.

The company's growth over the last 5 years has been tepid at 8% CAGR. This is because even though the higher margin export sales (58% of mix in 2019) has grown at 12% CAGR, domestic sales growth (more commodity portfolio) has been sluggish at 4% CAGR primarily due to delay in offtake of

defence products, weak agriculture growth due to time consuming process to educate farmers and increasing competition in commodity fishing and shipping products.

Our hypothesis is that Exports should continue to grow well (as GTF continues to expand into new products and geographies). Domestic sales growth should also revive as defence spending (Surveillance balloons, sleeping bags, inflatable tents etc.) and fisheries picks up (GoI has allocated 25,000crs over next 5 years on projects to attempt doubling of Fishermen's income). Moreover, other segments like Agriculture have significant possibilities - Agriculture nets improve crop yields by up-to 30%.

Management is stepping up Capex (will spend ~120-150crs over next 3 years to augment capacity versus ~75crs over last 3 years) and new product launches (Launched 28 unique products in 2018 versus 19 over 2011-16). All the above provides confidence that growth rates should pick up.

The track record of Small Caps that have been able to grow into Large Caps is poor because of inability to scale. GTF has the market opportunity, business model, segment leadership and Balance Sheet quality to make this transition (~235 Cr net cash as of 31 March 2019). Given the potential and longevity of growth (we believe the bottom line can grow at 15% CAGR over long periods with fairly high consistency), dominant franchisee with strong customer value proposition, high ROIC, and a strong Balance sheet, we find GTF reasonably priced at 18-20x FY 19 Earnings adjusted for new tax rates. We have hence taken an initial position and will look to add over time.

Our risks to the thesis are non-materialization of growth. Further, the GTF management communicates with minority investors only once a year at the AGM. While there is nothing wrong with this approach (we like managements who don't spend excessive time on Investor PR), it does create a time lag in interpretation of financial results.