Sept 05, 2019 **AGM UPDATE** **Venue: Mumbai**

Sector: Comm. Chemicals

Grauer & Weil (India) Limited

CMP: Rs50

Overview:

Grauer & Well India Ltd (GWIL) is an established player in the electroplating industry which is related to the field of surface treatment technology, specialised chemicals, engineering plants etc. GWIL is the only company in India and one among the few in the world that offers complete corrosion protection solutions on all types of substrates across various industrial segments.

SNAPSHOT	
Market Cap (Rs Mn)	11,335
52 week H / L (Rs)	62/43
BSE Code	505710
NSE Code	NA

Key takeaways from the AGM:

- The total revenue grew by 19% in FY19 but margins took a hit on the back of stiff competition and change in product mix. Lubricants and paints have tremendous growth opportunity but margins are lower when compared to those of metal finishing

- The company has three key business segments namely: Surface finishing, Engineering and Shoppertainment

- **Surface Finishing Segment** – This segment includes products dealing with surfaces viz. Chemicals, Paints and Lubricants in one homogeneous segment as they share common resources and customers and follow similar business models. This is the largest segment and contributes about 88% to revenues and witnessed 18.85% growth from Rs4385.24mn to Rs5211.88mn. As the company is a market leader in chemical business, one cannot expect double digit growth every year and hence the company is trying to enter other avenues. Paints and lubricants are thus given emphasis as there are huge markets which can be tapped. During the year under review, paint products grew by 51% and the company will concentrate on volume growth, owing to vast opportunity in this segment. The company intends to focus on high value added products (in the paints and lubricants segment)

- **Engineering Segment –** This segment grew from Rs338.61mn to Rs452.871mn, i.e. by 33.74%. It contributes about 7% of the total revenues earned. This division supplies customized turnkey plants and components for electroplating, effluent and waste water treatment and other engineering products

- **Shoppertainment-** This segment includes the Mall in Kandavli which grew by 8.05% during FY19 while contributing about 5% to revenues. Real Estate segment is damped by frequent changes in rules and regulations. The company has 11lakh sq.ft. FSI but the development cost of the same is relatively very high considering the present market scenario. There are definitive plans to expand the mall however; the company is waiting for the pending clearances from the local authorities. The management of the company doesn't feel that they will be affected by e-commerce rivals as the market is large and e-commerce cannot alone cater the demands of the customers

- **The Plants & Property- Capex:**

  Dadra - 1Lakh sq.ft. factory is acquired in Dadra, Rs100mn is the cost of land and Rs80mn is the cost of the building. This is a readymade factory and will be operational by 1st half of next financial year. This factory will mainly be used for paint division

  Vasai – New land of 1acre is acquired in Vasai. The total cost of the land is Rs7cr. This parcel of land will function as a tech center for the company featuring R&D activities. This facility will be operational in about 18months and development work will commence in the next 2-3months

  Jammu Property – The plans for Jammu property are put on hold

  Vapi – there was an incident of explosion at the chemical plant of the company at Vapi on January 1, 2019 which leads to loss of Rs61.8mn. Company had filed for an insurance claim of Rs14.5cr, out of which the first tranche of Rs44.7mn is already received and the company is anticipating the second tranche very soon. Business is fully operational on temporary facility in the plant itself

  Chembur – Plant in Chembur is not operational and is available for sale

Installed Capacity	
Location	**Installed Capacity**
Dadra Chemicals and Oil	25200 MT
Dadra Paint	12000 KL
Jammu Chemicals	18400 MT
Vapi Chemical & Oils	4800 MT
Barotiwala Oils & Paint	3600 KL

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Financials:

- Capex**:** The Company spent Rs419.9mn in capex during FY18-19 while the capex for the current year is expected to be ~Rs570mn which is intended to majorly focus on the manufacturing segments
- **R&D Expenditure:** R&D expenditure for FY19 was Rs107mn ie ~1.75% of the turnover. On an average the company has been spending Rs100mn to Rs120mn on R&D
- **Capacity Utilization:** averages to about 55% (ranges from 30-60%)
- **Receivable days:** even though (optically) the receivables look on the higher side, the receivable days have increased by 3-4 days from 59 earlier to 62-63 days currently
- **Bad debts** for FY19 stood at Rs23.5mn
- The company continues to reward its shareholders by distributing nearly 25%(including taxes) of the net profits.
- The borrowing of the company remains minimal and the company continues to be cash rich

Quarterly Performance				
Parameters (Rs mn)	**Sept-18**	**Dec-18**	**Mar-19**	**June-19**
Sales (Net)	1,413	1,545	1,847	1,309
EBITDA	268	207	315	211
Other Income	28	20	25	20
Interest	2	1	1	3
Depreciation	39	40	39	44
Exceptional Items	-	-	(62)	40
Tax	98	51	91	69
Net Profit / (Loss)	157	136	147	154
Equity	227	227	227	227
EPS (in Rs)	0.7	0.6	0.7	0.7

Annual Performance			
Parameters (Rs mn)	**FY17**	**FY18**	**FY19**
Sales (Net)	4,308	4,932	5,992
EBITDA	860	951	1,049
Other Income	34	92	115
Interest	16	18	8
Depreciation	139	150	155
Exceptional Items	-	-	(62)
Tax	186	269	303
Net Profit / (Loss)	553	606	637
Equity	227	227	227
EPS (in Rs)	2.4	2.7	2.8

Outlook and Recommendations:

The current year seems to have been hit due to the issues related to the undulating government policies coupled with a slowdown in the auto segment which the company caters to. The issues related to auto segment could last for another 3-6 months, which invites more sluggishness for the entire industry. As of September, 2019, all the segments of Growel are profit making considering the current headwinds. But, the industry as a whole has a positive outlook and is expecting market to revive in another few months. The company intends to take a very conservative approach and the strategy would be to remain in cash till the economic cycle shows signs of revival. Even though the company has ambitious plans of Capex of Rs4000mn (the foundation of which was laid in FY18) with a vision of 3-5 years, seems to be have been pushed forward by another year or two. With a strong balance sheet, focused management and opportunities which the company can unlock very soon, we maintain our target price of Rs65 with a horizon of 12 months.

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