GMM Pfaudler (GMM IN)

BUY ▲24% | Target Price: Rs.2,450

Opportunity Pipeline Remains Robust; Maintain BUY

Key Takeaways:

- **GMM Pfaudler delivered strong performance in 2QFY23 with PAT growing by a solid 88% YoY Rs650mn owing to healthy execution led by strong margin and revenue performance from the international business.**
- **GMM sees strong traction in China+1 trend along with a rising post-COVID trend of localization with the major developed economies looking at executing high-end work onshore and reducing dependency on other nations.**
- **GMM is also looking to increases services business for the standalone entity. The company is also looking to double revenue from the newly acquired Hydro Air in the near-term by leveraging Pfaudler's network.**

Robust Opportunity Pipeline: Demand from the end-markets for both domestic and overseas domain remains healthy and relatively unimpacted by macroeconomic headwinds. However, the company is witnessing a slightly longer time for order finalisation in the current scenario. GMM is being selective for the right orders with commensurate margin. The company sees a good pick-up in large projects in specialty chemicals space with multiple projects on the horizon. Although traction is slow in pharma space, GMM sees pick-u for Penicillin projects bolstered by PLI scheme. GMM has already supplied 24 equipment for stock and sale in Europe. Looking ahead, Glass-lined Equipment (GLE) will be the next big growth driver in the next few quarters owing to healthy order pipeline in specialty chemicals space. Capacity utilisation for both GLE facilities stands at 80-90%.

Mitigating Europe Crisis through Effective Measures Boosted Overseas Margin: GMM has implemented a 4-day working week in Germany with longer working hours to save energy cost alongside other stringent cost control measures. The company was able to pass on higher cost to the customers in terms of higher prices and is also garnering more business through M&A opportunities. Services component, which is a higher margin segment, has also ramped up significantly post the receding of COVID, which is yielding higher margin for international business. Interseal and Acid recovery segments are also seeing good demand.

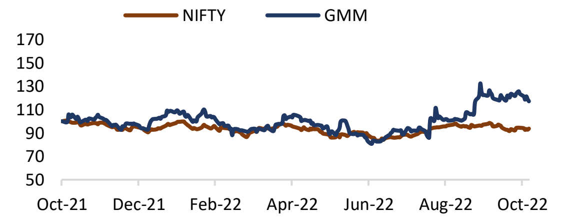
Standalone Margins Set to Improve; Good Potential in Non-GLE Space: With softening of steel prices, GMM's standalone margin is set to improve from the current level of 16.5%. Vatva ramp-up is healthy in terms of order inflow. Although it will moderate standalone margin, it will lead to higher revenue growth. The strategy behind M&A (non-GLE) is to identify mid-sized companies with strong niche areas of potential, which can be scaled up through the Pfaudler network.

Outlook & Valuation: Long-term demand trend remains robust with the company is well-geared to garner strong order intake emanating from significant pharma and chemical capex with its strong leadership, robust technological capabilities, and network. **We maintain BUY rating on GMM Pfaudler with an unrevised Target Price of Rs2,450.**

Stock Information	
CMP (Rs)	1,977
Market Cap (Rs bn)	87
Free Float (%)	42.6
52 Week H/L	2,110/1,251
O/S Shares (mn)	43.9
3M Daily Avg Volume (mn)	0.22

Shareholding Pattern (%)	Mar-22	Jun-22	Sep-22
Promoters	54.95	54.95	56.06
- Pledged	-	-	-
FII / NRI	12.15	11.84	11.71
MF/DII	5.82	6.10	5.6
Others	27.09	27.11	26.63

Stock Relative Performance



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Financials (mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	10,011	25,406	30,401	34,870	39,569
EBITDA	1,386	2,839	3,979	4,851	5,759
EBITDA (%)	13.8	11.2	13.1	13.9	14.6
APAT	1,047	851	1,949	2,674	3,471
EPS (Rs)	71.6	18.9	43.4	59.5	77.2

Key Ratios	FY21	FY22	FY23E	FY24E	FY25E
PE (x)	27.6	104.5	45.6	33.2	25.6
EV/EBITDA (x)	64.3	31.4	22.4	18.4	15.5
P/B (x)	7.1	16.9	12.4	9.1	6.8
RoE (%)	24.4	14.2	25.3	26.7	26.6
RoCE (%)	16.5	14.3	24.2	26.3	28.5

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Quarterly Financials

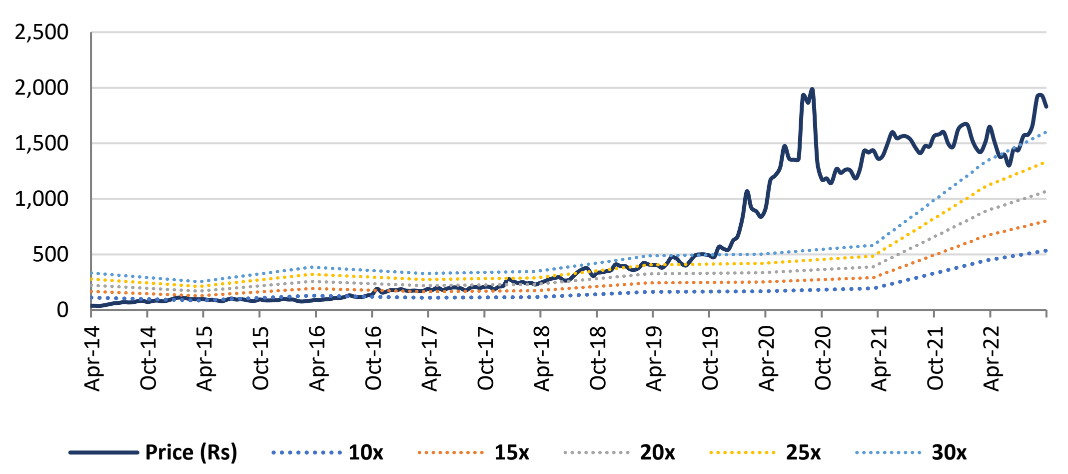
Rs mn	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)
Revenue	**7,801**	**6,472**	**20.5**	**7,392**	**5.5**
Cost of goods sold	3,116	2,548	22.3	3,003	3.8
Power and Fuel	234	173	35.5	214	9.3
Employee benefits expense	1,838	1,733	6.1	1,856	(0.9)
Other expenses	1,424	1,082	31.7	1,342	6.2
Total Expenses	**6,613**	**5,535**	**19.5**	**6,414**	**3.1**
EBITDA	**1,188**	**938**	**26.7**	**978**	**21.4**
EBITDA Margin (%)	15.2	14.5	74.2	13.2	199.6
Interest & Finance charges	86	19	362.4	156	(44.9)
Depreciation	282	392	(28.0)	272	3.7
Other Income	195	29	560.2	285	(31.7)
Share of Profit of Associates/JVs	0	0	-	0	-
Exceptional items	0	0	-	0	-
PBT	**1,014**	**556**	**82.3**	**834**	**21.5**
Tax	45	168	(73.2)	220	(79.5)
Minority interest	(319)	(42)	659.8	(169.6)	88.1
PAT	**650**	**346**	**87.8**	**445**	**46.0**
PAT Margin (%)	8.1	5.3	280.6	5.8	233.0
Adjusted EPS	**14.5**	**7.7**	**87.8**	**9.9**	**46.0**

**Margin change in bps*

Quarterly Performance Analysis

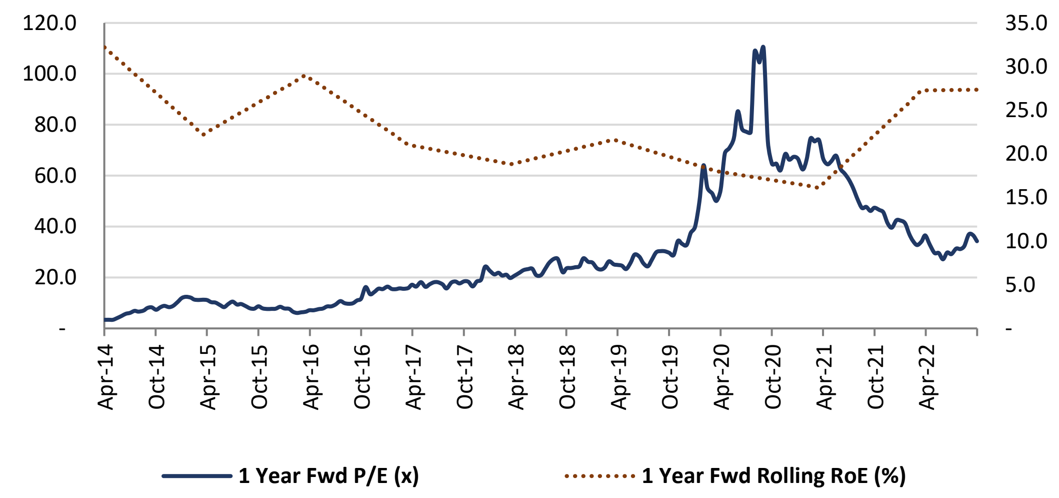
% of Sales	2QFY23	2QFY22	YoY bps	1QFY23	QoQ bps
Raw Material	**39.9**	**39.4**	**58**	**40.6**	**(68)**
Labour Charges	**3.0**	**2.7**	**33**	**2.9**	**10**
Employee Cost	**23.6**	**26.8**	(321)	**25.1**	(154)
Other expenses	**18.3**	**16.7**	155	**18.1**	11
Gross Margin	**57.1**	**58.0**	**(92)**	**56.5**	**57**
Tax Rate	4.4	30.3	(2,581)	26.3	(2,187)
EBIT Margin	**11.6**	**8.4**	**318**	**9.5**	**206**

P/E Band Chart



Source: Ashika Institutional Research

P/E vs. RoE Chart



Source: Ashika Institutional Research

Key Risks:

- Slowdown in capex of key end-user industries i.e., pharmaceuticals and chemicals.
- Higher competitive intensity by the established players i.e., HLE Glascoat, Thaletec and De-Dietrich.
- Rise in working capital from non-GLE business.

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Additional Description

Company Overview

GMM Pfaudler is a leading supplier of GL equipment and systems for critical applications in global chemical and pharmaceutical markets. GMM (standalone) is the leader with 57% market share in the domestic GL reactors industry. It has 3 main segments: (a) GL equipment, which contributes 60% to its total revenue; (b) proprietary products, which contribute 32% to its total revenue; and (c) heavy engineering, which contributes 8% to its total revenue. The company's production facility is spread across a 20- acre factory at Karamsad, Gujarat. It has a subsidiary Mavag, based out of Switzerland, which manufactures proprietary products. With the acquisition of a majority stake of 54% in PFI, GMM has transformed itself into a global powerhouse in corrosion resistance space.

Investment Theme

GMM stands to immensely benefit in the coming years owing to its strong parentage, state-of-the-art technological prowess, market leadership, strong customer relationships and strong long-term demand from end-user industries. GMM is also taking the right steps through Project Apollo with thrust on (a) operational excellence; (b) value sourcing; and (c) cross selling to capture and realise synergies of US$5mn by FY24E. Acquisition of PFI has also transformed GMM into a global company, which significantly enhances the addressable market size across geographies. We believe GMM is slated to benefit immensely from structural tailwinds in the end-user industries backed by strong domain expertise and market share

Management

Name	Designation
Mr. Tarak Patel	Managing Director
Mr. Ashok Pillai	Chief Operating Officer
Mr. Aseem Joshi	CEO-India Business
Mr. Manish Poddar	Chief Financial Officer
Ms Mittal Mehta	Company Secretary & Compliance Officer

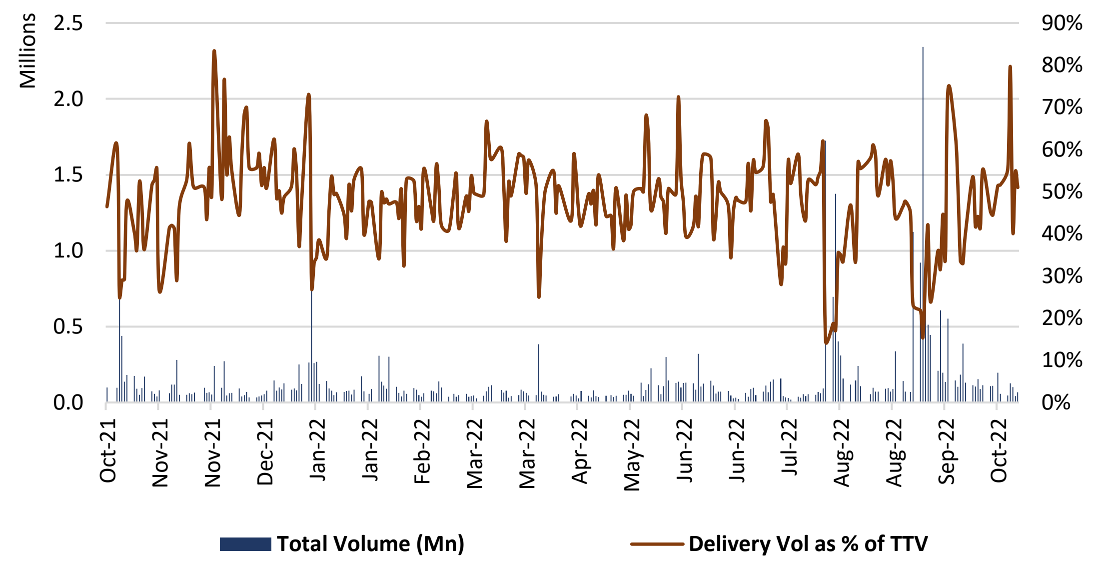
Source: Ashika Institutional Research

Non-promoter top-10 holdings (as per latest disclosure)

Shareholders	Shareholding (%)
Indus India Fund Mauritius	2.24
L&T MF	1.87
Vanguard Group Inc/The	1.13
Edelweiss AMC	0.8
BlackRock Inc	0.79
Wasatch Advisors Inc	0.73
Neuberger Berman Group LLC	0.59
Quant Money Managers	0.56
Euro Pacific Asset Management LLC	0.26
SEI Investments Co	0.24

Source: Bloomberg, Ashika Institutional Research

Traded Volume (mn)



Source: Bloomberg, Ashika Institutional Research

Financial Projections

Profit & Loss Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	**10,011**	**25,406**	**30,401**	**34,870**	**39,569**
% Change	69.4	153.8	19.7	14.7	13.5
Total Expenditure	**8,625**	**22,567**	**26,422**	**30,019**	**33,810**
% Sales	86	89	87	86	85
EBITDA	**1,386**	**2,839**	**3,979**	**4,851**	**5,759**
% Sales	13.8	11.2	13.1	13.9	14.6
Depreciation	506	1,326	1,393	1,462	1,535
Interest	102	246	261	224	196
Other Income	235	67	500	400	600
Exceptionals	**(335)**	**0**	**0**	**0**	**0**
Share of Assoc/JVs	0	0	0	0	0
PBT	**679**	**1,334**	**2,825**	**3,565**	**4,628**
Tax	45	580	706	891	1,157
Non-Controlling Interests	**100**	**97**	**(170)**	**0**	**0**
PAT	**734**	**851**	**1,949**	**2,674**	**3,471**
% Change	**3.1**	**15.9**	**129.2**	**37.2**	**0.0**
PAT Margin (%)	**7.3**	**3.3**	**6.4**	**7.7**	**8.8**

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	29	29	29	29	29
Reserves & Surplus	4,042	5,242	7,119	9,721	13,119
Net Worth	**4,071**	**5,271**	**7,148**	**9,750**	**13,149**
Deferred Liabilities	171	386	386	386	386
Other Liabilities	1,233	1,413	1,583	1,583	1,583
Total Loans	4,576	5,049	4,249	3,749	3,249
Total Liabilities	**10,051**	**12,120**	**13,367**	**15,468**	**18,367**
Net Block	8,341	7,702	7,110	6,448	5,712
Cap. WIP	44	130	130	130	130
Investments	7	1	2,000	2,500	2,500
Other Non-Current	2,022	3,367	3,250	3,250	3,250
Sundry Debtors	3,096	3,562	4,263	4,889	5,548
Cash & Bank Balance	**2,923**	**3,277**	**1,987**	**3,134**	**5,594**
Loans & Advances	1	22	22	22	22
Inventories	5,849	6,695	8,012	9,190	10,428
Other Current Asset	1,541	2,197	2,197	2,197	2,197
Current Assets	13,409	15,754	16,480	19,432	23,790
Current Liabilities & Prov.	13,771	14,834	15,603	16,291	17,015
Net Current Assets	(361)	920	877	3,140	6,775
Total Assets	**10,051**	**12,120**	**13,367**	**15,468**	**18,367**

Cash Flow

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
PBT	**679**	**1,334**	**2,825**	**3,565**	**4,628**
Depreciation	506	1,326	1,393	1,462	1,535
Chg. in tax	(215)	(719)	(706)	(891)	(1,157)
Chg. in Working cap	15	(836)	(1,248)	(1,116)	(1,174)
Others	583	1,258	261	224	196
Cash flow from operations	**1,567**	**2,364**	**2,525**	**3,244**	**4,029**
Chg. in Gross Block	(1,013)	(1,288)	(800)	(800)	(800)
Chg. in Investments	320	120	(1,999)	(500)	0
Chg. in others	33	2	0	0	0
Cash flow from investing	**(659)**	**(1,166)**	**(2,799)**	**(1,300)**	**(800)**
Chg. in debt	1,122	(481)	(1,061)	(724)	(696)
Chg. in Equity	0	0	0	0	0
Others	(73)	(72)	(72)	(72)	(72)
Cash flow from financing	**1,049**	**(553)**	**(1,133)**	**(796)**	**(768)**
Change in cash	**1,957**	**645**	**(1,407)**	**1,147**	**2,460**
Cash at start	**478**	**2,435**	**2,906**	**1,499**	**2,646**
Cash at end	**2,923**	**3,277**	**1,987**	**3,134**	**5,594**

Key Ratios

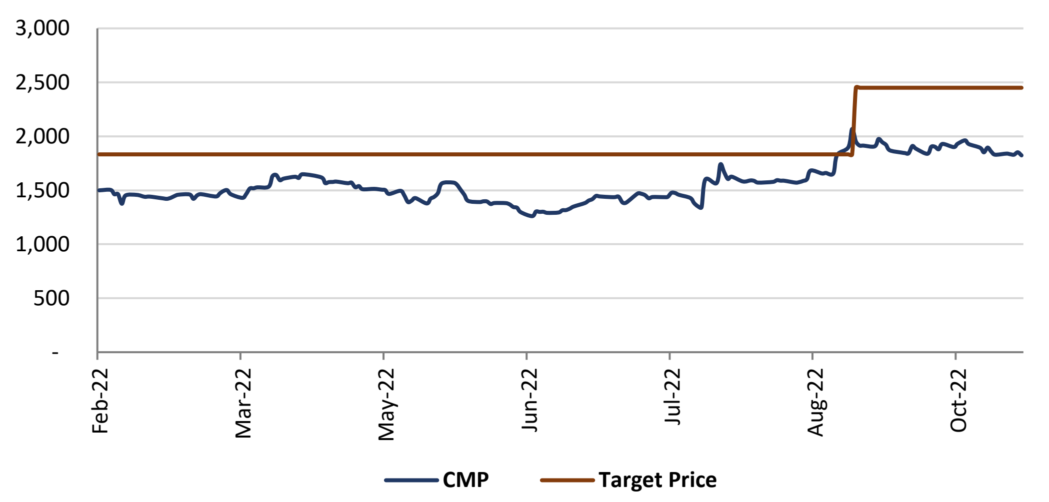
Ratios	FY21	FY22	FY23E	FY24E	FY25E
FATO	2.3	2.4	2.7	2.9	3.1
RoE	24.4	14.2	25.3	26.7	26.6
RoCE	16.5	14.3	24.2	26.3	28.5
P/E	27.6	104.5	45.6	33.2	25.6
P/B	7.1	16.9	12.4	9.1	6.8
EV/ EBITDA	64.3	31.4	22.4	18.4	15.5
EPS	71.6	18.9	43.4	59.5	77.2
BVPS	362.9	148.7	194.2	252.1	327.7
FATO	0.9	0.8	0.5	0.3	0.2

Recommendation History

Date	CMP (Rs)	TP (Rs)	Rating
17- Feb-22	1,536	1,833	BUY
27- May-22	1,442	1,833	BUY
17- Aug-22	1,578	1,833	BUY
07-Sep-22	1,957	2,450	BUY
07-Nov-22	**1,977**	**2,450**	**BUY**

Source: Ashika Institutional Research

Recommendation History & Target Price



Source: NSE, Ashika Institutional Research

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Recommendation & Absolute Return

BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NR	**NOT RATED** - Ashika Institutional Research does not actively cover this company
UR	**UNDER REVIEW** - Rating and fair value, if any, have been under review
CS	**COVERAGE SUSPENDED** - Ashika Institutional Research has suspended coverage of this company

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