

1 August 2022

GMM Pfaudler

Strong traction from user industries, outlook bright; maintaining a Buy

Rating: **Buy**

Target Price: Rs.1,929

Share Price: Rs.1,599

Strong execution and sturdy demand at its businesses and regions enabled GMM Pfaudler to post ~34%/~24% y/y growth in consolidated revenue/orders in Q1. Its German and Chinese plants have been ramping up well, bringing better operational efficiencies at its international business. High commodity and energy prices, however, partially curbed margins to 13.2%. Though improving q/q, the EBITDA margin should hold at the similar level, with upward potential if energy costs abate. Successful integration of its international business, cross-selling efforts, value-sourcing and a strong demand outlook keep us upbeat on GMM's business momentum. We retain our Buy rating, with a revised TP of Rs1,929 (37x FY24e EPS).

Robust performance. Q1 FY23 consolidated revenue was Rs7.4bn (up ~34% y/y); standalone revenue, Rs2.5bn (up ~45% y/y). Domestic and export revenue grew 40% and 31% y/y. The standalone EBITDA margin was 16.3% (25.5% a year ago, hit by higher commodity prices. The consolidated margin (13.2%) rose q/q, and would sustain at similar levels through FY23. Accordingly, we have adjusted margin estimates. We expect ~20% revenue CAGR over FY22-24, led by the strong OB and robust demand outlook.

Efforts toward gaining share. Acquisitions in last two-year have made GMM a stronger global player with efforts in cross-selling and enhanced capabilities. Levering this should help it capture greater wallet share of customers and add others. Further, the value-sourcing from India enables it to gain customers due to cost competitiveness. With this, the overall market has expanded and GMM's enhanced abilities support it in catering to this demand.

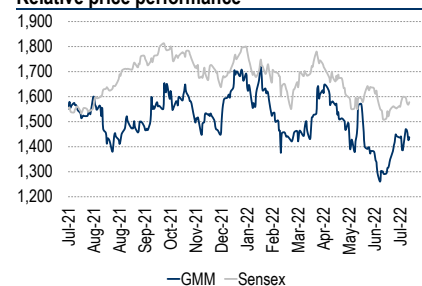
Valuations. Led by its domestic and international businesses, we expect ~20% revenue CAGR over FY22-24. We expect margins of 13.1%/14% in FY23/FY24, with potential benefits from reduced commodity prices and any breather in energy prices critical to the manufacturing processes. At the CMP, the stock trades at 39x/31x FY23e/FY24e EPS. **Risks:** Less-than-expected demand.

Key data	GMM IN/ GMMP.BO
52-week high / low	Rs1765 / 1251
Sensex / Nifty	56072 / 16719
3-m average volume	\$2m
Market cap	Rs70bn / \$878.3m
Shares outstanding	44m

Shareholding pattern (%)	Jun'22	Mar'22	Dec'21
Promoters	55.0	55.0	55.0
- of which, Pledged	-	-	-
Free float	45.1	45.1	45.1
- Foreign institutions	11.8	12.2	10.9
- Domestic institutions	6.1	5.8	6.0
- Public	27.1	27.1	28.2

Estimates revision (%)	FY23e	FY24e
Sales	6.4	9.1
EBITDA	-9.4	-6.3
Adj. PAT	-8.6	-8.4

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	5,911	10,011	25,406	31,721	36,772
Net profit (Rs m)	711	976	851	1,809	2,286
EPS (Rs)	16.2	22.3	19.4	41.2	52.1
P/E (x)	98.6	71.9	82.4	38.8	30.7
EV / EBITDA (x)	62.2	52.1	25.4	16.5	12.7
P/BV (x)	21.3	17.3	13.3	9.8	7.3
RoE (%)	23.8	26.5	18.2	29.2	27.4
RoCE (%)	28.6	10.9	9.3	17.0	17.4
Dividend yield (%)	0.1	0.4	0.4	0.5	0.5
Net debt / equity (x)	-0.3	0.4	0.3	-0.2	-0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations (consolidated)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
GLE sales (GMM Pfaudler)	3,547	4,408	4,990	6,387	7,984
Net revenues	5,911	10,011	25,406	31,721	36,772
Growth (%)	17.6	69.4	153.8	24.9	15.9
Material cost	2,544	4,476	10,139	12,911	15,076
Employee & Other expense	2,255	4,148	12,428	14,667	16,538
EBITDA	1,111	1,388	2,839	4,143	5,157
EBITDA margins (%)	18.8	13.9	11.2	13.1	14.0
- Depreciation	211	505	1,326	1,158	1,251
Other income	58	235	67	344 *	195
Interest expenses	35	102	246	275	251
PBT	923	1,016	1,334	3,055	3,850
Effective tax rate (%)	22.9	13.7	43.5	28.0	28.0
+ Associates / (Minorities)	-	-99	-97	391	486
Net income	711	734	851	1,809	2,286
Adjusted income	711	976	851	1,809	2,286
WANS	44	44	44	44	44
FDEPS (Rs / sh)	16.2	22.3	19.4	41.2	52.1
EPS growth (%)	40.6	37.2	-12.8	112.7	26.4

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	923	681	1,334	3,055	3,850
+ Non-cash items	188	372	1,505	1,089	1,307
Oper. prof. before WC	1,111	1,052	2,839	4,143	5,157
- Incr. / (decr.) in WC	-557	2,899	-1,737	1,646	260
Others incl. taxes	-207	44	-334	-844	-1,066
Operating cash-flow	348	3,996	768	4,945	4,351
- Capex (tang. + intang.)	-802	-8,969	-1,055	-1,482	-1,651
Free cash-flow	-454	-4,974	-286	3,463	2,700
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	79	317	307	351	351
+ Equity raised	-	-	-	58	-
+ Debt raised	168	4,943	154	-450	-450
- Fin investments	-115	-355	-6	100	100
- Misc. (CFI + CFF)	-256	-2,152	-788	-610	-469
Net cash-flow	6	2,159	355	3,232	2,268

Source: Company, Anand Rathi Research

Note: * Other income in FY23 includes ~Rs220m of MtM forex revaluation gain on the loan in Europe

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

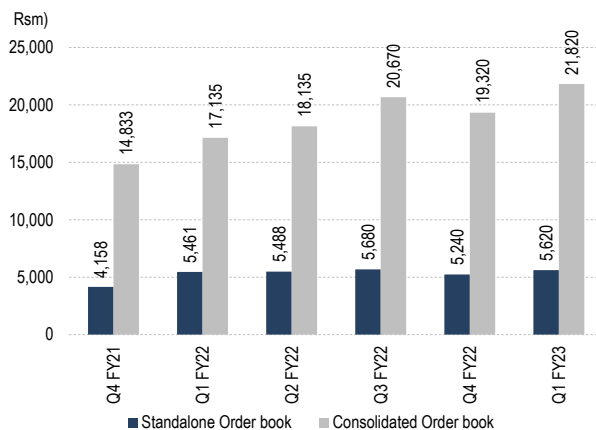
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	29	29	29	88	88
Net worth	3,291	4,062	5,271	7,120	9,541
Debt	168	5,111	5,264	4,814	4,364
Minority interest	-	1,156	1,413	1,803	2,289
DTL / (Assets)	50	140	386	398	410
Capital employed	3,508	10,469	12,335	14,135	16,605
Net tangible assets	872	3,811	3,818	4,118	4,418
Net intangible assets	405	5,902	5,538	5,638	5,738
Goodwill	59	719	662	662	662
CWIP (tang. & intang.)	16	44	130	54	54
Investments (strategic)	5	0	0	0	0
Investments (financial)	357	7	1	101	201
Current assets (excl. cash)	2,819	10,402	13,748	15,747	18,251
Cash	764	2,923	3,277	6,509	8,777
Current liabilities	1,788	13,339	14,839	18,694	21,496
Working capital	1,031	-2,936	-1,091	-2,946	-3,245
Capital deployed	3,508	10,469	12,335	14,135	16,605
Contingent liabilities					

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	98.6	71.9	82.4	38.8	30.7
EV / EBITDA (x)	62.2	52.1	25.4	16.5	12.7
EV / Sales (x)	11.7	7.2	2.8	2.2	1.8
P/B (x)	21.3	17.3	13.3	9.8	7.3
RoE (%)	23.8	26.5	18.2	29.2	27.4
RoCE (%) - after tax	28.6	10.9	9.3	17.0	17.4
RoIC (%) - after tax	35.4	12.3	6.7	17.2	19.5
DPS (Rs / sh)	1.5	6.0	7.0	8.0	8.0
Dividend yield (%)	0.1	0.4	0.4	0.5	0.5
Dividend payout (%) - incl. DDT	11.1	43.2	36.1	19.4	15.3
Net debt / equity (x)	-0.3	0.4	0.3	-0.2	-0.4
Receivables (days)	46	113	51	50	50
Inventory (days)	78	210	96	94	94
Payables (days)	49	128	63	58	58
CFO : PAT %	48.9	409.5	90.4	273.4	190.3

Source: Company, Anand Rathi Research

Fig 6 – Quarterly order book trend



Source: Company

Result Highlights

Fig 7 – Quarterly trend (consolidated)

(Rs m)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Revenue	5,517	6,472	6,423	6,994	7,392	34.0	5.7
EBIDTA	824	938	823	718	978	18.6	36.2
<i>EBIDTA margins %</i>	14.9	14.5	12.8	10.3	13.2	-171bps	296bps
Other income	12	29	12	14	285	2,280.1	1,949.6
Depreciation	387	392	275	273	272	(29.6)	(0.1)
Finance costs	141	19	64	22	156	10.7	598.2
PBT	(156)	556	497	437	834	NA	90.8
Tax	28	168	120	265	220	697.4	(17.0)
Effective tax rate %	17.6	30.3	24.1	60.5	26.3	872bps	-3418bps
PAT	(184)	388	377	173	615	NA	255.9
Minorities	210	(42)	(59)	(12)	(170)	(180.8)	1,278.9
Reported PAT	26	346	318	160	445	1,618.5	177.5
Adjusted PAT	409	346	318	160	445	8.8	177.5

Source: Company

Fig 8 – Revenue, by region (consolidated)

(Rs m)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Y/Y Gr (%)	Q/Q Gr (%)
India	1,542	1,803	1,749	1,970	2,167	40.5	10.0
Overseas	3,974	4,670	4,674	5,024	5,226	31.5	4.0
Total	5,517	6,472	6,423	6,994	7,392	34.0	5.7
Revenue share (%)							
India	28	28	27	28	29		
Overseas	72	72	73	72	71		
EBIT							
India	350	361	252	252	314	(10.3)	25.0
Overseas	(366)	214	309	309	676	NA	118.9
Total	(15)	575	560	560	991	NA	76.8
EBITM (%)							
India	22.7	20.0	14.4	12.8	14.5		
Overseas	(9.2)	4.6	6.6	6.1	12.9		
Blended	(0.3)	8.9	8.7	8.0	13.4		

Source: Company

Fig 9 – Revenue, by segment (consolidated and international)

(Rs m)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Consol. revenue							
Technologies	2,940	3,819	3,854	4,175	4,583	55.9	9.8
Systems	905	971	1,028	958	887	(2.0)	(7.4)
Services	1,672	1,683	1,541	1,860	1,922	15.0	3.3
Total	5,517	6,472	6,423	6,994	7,392	34.0	5.7
Share %							
Technologies	53	59	60	60	62		
Systems	16	15	16	14	12		
Services	30	26	24	27	26		
International revenue							
Technologies	1,595	2,821	2,233	2,630	3,348	109.9	27.3
Systems	859	752	950	842	810	(5.7)	(3.8)
Services	1,636	1,128	1,568	1,788	1,242	(24.1)	(30.6)
Total	4,089	4,702	4,750	5,260	5,400	32.1	2.7
Share %							
Technologies	39	60	47	50	62		
Systems	21	16	20	16	15		
Services	40	24	33	34	23		

Source: Company

Fig 10 – Order inflow split (consolidated and international)

(Rs m)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Consol. order inflow							
Technologies	5,432	5,108	4,627	2,491	6,188	13.9	148.4
Systems	905	1,362	1,623	329	1,497	65.4	355.0
Services	1,893	2,043	1,867	1,880	2,295	21.3	22.1
Total	8,230	8,513	8,117	4,700	9,980	21.3	112.3
Share %							
Technologies	66	60	57	53	62		
Systems	11	16	20	7	15		
Services	23	24	23	40	23		
Intl. order inflow							
Technologies	2,573	3,391	3,341	1,338	3,796	47.6	183.7
Systems	893	1,130	1,740	274	1,460	63.6	431.9
Services	1,785	1,758	1,879	1,818	2,044	14.5	12.4
Total	5,250	6,279	6,960	3,431	7,300	39.0	112.8
Share %							
Technologies	49	54	48	39	52		
Systems	17	18	25	8	20		
Services	34	28	27	53	28		

Source: Company

Fig 11 – Quarterly trend (standalone)

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Y/Y (%)	% Q/Q
Revenue	1,309	1,541	1,657	1,900	1,714	2,060	2,090	2,285	2,490	45.3	-98.2
EBIDTA	243	367	403	523	437	510	379	392	407	-6.9	-101.7
EBIDTA margins %	18.6	23.8	24.3	27.5	25.5	24.8	18.1	17.2	16.3	-916bps	-82bps
Depreciation	22	22	27	8	8	12	5	12	7	-16.6	-336.7
Finance costs	55	57	105	72	78	85	86	86	86	10.1	-88.3
Other income	12	18	18	19	32	47	30	41	47	45.9	-2.6
PBT	198	315	307	439	334	390	268	277	280	-16.3	-105.8
Tax	34	64	85	124	76	98	72	74	71	-6.7	-109.3
Effective tax rates %	17.4	20.4	27.7	28.3	22.9	25.1	27.0	26.6	25.5	263bps	-106bps
PAT	164	251	222	315	258	292	195	204	209	-19.1	-109.2

Source: Company

Fig 12 – Revenue, by segment (standalone)

(Rs m)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Technologies	1,563	1,895	1,881	2,080	2,216	41.8	6.6
Systems	58	62	125	114	149	156.4	30.7
Services	93	103	84	91	125	34.6	36.2
Total	1,714	2,060	2,090	2,285	2,490	45.3	9.0
Share %							
Technologies	91	92	90	91	89		
Systems	3	3	6	5	6		
Services	5	5	4	4	5		

Source: Company

Fig 13 – Order-inflow split (standalone)

(Rs m)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Order inflow							
Technologies	2,861	2,011	1,999	1,050	2,766	(3.3)	163.6
Systems	30	89	67	102	91	206.0	(10.9)
Services	89	134	180	128	182	104.0	42.5
Total	2,980	2,234	2,246	1,280	3,040	2.0	137.5
Share %							
Technologies	96	90	89	82	91		
Systems	1	4	3	8	3		
Services	3	6	8%	10	6		
Standalone order book	5,461	5,488	5,680	5,240	5,620	2.9	7.3

Source: Company

Concall Highlights

Strong execution, but subdued margin in its Indian business

GMM Pfaudler's sturdy execution and order inflows in Q1 were driven by its domestic and international business, which are showing strong traction. Its consolidated revenue grew 34% y/y to Rs7.4bn. Its domestic and export revenue were 40% and 31% higher y/y, led by prices (10% higher) and volumes. Pfaudler's German and China plants are ramping up healthily with value sourcing from India. Order intake was ~24% y/y higher to Rs10bn.

- Mavag's order book is a healthy CHF40m (vs ~CHF18m-20m previously), thereby offering sound execution assurance (16-18 months). High raw material prices compressed the EBITDA margin, which should improve in coming quarters.
- The standalone gross margin (50.1%) was the lowest of the past 12 quarters due to higher steel prices, which have now started going down, aiding H2 FY23 margins. The gross margin weakness in Q1 is a function of the unfavourable revenue mix toward heavy engineering. However, the company is trying to improve the heavy engineering margins, helped by cost controls and operational efficiencies. Besides, it is seeking to increase exports, which should further aid margins.
- The Q1 FY23 EBITDA margin was a healthy 13.2% (10.3% the previous quarter). Strong execution, price hikes and stabilising international operations aided profitability. Though commodity prices have softened, higher energy costs in Europe, China and India are a concern. Management hopes to maintain margins in coming quarters in India and in its international business, and sees potential if energy costs cool. Its international business EBITDA margin is ~10%; its India business EBITDA margin, 16.3%.
- Other income spiked to Rs285m in Q1 FY23 (from Rs14m the previous quarter, Rs12m a year back). The exceptionally high other income arose from the ~Rs220m MtM forex revaluation gain on the loan in Europe.
- PAT was a strong Rs445m (Rs160m the prior quarter, Rs26m a year ago).
- The (consolidated) order book at end-Jun'22 grew ~27% y/y to Rs21.8bn.

Encouraging demand scenario

GMM is seeing significant traction across regions with encouraging investments in the US and Europe; in India, the chemicals sector is showing potential. Value sourcing from India continues to be good. The company has manufactured ~25 vessels in India, soon to be shipped to Germany.

- The mixing business revenue was Rs300m a few years ago. On the IMFG (Pune) acquisition, revenue climbed to Rs500-600m. Significant demand momentum in fermentation has been seen in Vishakhapatnam and Hyderabad. The company is well placed with its technology to cater to this demand, expecting to double its mixing business revenue in FY23.

All-time high order backlog and prospect pipeline

The company had an all-time high backlog in Q1 FY23 (Rs21.8bn, up ~27% y/y) and its opportunity pipeline across regions and businesses is robust. Significant investments have been made in the chemicals sector in India. The acid recovery opportunity is healthy, with the company working on a large project, a breakthrough one for it. The China+1 strategy-led demand continues to increase. Segments such as fermentation, paints, bio-plastics, green technology and plant-based proteins are showing strong demand traction.

- Order inflows (consolidated) were strong (up ~24% y/y) bolstered by good demand traction and orders that were anticipated in the previous quarter, finalized and received in Q1. Demand was good and the company continues with its approach of selective orders. Management said it would continue to see quarterly inflows of ~Rs3bn (standalone). GMM did not lower prices in Q1. In its Interseal business, it expects 20-25 mechanical seal orders in the next few weeks. A large order of ~\$6m from China was received in Q1.
- Strong order intake was seen in its glass-lined equipment business in India, Europe and China. Of the (standalone) inflows of Rs3.04bn, such orders were of Rs1.9bn.
- Management said Q2 FY23 order intake would be good. It is sanguine regarding the momentum continuing in coming quarters.

Acquisition of Hydro Air Research Italia S.r.l. (HARI)

The company acquired 100% stake for €4.6m in HARI, which specialises in liquid separation and filtration for the pharmaceutical and chemical industries. HARI's expertise and process know-how enhance GMM product portfolio and will augment GMM's capabilities to enter adjacent markets and provide green technologies to customers. HARI has an asset-light model, with only 15 employees. GMM's plant will give the HARI business an edge with GMM's local manufacturing. It expects to double this business.

Other key highlights

- Purchase price allocation was Rs55m taken as part of depreciation and amortisation.
- Consolidated gross debt at end-Jun'22 was \$70m; the cash balance, \$38m. Pension liability was \$38m. The interest cost of borrowing (standalone) averaged 7%; for its overseas business, it is 5.5%.
- Working capital is now at an optimal level, with no further improvement expected. The company receives advances for orders. That would help it maintain working capital levels.

Valuation

With its greater size and scale, GMM Pfaudler is likely to gain market share globally, making it a strong beneficiary of the vast prospects opening up in pharma and specialty chemicals. Its diversification into heavy engineering & filtration and drying & mixing would bring in additional revenue. Its strong fundamentals are substantiated by its record of positive operating cash-flows, even in economic crises. Its robust revenue prospects, backed by a sturdy order book (Rs21.8bn at end-Jun'22, up from Rs19.3bn at end-Mar'22), and continuing sturdy balance sheet keeps us sanguine regarding its business.

We have factored in the higher costs in its business, thereby lowering margins. We expect ~20% revenue CAGR over FY22-24, led by a strong order backlog and robust demand outlook. The stock trades at 39x/31x FY23e/FY24e, EPS. Valuing it at 37x on FY24e EPS, we arrive at a revised target price of Rs1,929. We maintain our Buy rating on the stock.

Fig 14 – Change in estimates

(Rs m)	Original estimates		Revised estimates		Change (%)	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	29,812	33,697	31,721	36,772	6.4	9.1
EBITDA	4,572	5,504	4,143	5,157	-9.4	-6.3
Adj. PAT	1,980	2,495	1,809	2,286	-8.6	-8.4

Source: Anand Rathi Research

Fig 15 –One-year-forward PER



Source: Bloomberg, Anand Rathi Research

Risks

- Slowdown in pace of capacity addition at end-users.
- Revival of Chinese manufacturing.

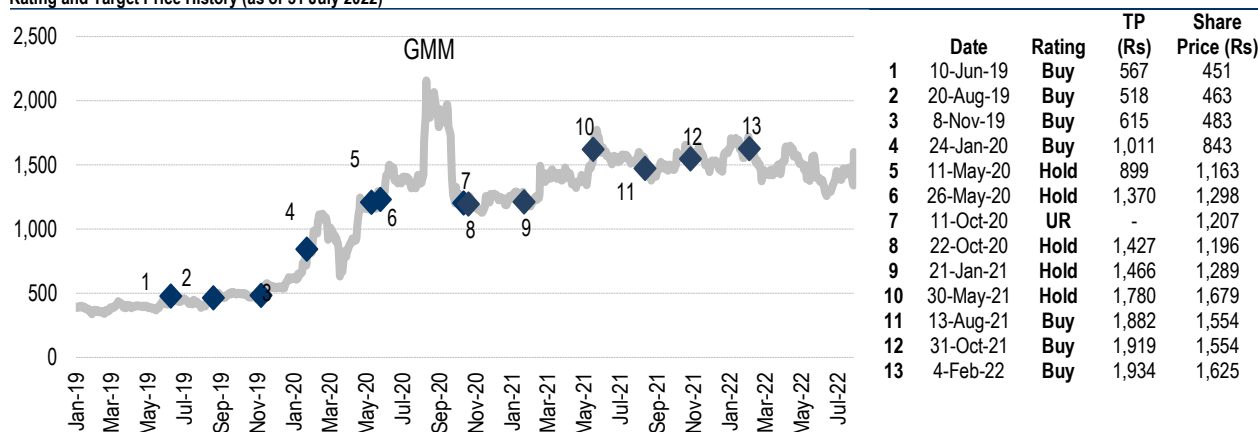
Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
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