

## GMM Pfaudler (GMM IN)

BUY ▲25% | Target Price: Rs.2,450

## Vision 2025 Points to a Healthy Roadmap; Maintain BUY

### Key Takeaways:

- The management unveiled the Vision 2025 targeting revenue, EBITDA and RoCE of Rs37bn, Rs6.3bn and 25%, respectively by FY25.
- Demand outlook in India remains robust especially from the chemicals sector. Despite being in the slow lane, domestic pharma capex is expected to pick up in the medium-term. Strong and sustainable investments are being made in the US and Europe in the pharma and chemical space.
- GMM is aiming to increase profitability and revenue in key segments through the levers of operational excellence, value sourcing, cross-selling, getting into adjacencies, new applications and an improved customer experience.

**Robust Opportunity Pipeline:** Demand from the end-markets for both domestic and overseas domains remains healthy and relatively unimpacted by macroeconomic headwinds. Although commodity prices have softened, higher energy cost continues to remain a concern in the UK, Germany and India. The company is taking various optimisation measures to conserve energy and increase efficiency to control energy cost and maximising output. GMM has also been successful in partially passing on rising energy cost. GMM envisages robust opportunity pipeline from its key clients i.e., PI Industries, SRF, Divi's Labs and Deccan, which are set to incur strong capex. The company is also working on a large acid recovery opportunity, which should materialise soon. Investments in the US and Europe have picked up since the last 2 years to localise critical production processes and de-risking from overtly relying on China and India for key supplies. GMM will immensely benefit from this sustainable localisation trend, as it has a well-entrenched network in the US and Europe to cater to pharma and chemical capex.

**Operational Excellence & Value Sourcing Strategy Remains on Track:** GMM's value sourcing strategy remains well on track and the company is aiming to further sharpen its focus on this front. GMM will stock India-made vessels in major markets including Germany along with stocking other ancillary items to enhance turnaround time. GMM turned around the Chinese and German facilities by moving away from old factories and investing into newer facilities, which are nimble-footed and efficient – an apt example of operational excellence. GMM is also investing into innovative technologies such as SmartGlass, Fermentation, Green Technologies and Ace5000.

**Outlook & Valuation:** We believe GMM is set to benefit immensely from structural tailwinds in the end-user industries backed by strong domain expertise and market share. Long-term demand trend remains robust with the company remains well-gearred to garner strong order intake emanating from significant pharma and chemical capex. **We maintain BUY on GMM Pfaudler with an upwardly revised Target Price of Rs2,450, valuing the stock at 35x of Sept'24E earnings.**

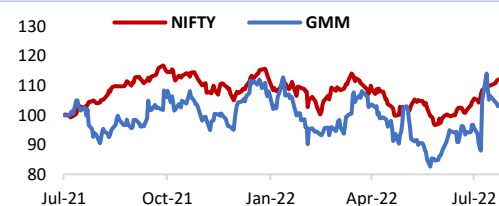
### Stock Information

CMP (Rs)	1,957
Market Cap (Rs bn)	86
Free Float (%)	45
52 Week H/L	2,110/1,257
O/S Shares (mn)	43.9
3M Daily Avg Volume (mn)	0.22

### Shareholding Pattern (%)

	Dec-21	Mar-22	Jun-22
Promoters	54.95	54.95	54.95
- Pledged	-	-	-
FII / NRI	10.85	12.15	11.84
MF/DII	5.99	5.82	6.10
Others	28.22	27.09	27.11

### Stock Relative Performance



### Research Analysts:

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Financials (mn)	FY21	FY22	FY23E	FY24E	FY25E	Key Ratios	FY21	FY22	FY23E	FY24E	FY25E
Revenue	10,011	25,406	30,441	34,827	39,535	PE (x)	82.0	100.9	44.6	31.9	24.7
EBITDA	1,386	2,839	3,982	4,858	5,751	EV/EBITDA (x)	185.9	90.8	64.7	53.1	44.8
EBITDA (%)	13.8	11.2	13.1	13.9	14.5	P/B (x)	21.1	16.3	12.1	8.8	6.5
APAT	1,047	851	1,922	2,689	3,470	RoE (%)	24.4	14.2	24.9	26.8	26.6
EPS (Rs)	23.9	19.4	43.8	61.3	79.1	RoCE (%)	16.5	14.3	22.3	24.0	28.2

## Exhibit 01: Quarterly Financials

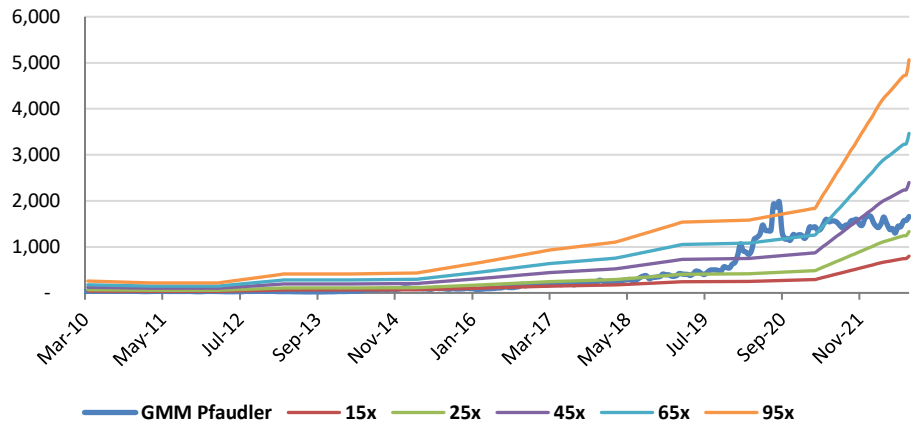
Rs mn	1QFY23	1QFY22	YoY (%)	4QFY22	QoQ (%)
<b>Revenue</b>	<b>7,392</b>	<b>5,517</b>	<b>34.0</b>	<b>6,994</b>	<b>5.7</b>
Cost of goods sold	3,003	2,169	38.4	2,896	3.7
Power and Fuel	214	139	54.2	210	2.1
Employee benefits expense	1,856	1,746	6.3	1,874	(1.0)
Other expenses	1,342	1,104	21.6	1,296	3.5
<b>Total Expenses</b>	<b>6,414</b>	<b>5,157</b>	<b>24.4</b>	<b>6,275</b>	<b>2.2</b>
<b>EBITDA</b>	<b>978</b>	<b>359</b>	<b>172.1</b>	<b>718</b>	<b>36.2</b>
<b>EBITDA Margin (%)</b>	<b>13.2</b>	<b>6.5</b>	<b>671.6</b>	<b>10.3</b>	<b>296.0</b>
Interest & Finance charges	156	141	10.7	22	598.2
Depreciation	272	387	(29.6)	273	(0.1)
Other Income	285	12	2,280.1	14	1,949.6
Share of Profit of Associates/JVs	0	0	0	0	0
Exceptional items	0	0	0	0	0
<b>PBT</b>	<b>834</b>	<b>(156)</b>	<b>(633.2)</b>	<b>437</b>	<b>90.8</b>
Tax	220	28	697.4	265	(17.0)
Minority interest	(170)	210	(180.8)	(12.3)	1,278.9
<b>PAT</b>	<b>445</b>	<b>26</b>	<b>1,618.5</b>	<b>160</b>	<b>177.5</b>
PAT Margin (%)	5.8	0.5	532.9	2.3	350.9
<b>Adjusted EPS</b>	<b>10.1</b>	<b>1.8</b>	<b>472.8</b>	<b>11.0</b>	<b>(7.5)</b>

\*Margin change in bps

## Exhibit 02: Quarterly Performance Analysis

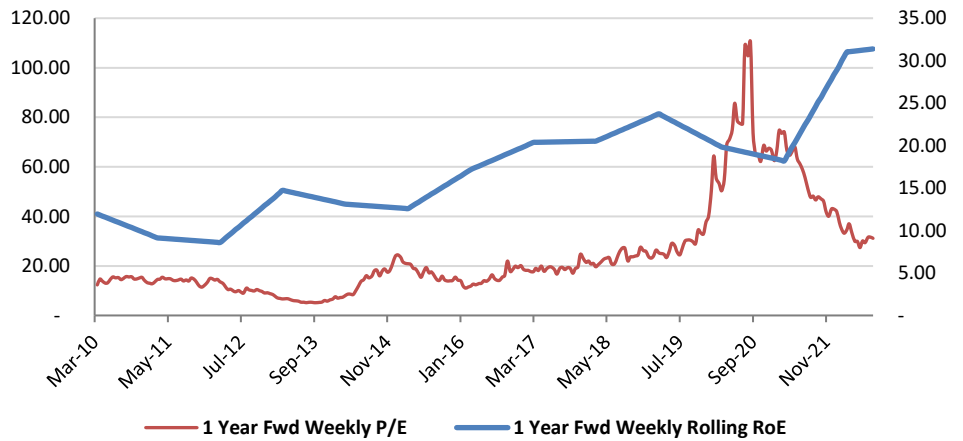
% of Sales	1QFY23	1QFY22	YoY bps	4QFY22	QoQ bps
<b>Raw Material</b>	<b>40.6</b>	<b>39.3</b>	<b>130</b>	<b>41.4</b>	<b>(79)</b>
<b>Labour Charges</b>	<b>2.9</b>	<b>2.5</b>	<b>38</b>	<b>3.0</b>	<b>(10)</b>
Employee Cost	25.1	31.6	(654)	26.8	(169)
<b>Other expenses</b>	<b>18.1</b>	<b>20.0</b>	<b>(186)</b>	<b>18.5</b>	<b>(39)</b>
Gross Margin	56.5	58.2	(168)	55.6	89
<b>Tax Rate</b>	<b>26.3</b>	<b>(17.6)</b>	<b>4,392</b>	<b>60.5</b>	<b>(3,418)</b>
<b>EBIT Margin</b>	<b>9.5</b>	<b>(0.5)</b>	<b>1,004</b>	<b>6.4</b>	<b>317</b>

**Exhibit 03: P/E Band Chart**



Source: Ashika Institutional Research

**Exhibit 04: 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-GL equipment business.

## Additional Description

### Company Overview

GMM Pfadler 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

#### Exhibit 05: 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

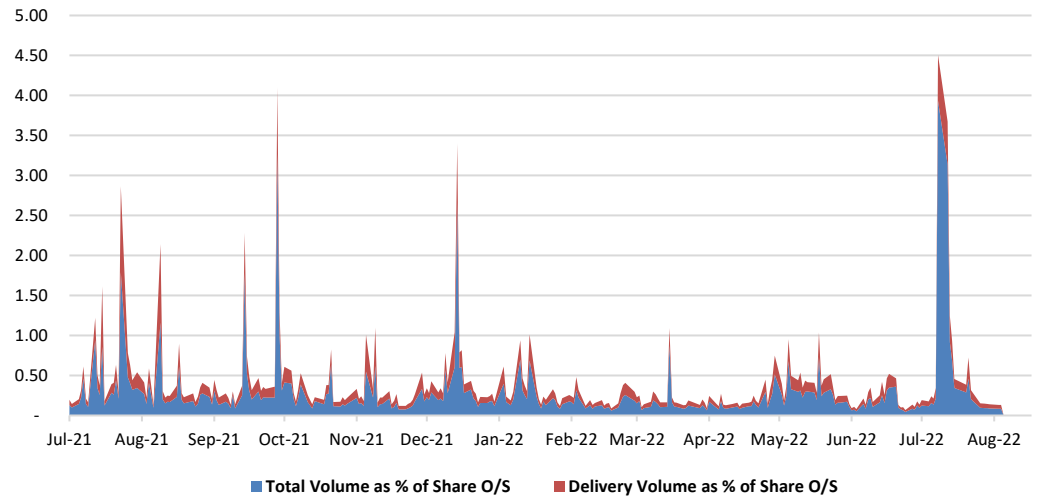
Source: Ashika Institutional Research

#### Exhibit 06: Non-promoter top-10 holdings (as per latest disclosure)

Shareholders	Shareholding (%)
Indus India Fund Mauritius	2.33
Malabar Select	1.07
L&T MF	0.96
Edelweiss AMC	0.89
BlackRock Inc	0.79
Wasatch Advisors Inc	0.73
Neuberger Berman Group LLC	0.61
Manulife Financial Corp	0.61
Quant Money Managers	0.56
ICICI Prudential AMC	0.50

Source: Bloomberg, Ashika Institutional Research

**Exhibit 07: Traded Volume (mn)**



Source: Bloomberg, Ashika Institutional Research

## Financial Projections

### Exhibit 08: Profit & Loss Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>10,011</b>	<b>25,406</b>	<b>30,441</b>	<b>34,827</b>	<b>39,535</b>
% Change	69.4	153.8	19.8	14.4	13.5
<b>Total Expenditure</b>	<b>8,625</b>	<b>22,567</b>	<b>26,459</b>	<b>29,969</b>	<b>33,784</b>
% Sales	86	89	87	86	85
<b>EBITDA</b>	<b>1,386</b>	<b>2,839</b>	<b>3,982</b>	<b>4,858</b>	<b>5,751</b>
% Sales	13.8	11.2	13.1	13.9	14.5
Depreciation	506	1,326	1,074	1,085	1,096
Interest	102	246	378	363	228
Other Income	235	67	300	175	200
Exceptionals	(335)	0	0	0	0
Share of Assoc/JVs	0	0	0	0	0
<b>PBT</b>	<b>679</b>	<b>1,334</b>	<b>2,830</b>	<b>3,585</b>	<b>4,627</b>
Tax	45	580	707	896	1,157
<b>Non-Controlling Interests</b>	<b>100</b>	<b>97</b>	<b>(200)</b>	<b>0</b>	<b>0</b>
PAT	734	851	1,922	2,689	3,470
% Change	3.1	15.9	126.0	39.9	0.0
<b>PAT Margin (%)</b>	<b>7.3</b>	<b>3.3</b>	<b>6.3</b>	<b>7.7</b>	<b>8.8</b>

### Exhibit 09: Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Share Capital</b>	29	29	29	29	29
Reserves & Surplus	4,042	5,242	7,092	9,709	13,107
<b>Net Worth</b>	<b>4,071</b>	<b>5,271</b>	<b>7,121</b>	<b>9,738</b>	<b>13,136</b>
Deferred Liabilities	171	386	386	386	386
Other Liabilities	1,233	1,413	1,613	1,613	1,613
Total Loans	4,576	5,049	7,549	4,549	3,049
<b>Total Liabilities</b>	<b>10,051</b>	<b>12,120</b>	<b>16,670</b>	<b>16,287</b>	<b>18,185</b>
Net Block	8,341	7,702	7,541	7,501	7,591
Cap. WIP	44	130	130	130	130
Investments	7	1	2,000	3,000	4,000
Other Non-Current	2,022	3,367	3,250	3,250	3,250
Sundry Debtors	3,096	3,562	4,268	4,883	5,543
<b>Cash &amp; Bank Balance</b>	<b>2,923</b>	<b>3,277</b>	<b>4,848</b>	<b>2,410</b>	<b>2,042</b>
Loans & Advances	1	22	22	22	22
Inventories	5,849	6,695	8,022	9,178	10,419
Other Current Asset	1,541	2,197	2,197	2,197	2,197
Current Assets	13,409	15,754	19,358	18,690	20,223
Current Liabilities & Prov.	13,771	14,834	15,609	16,285	17,010
<b>Net Current Assets</b>	<b>(361)</b>	<b>920</b>	<b>3,748</b>	<b>2,405</b>	<b>3,213</b>
<b>Total Assets</b>	<b>10,051</b>	<b>12,120</b>	<b>16,670</b>	<b>16,287</b>	<b>18,185</b>

**Exhibit 10: Cash Flow**

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT</b>	<b>679</b>	<b>1,334</b>	<b>2,830</b>	<b>3,585</b>	<b>4,627</b>
Depreciation	506	1,326	1,074	1,085	1,096
Chg. in tax	(215)	(719)	(707)	(896)	(1,157)
Chg. in Working cap	15	(836)	(1,258)	(1,096)	(1,176)
Others	583	1,258	378	363	228
<b>Cash flow from operations</b>	<b>1,567</b>	<b>2,364</b>	<b>2,317</b>	<b>3,041</b>	<b>3,618</b>
Chg. in Gross Block	(1,013)	(1,288)	(913)	(1,045)	(1,186)
Chg. in Investments	320	120	(1,999)	(1,000)	(1,000)
Chg. in others	33	2	0	0	0
<b>Cash flow from investing</b>	<b>(659)</b>	<b>(1,166)</b>	<b>(2,912)</b>	<b>(2,045)</b>	<b>(2,186)</b>
Chg. in debt	1,122	(481)	2,122	(3,363)	(1,728)
Chg. in Equity	0	0	0	0	0
Others	(73)	(72)	(72)	(72)	(72)
<b>Cash flow from financing</b>	<b>1,049</b>	<b>(553)</b>	<b>2,050</b>	<b>(3,435)</b>	<b>(1,800)</b>
<b>Change in cash</b>	<b>1,957</b>	<b>645</b>	<b>1,454</b>	<b>(2,439)</b>	<b>(368)</b>
<b>Cash at start</b>	<b>478</b>	<b>2,435</b>	<b>2,906</b>	<b>4,360</b>	<b>1,922</b>
<b>Cash at end</b>	<b>2,923</b>	<b>3,277</b>	<b>4,848</b>	<b>2,410</b>	<b>2,042</b>

**Exhibit 11: Key Ratios**

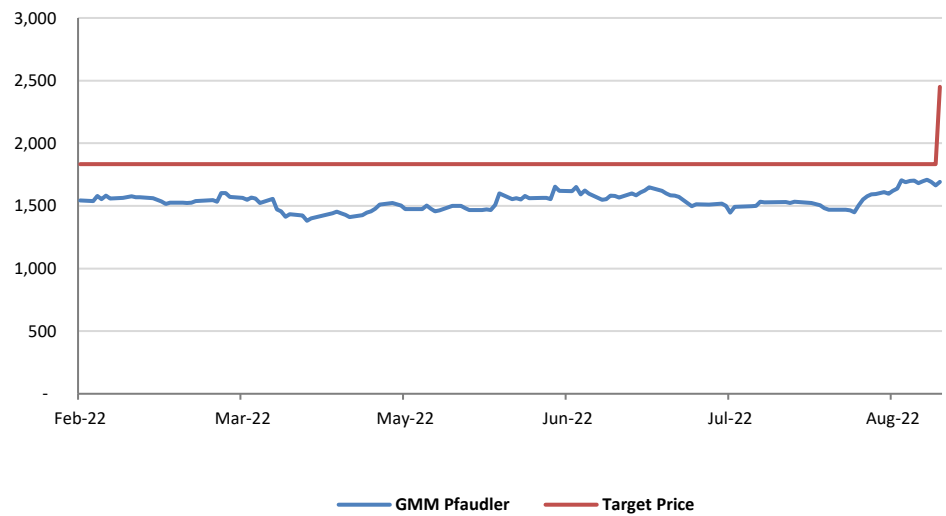
Ratios	FY21	FY22	FY23E	FY24E	FY25E
FATO	2.3	2.4	2.7	2.8	2.9
RoE	24.4	14.2	24.9	26.8	26.6
RoCE	16.5	14.3	22.3	24.0	28.2
P/E	82.0	100.9	44.6	31.9	24.7
P/B	21.1	16.3	12.1	8.8	6.5
EV/ EBITDA	185.9	90.8	64.7	53.1	44.8
EPS	23.9	19.4	43.8	61.3	79.1
BVPS	121.0	152.4	199.2	258.8	336.3
FATO	0.9	0.8	0.9	0.4	0.2

**Exhibit 12: 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
<b>07- Sep-22</b>	<b>1,957</b>	<b>2,450</b>	<b>BUY</b>

Source: Ashika Institutional Research

**Exhibit 13: Recommendation History & Target Price**



Source: NSE, Ashika Institutional Research



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### Recommendation & Absolute Return

<b>BUY</b>	Expected positive return of > 10% over 1-year horizon
<b>NEUTRAL</b>	Expected positive return of > 0% to < 10% over 1-year horizon
<b>REDUCE</b>	Expected return of < 0% to -10% over 1-year horizon
<b>SELL</b>	Expected to fall by >10% over 1-year horizon
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