

GMM Pfaudler | BUY

Vision 2025: paving way for a robust growth trajectory

We attended the analyst meeting conducted by GMM Pfaudler, where management laid out its 3-year growth plan - 'Vision 2025', aiming revenue at INR37bn (FY22: INR25.4bn), EBITDA margin at 17% (FY22:13%) and ROCE at 25%. Key takeaways were as follows: a) maintain focus on high growth markets of India and China, to drive 13% sales CAGR over FY22-25E, b) target margin improvement of 400bps through value sourcing (higher sourcing from India and Brazil), operational excellency (turnaround in China and Germany facilities) and ramp up of new plants (Vatva and Hyderabad), c) bolt-on acquisitions and to drive cross selling (Interseal and Hydro Air) and diversification (Acid Recovery). The company has completed 7 acquisitions in last 5 years to spruce up its manufacturing capacities and develop adjacencies to capture higher wallet share from existing customers. Despite these acquisitions and 100% stake purchase of Pfaudler's global business, its net debt to EBITDA stands at 1.2x, as cash flows improved materially in past 2 years. We expect the company to post sales/adjusted EPS CAGR of 15%/36% over FY22-25E given robust order book of INR22bn. We maintain BUY with revised TP of INR2,300 (35x Sep'24E EPS), as we incorporate EPS accretion due to acquisition of balance 46% stake in Pfaudler International and margin improvement.

- Solid growth trajectory:** Management highlighted that they intend to grow revenue at **CAGR of 13% over the period of 3 years and expect to clock revenues of INR37bn by FY25E**. Key regions contributing to this growth would be India and China. In India, growth would be driven by strong capex in chemical and pharma industry, led by China+1 strategy of chemical companies and government support and incentives in pharma sector to promote manufacturing in India. On the international front, growth is being driven by creation of local capacities and domestic supply chain in EU and US, to defend against future supply chain shocks, thus creating strong demand for GMM.
- Margin to improve with improvement in capacity utilisation:** Management highlighted that margins are likely to improve from current level of 13% to 17% by FY25. This would be largely driven by operational efficiencies and better absorption of overheads with the ramp up in newly set up facilities of China, Germany and India (Vatva and Hyderabad). Further, management highlighted that in FY23, improvement in margins would be visible from 2H, as inventory levels still remain at high cost for 2Q deliveries. On the international front, margin pressure is likely to sustain in near term due to high power and fuel cost, but management remains confident on passing through these prices gradually.
- Robust order book:** Order inflows have improved materially in international segment, as EU and US regions are building local capacities to reduce dependence on imports. Order book as 1QFY23 stood at INR22bn, of which INR5.5bn pertains to India, orders from Europe to India is around USD5-6mn and balance order is with Pfaudler international.
- Maintain BUY with revised TP of INR2,300:** We maintain BUY rating on the stock and expect the company to post sales/adjusted EPS CAGR of 15%/36% over FY22-25E, given healthy outlook across regions with improvement in margins with operational efficiencies. Our revised TP stands at INR 2,300 (35x Sep'24E EPS).

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	10,011	25,405	31,026	35,510	38,794
Sales Growth (%)	69.4	153.8	22.1	14.5	9.2
EBITDA	1,843	3,303	3,884	5,001	5,889
EBITDA Margin (%)	18.4	13.0	12.5	14.1	15.2
Adjusted Net Profit	1,126	1,323	1,780	2,536	3,366
Diluted EPS (INR)	25.7	30.2	39.6	56.4	74.9
Diluted EPS Growth (%)	58.4	17.5	31.2	42.4	32.7
ROIC (%)	29.2	20.2	20.5	23.5	26.9
ROE (%)	30.0	28.3	29.6	32.7	33.3
P/E (x)	80.5	68.5	52.2	36.7	27.6
P/B (x)	22.3	17.2	13.8	10.6	8.1
EV/EBITDA (x)	51.1	28.5	24.9	19.0	15.9
Dividend Yield (%)	0.3	0.4	0.5	0.6	0.7

Source: Company data, JM Financial. Note: Valuations as of 06/Sep/2022



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,300
Upside/(Downside)	11.2%
Previous Price Target	1,900
Change	21.1%

Key Data – GMM IN

Current Market Price	INR2,068
Market cap (bn)	INR90.7/US\$1.1
Free Float	45%
Shares in issue (mn)	43.8
Diluted share (mn)	44.9
3-mon avg daily val (mn)	INR294.2/US\$3.7
52-week range	2,110/1,251
Sensex/Nifty	59,197/17,656
INR/US\$	79.8

Price Performance

%	1M	6M	12M
Absolute	27.2	43.7	40.1
Relative*	25.4	28.2	38.0

* To the BSE Sensex

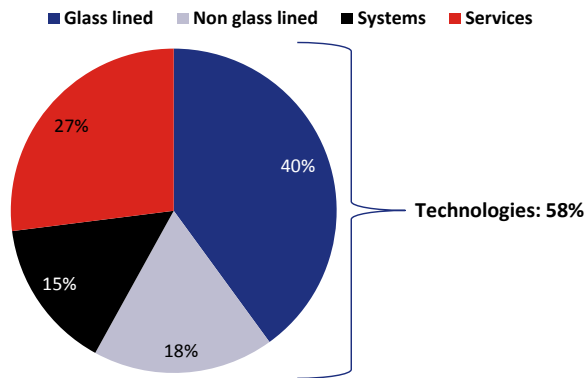
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Key takeaways of the meeting:

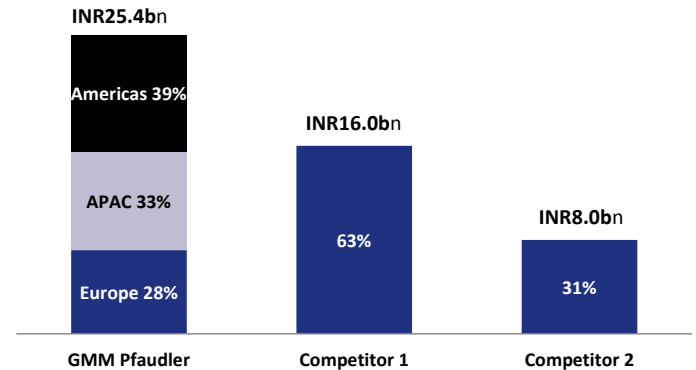
- Market leader in the segment:** The company holds lion's share of 40% in global glass lined segment having capacity of 4,000 EUs/year. The company intends to grow its market share with further expansion in high growth regions like China and catering to new regions like SEA. Further, they intend to improve margins through operational efficiencies and value sourcing from low base countries like India and Brazil. In non glass-lined segment, the company intends to grow revenue through cross selling opportunities and diversifying its portfolio into adjacent industries. The company highlighted that they are spending on digitisation, in order to improve customer experience and ramp up services business to c.50% in Pfaudler international.

Exhibit 1. Revenue distribution segment wise



Source: Company, JM Financial

Exhibit 2. GMM is 1.6x times bigger than its next competitor



Source: Company, JM Financial

- Value accretive acquisitions:** Management highlighted that they will continue to look for acquisitions that are value accretive to the company in terms of improving product portfolio and expand adjacent businesses. Quantum of acquisition would range from USD5-10mn and in some cases could go to USD20mn as well. In 2QFY23, the company acquired Hydro Air Research Italia (HARI), for a total consideration of EUR 4.96 mn (INR382mn), which would bring in adjacencies as it caters to similar set of customers in Germany and India such as plant based proteins, bio plastics and lithium purification. It also engaged into a JV with JDS manufacturing (USA), which manufactures specialised glass-lined components and also provides re-glassing services. Further, highlighted that it would avoid acquiring assets of the companies in the similar competitive business.

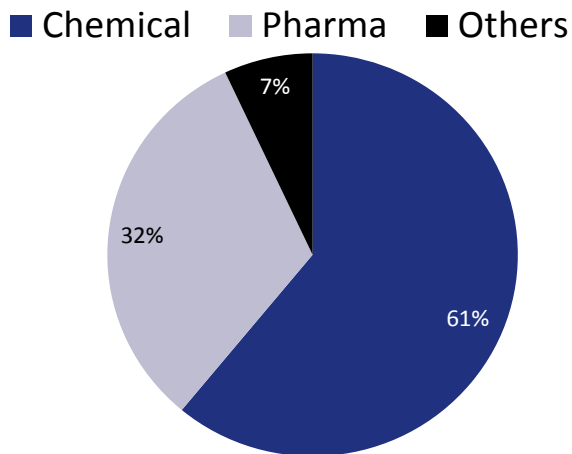
Exhibit 3. Acquisitions over the period

Year of acquisition	Acquisitions/JVs	Segment
2017	Interseal	Sealing Technology
2018	Normag	Lab & Process Glass
2019	Industrial Mixing Solutions Division	Mixing Technology
2020	DeDietrich Process Systems India	Glass-Lined Equipment
2021	HDO Technologies	Alloy Process Equipment
2022	Hydro Air Research Italia	Membrane Technologies
2022	JDS Manufacturing	Glass-Lined Equipment

Source: Company, JM Financial

- Spends in pharma and chemicals to boost domestic demand:** Management highlighted that demand in domestic market will continue to remain healthy on the back of continuous investments in chemical segment. Capex in pharma is lagging due to pricing pressure and stringent regulations from US FDA, however company expects investments to pick up going forward and intend to increase contribution from pharma to increases to 40-45% from current levels of 32%.

Exhibit 4. Revenue distribution on the basis of end market



Source: JM Financial, Company

- Continuous spends on innovation to expand portfolio and offerings:** Management highlighted that they will continue to spend on innovation in order to expand their product portfolio and offerings to the customer. In glass lined segment going forward they intend to introduce "Smartglass" which would remove heavy metal from the equipment and will faster the reaction time. In non-glass lined space, the company introduced fermentation technology and has partnered with major players which would drive revenues for the company. Further, company is expanding its presence in green technologies as these are the fastest growing areas like vegan meat, bio plastics etc. In services, the company added ace5000 which would allow its customers to pre-empt seal failure and prevent chemical mixing and the company expects demand for the product from pharma industry.
- Alignment if manufacturing base and capex going forward:** Management highlighted that they will prudently allocate capital in capacity expansion across regions in order to cater customers effectively where they are located. Further, pointed out that they do not intend to accumulate capacity in any of the one region where they are present, but will continue to promote countries like India and Brazil for low cost procurements. The company intends to maintain its past trend of spending 3-4% of revenue as capex, which would be sufficient to meet the targets.
- Other important points:** a) GMM received order of INR230mn in acid recovery space from a major conglomerate in India and they intend to receive similar orders moving forward as well, b) the company intends to double revenues in recently acquired entity (Hydro Air to USD18mn vs USD9mn) in next 2-3 years and c) fragmented market in China is likely to provide strong growth opportunities to the company.

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Sales	10,011	25,405	31,026	35,510	38,794	
Sales Growth	69.4%	153.8%	22.1%	14.5%	9.2%	
Other Operating Income	0	0	0	0	0	
Total Revenue	10,011	25,405	31,026	35,510	38,794	
Cost of Goods Sold/Op. Exp	4,490	10,401	13,031	14,737	15,905	
Personnel Cost	2,075	7,134	8,015	8,837	9,464	
Other Expenses	1,603	4,567	6,096	6,936	7,535	
EBITDA	1,843	3,303	3,884	5,001	5,889	
EBITDA Margin	18.4%	13.0%	12.5%	14.1%	15.2%	
EBITDA Growth	65.9%	79.2%	17.6%	28.8%	17.8%	
Depn. & Amort.	382	810	1,046	1,067	1,088	
EBIT	1,462	2,494	2,838	3,934	4,801	
Other Income	235	67	168	185	203	
Finance Cost	102	246	738	738	517	
PBT before Excep. & Forex	1,595	2,315	2,268	3,381	4,488	
Excep. & Forex Inc./Loss(-)	-916	-1,131	230	0	0	
PBT	679	1,183	2,498	3,381	4,488	
Taxes	45	430	624	845	1,122	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-100	-97	0	0	0	
Reported Net Profit	734	850	1,873	2,536	3,366	
Adjusted Net Profit	1,126	1,323	1,780	2,536	3,366	
Net Margin	11.2%	5.2%	5.7%	7.1%	8.7%	
Diluted Share Cap. (mn)	43.8	43.8	44.9	44.9	44.9	
Diluted EPS (INR)	25.7	30.2	39.6	56.4	74.9	
Diluted EPS Growth	58.4%	17.5%	31.2%	42.4%	32.7%	
Total Dividend + Tax	307	395	449	539	629	
Dividend Per Share (INR)	7.0	9.0	10.0	12.0	14.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Shareholders' Fund	4,071	5,271	6,756	8,752	11,488	
Share Capital	29	29	90	90	90	
Reserves & Surplus	4,042	5,242	6,666	8,662	11,398	
Preference Share Capital	0	0	0	0	0	
Minority Interest	1,233	1,413	1,413	1,413	1,413	
Total Loans	4,917	5,049	8,049	4,830	2,898	
Def. Tax Liab. / Assets (-)	171	386	386	386	386	
Total - Equity & Liab.	10,392	12,120	16,604	15,380	16,185	
Net Fixed Assets	10,406	10,147	12,051	11,784	12,496	
Gross Fixed Assets	11,210	11,805	14,755	15,555	17,355	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	848	1,657	2,703	3,770	4,859	
Capital WIP	44	0	0	0	0	
Investments	7	1	1	1	1	
Current Assets	13,409	17,026	22,158	23,156	24,663	
Inventories	5,849	6,695	9,350	10,702	11,691	
Sundry Debtors	3,096	3,562	4,675	5,351	5,846	
Cash & Bank Balances	2,923	3,277	3,882	2,240	1,812	
Loans & Advances	849	3,491	4,250	4,864	5,314	
Other Current Assets	692	0	0	0	0	
Current Liab. & Prov.	13,430	15,054	17,606	19,561	20,976	
Current Liabilities	7,515	7,566	8,256	8,860	9,284	
Provisions & Others	5,915	7,489	9,350	10,702	11,691	
Net Current Assets	-21	1,971	4,552	3,595	3,688	
Total - Assets	10,392	12,120	16,604	15,381	16,185	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Profit before Tax	679	1,334	2,268	3,381	4,488	
Depn. & Amort.	506	1,326	1,046	1,067	1,088	
Net Interest Exp. / Inc. (-)	69	244	0	0	0	
Inc (-) / Dec in WCcap.	15	-836	-1,903	-614	-450	
Others	515	1,015	230	0	0	
Taxes Paid	-215	-719	-624	-845	-1,122	
Operating Cash Flow	1,567	2,364	1,017	2,988	4,004	
Capex	-791	-1,317	-2,950	-800	-1,800	
Free Cash Flow	776	1,048	-1,933	2,188	2,204	
Inc (-) / Dec in Investments	131	151	0	0	0	
Others	0	0	0	0	0	
Investing Cash Flow	-659	-1,166	-2,950	-800	-1,800	
Inc / Dec (-) in Capital	0	0	61	0	0	
Dividend + Tax thereon	-73	-72	-449	-539	-629	
Inc / Dec (-) in Loans	1,122	-46	3,000	-3,220	-1,932	
Others	202	-726	-73	-72	-70	
Financing Cash Flow	1,251	-844	2,538	-3,831	-2,631	
Inc / Dec (-) in Cash	2,159	355	605	-1,642	-427	
Opening Cash Balance	764	2,923	3,277	3,882	2,240	
Closing Cash Balance	2,923	3,277	3,882	2,240	1,812	

Source: Company, JM Financial

Dupont Analysis		FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin		11.2%	5.2%	5.7%	7.1%	8.7%
Asset Turnover (x)		1.1	1.6	1.7	1.8	2.0
Leverage Factor (x)		2.5	3.3	3.0	2.5	1.9
RoE		30.0%	28.3%	29.6%	32.7%	33.3%

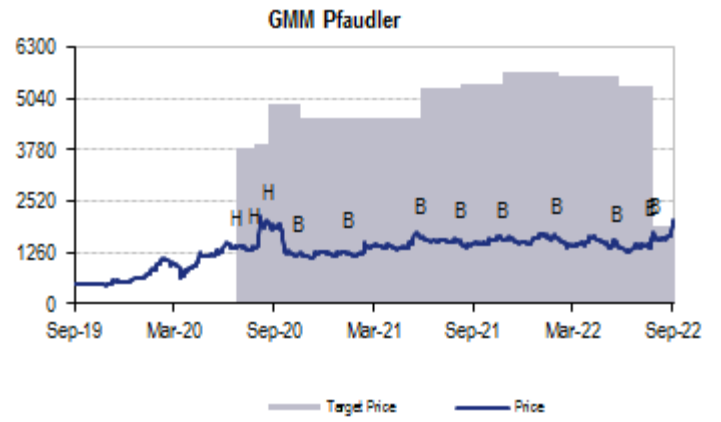
Key Ratios		FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)		92.9	120.2	150.3	194.7	255.6
ROIC		29.2%	20.2%	20.5%	23.5%	26.9%
ROE		30.0%	28.3%	29.6%	32.7%	33.3%
Net Debt/Equity (x)		0.5	0.3	0.6	0.3	0.1
P/E (x)		80.5	68.5	52.2	36.7	27.6
P/B (x)		22.3	17.2	13.8	10.6	8.1
EV/EBITDA (x)		51.1	28.5	24.9	19.0	15.9
EV/Sales (x)		9.4	3.7	3.1	2.7	2.4
Debtor days		113	51	55	55	55
Inventory days		213	96	110	110	110
Creditor days		132	65	63	64	65

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jun-20	Hold	3,800	
30-Jul-20	Hold	3,900	2.6
26-Aug-20	Hold	4,900	25.6
21-Oct-20	Buy	4,550	-7.1
20-Jan-21	Buy	4,550	0.0
2-Jun-21	Buy	5,300	16.5
12-Aug-21	Buy	5,400	1.9
31-Oct-21	Buy	5,700	5.6
7-Feb-22	Buy	5,600	-1.8
26-May-22	Buy	5,350	-4.5
29-Jul-22	Buy	1,900	-64.5
5-Aug-22	Buy	1,900	0.0

Recommendation History



APPENDIX I

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