India I Equities

Engineering & Capital Goods

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

5 November 2022

GMM Pfaudler

Rating: **Buy**
Target Price: Rs.2,440
Share Price: Rs.1,973

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

Good performances: standalone (sales up ~24% y/y) and international (up ~20% y/y) enabled GMM's revenue to grew 20.5% y/y to Rs7.8bn (in line with ARe). Ordering traction is healthy with PLI-led investments in India, while international operations improvement is on the cards from the ramp-up of its German and Chinese plants. With strong demand in chemicals, pharma and services, consolidated OB was a robust ~Rs21.2bn at end-Sep'22. The company expects better India business margins in H2, and 12-13% international EBITDA margins despite fluctuating commodity prices and higher energy costs. Successful integration of its international business, cross-selling efforts, value-sourcing and the strong demand outlook keep us upbeat on GMM's business momentum. We retain our Buy rating, with a higher TP of Rs2.440 (33x FY25e EPS), earlier Rs1,929.

Better-than-expected margins. GMM's performance was encouraging: 20.5% revenue growth, 15.2% better-than-expected EBITDA margin (largely led by the international business). The standalone EBITDA margin was weak (16.5%), hurt by high-priced steel inventory, an unfavourable product mix and higher costs. Management expects better standalone margins in H2 and to retain 12-13% international margins. Hence, we raise our FY23e EBITDA margin.

Efforts toward gaining share. Acquisitions in the last two years 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, value-sourcing from India enables it to gain customers due to its cost competitiveness. With this, the overall market has expanded and GMM's enhanced abilities support it in catering to this demand.

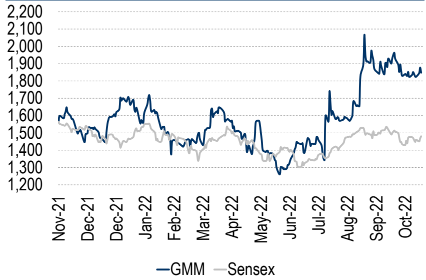
Valuations. We introduce FY25e, expecting revenue and PAT to grow ~13% and ~22%, respectively, and a 14.2% EBITDA margin. Consequently, we expect revenue/PAT CAGRs of ~18%/~56% over FY22-25. On rolling forward to FY25e and higher EBITDA margin estimates, we arrive at a higher target price of Rs.2,440. **Risk:** Less-than-expected demand.

Key data	GMM IN/ GMMP.BO
52-week high / low	Rs.2110 / 1251
Sensex / Nifty	60950 / 18117
3-m average volume	$5.2m
Market cap	Rs.87bn / $1050.9m
Shares outstanding	44m

Shareholding pattern (%)	Sep'22	Jun'22	Mar'22
Promoters	56.1	55.0	55.0
- *of which, Pledged*	-	-	-
Free float	43.9	45.1	45.1
- Foreign institutions	11.7	11.8	12.2
- Domestic institutions	5.6	6.1	5.8
- Public	26.6	27.1	27.1

Estimates revision (%)	FY23e	FY24e
Sales	0.0	0.0
EBITDA	2.3	0.0
Adj. PAT	3.0	16.7

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	10,011	25,406	31,721	36,772	41,395
Net profit (Rs m)	976	851	1,863	2,667	3,242
EPS (Rs)	21.7	18.9	42.5	60.8	73.9
P/E (x)	66.1	104.3	47.6	33.3	27.4
EV / EBITDA (x)	48.0	31.9	21.7	17.0	14.5
P/BV (x)	15.9	16.8	13.1	9.8	7.4
RoE (%)	26.5	18.2	30.9	33.6	30.8
RoCE (%)	10.9	9.3	19.0	18.4	18.4
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
Net debt / equity (x)	0.4	0.3	0.5	-0.1	-0.3

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations (consolidated)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
GLE sales	4,408	4,990	6,387	7,984	9,182
Net revenues	10,011	25,406	31,721	36,772	41,395
Growth (%)	*69.4*	*153.8*	*24.9*	*15.9*	*12.6*
Material cost	4,476	10,139	12,911	15,076	17,117
Employee & Other expense	4,148	12,428	14,572	16,538	18,395
EBITDA	**1,388**	**2,839**	**4,238**	**5,157**	**5,883**
EBITDA margins (%)	*13.9*	*11.2*	*13.4*	*14.0*	*14.2*
- Depreciation	505	1,326	1,169	1,269	1,314
Other income	235	67	443 *	210	257
Interest expenses	102	246	419	394	323
PBT	1,016	1,334	3,094	3,704	4,503
Effective tax rate (%)	*13.7*	*43.5*	*24.0*	*28.0*	*28.0*
+ Associates / (Minorities)	-99	-97	489	-	-
Net income	734	851	1,863	2,667	3,242
Adjusted income	976	851	1,863	2,667	3,242
WANS	45	45	44	44	44
FDEPS (Rs / sh)	21.7	18.9	42.5	60.8	73.9
EPS growth (%)	*37.2*	*-12.8*	*119.0*	*43.1*	*21.6*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	29	29	90	90	90
Net worth	4,062	5,271	6,777	9,084	11,966
Debt	5,111	5,264	7,564	6,614	5,664
Minority interest	1,156	1,413	-	-	-
DTL / (Assets)	140	386	485	500	515
Capital employed	**10,469**	**12,335**	**14,826**	**16,198**	**18,145**
Net tangible assets	3,811	3,818	4,118	4,418	4,718
Net intangible assets	5,902	5,538	5,638	5,738	5,838
Goodwill	719	662	662	662	662
CWIP (tang. & intang.)	44	130	244	154	154
Investments (strategic)	0	0	0	0	0
Investments (financial)	7	1	1	1	1
Current assets (excl. cash)	10,402	13,748	15,747	18,553	21,110
Cash	2,923	3,277	4,197	7,814	9,325
Current liabilities	13,339	14,839	15,781	21,142	23,662
Working capital	-2,936	-1,091	-34	-2,589	-2,553
Capital deployed	**10,469**	**12,335**	**14,826**	**16,198**	**18,145**
Contingent liabilities	646	256	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	681	1,334	3,094	3,704	4,503
+ Non-cash items	372	1,505	1,144	1,453	1,380
Oper. prof. before WC	1,052	2,839	4,238	5,157	5,883
- Incr. / (decr.) in WC	2,899	-1,737	-1,135	2,538	-52
Others incl. taxes	44	-334	-644	-1,023	-1,246
Operating cash-flow	3,996	768	2,459	6,672	4,585
- Capex (tang. + intang.)	-8,969	-1,055	-1,683	-1,579	-1,714
Free cash-flow	-4,974	-286	776	5,093	2,871
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	325	315	360	360	360
+ Equity raised	-	-	61	-	-
+ Debt raised	4,943	154	2,300	-950	-950
- Fin investments	-355	-6	-	-	-
- Misc. (CFI + CFF)	-2,160	-796	1,857	167	50
Net cash-flow	2,159	355	920	3,617	1,511

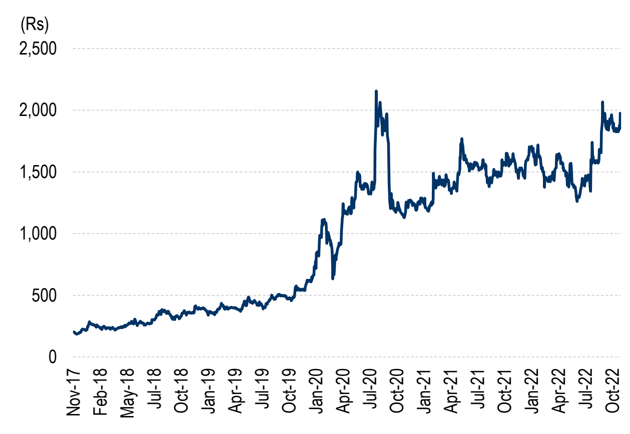
Source: Company, Anand Rathi Research
*Note: * Other income in FY23 includes ~Rs220m of MtM forex revaluation gain on the loan in Europe*

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	66.1	104.3	47.6	33.3	27.4
EV / EBITDA (x)	48.0	31.9	21.7	17.0	14.5
EV / Sales (x)	6.7	3.6	2.9	2.4	2.1
P/B (x)	15.9	16.8	13.1	9.8	7.4
RoE (%)	26.5	18.2	30.9	33.6	30.8
RoCE (%) - after tax	10.9	9.3	19.0	18.4	18.4
RoIC (%) - after tax	12.3	6.7	18.9	19.0	20.5
DPS (Rs / sh)	6.0	7.0	8.0	8.0	8.0
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
Dividend payout (%) - incl. DDT	44.3	37.0	19.3	13.5	11.1
Net debt / equity (x)	0.4	0.3	0.5	-0.1	-0.3
Receivables (days)	113	51	50	51	52
Inventory (days)	210	96	94	96	97
Payables (days)	128	63	58	58	58
CFO : PAT %	409.5	90.4	132.0	250.2	141.4

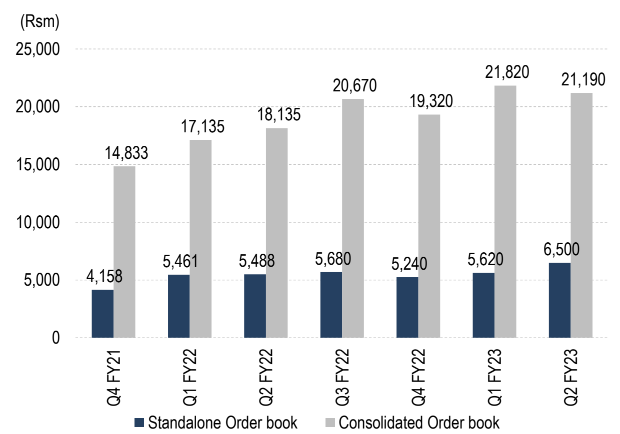
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly order-book trend



Source: Company

Result Highlights

Fig 7 – Quarterly trend (consolidated)

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Revenue	**6,472**	**6,423**	**6,994**	**7,392**	**7,801**	***20.5***	***5.5***
EBIDTA	**938**	**823**	**718**	**978**	**1,188**	***26.7***	***21.4***
EBIDTA margins %	*14.5*	*12.8*	*10.3*	*13.2*	*15.2*	*74bps*	*200bps*
Other income	29	12	14	285	195	*560.2*	*(31.7)*
Depreciation	392	275	273	272	282	*(28.0)*	*3.7*
Finance costs	19	64	22	156	86	*362.4*	*(44.9)*
PBT	556	497	437	834	1,014	*82.3*	*21.5*
Tax	168	120	265	220	45	*(73.2)*	*(79.5)*
Effective tax rate %	*30.3*	*24.1*	*60.5*	*26.3*	*4.4*	*-2581bps*	*-2187bps*
PAT	388	377	173	615	969	*149.7*	*57.6*
Minorities	(42)	(59)	(12)	(170)	(319)	*659.8*	*88.1*
Reported PAT	**346**	**318**	**160**	**445**	**650**	***87.8***	***46.0***
Adjusted PAT	**346**	**318**	**160**	**445**	**650**	***87.8***	***46.0***

Source: Company

Fig 8 – Revenue, by region (consolidated)

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Y/Y Gr (%)	Q/Q Gr (%)
India	1,803	1,749	1,970	2,167	2,215	*22.9*	*2.2*
Overseas	4,670	4,674	5,024	5,226	5,586	*19.6*	*6.9*
Total	**6,472**	**6,423**	**6,994**	**7,392**	**7,801**	***20.5***	***5.5***
Revenue share (%)						**bps y/y**	**bps q/q**
India	28	27	28	29	28	*54.2*	*(91.4)*
Overseas	72	73	72	71	72	*(54.2)*	*91.4*
EBIT							
India	361	252	252	314	411	*13.9*	*30.6*
Overseas	214	309	309	676	690	*221.7*	*2.0*
Total	**575**	**560**	**560**	**991**	**1,100**	***91.3***	***11.1***
EBITM (%)						**bps y/y**	**bps q/q**
India	20.0	14.4	12.8	14.5	18.5	*(146.7)*	*402.7*
Overseas	4.6	6.6	6.1	12.9	12.3	*775.5*	*(59.5)*
Blended	**8.9**	**8.7**	**8.0**	**13.4**	**14.1**	***522.0***	***70.3***

Source: Company

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

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Consol. revenue							
Technologies	3,819	3,854	4,175	4,583	4,992	*30.7*	*8.9*
Systems	971	1,028	958	887	936	*(3.6)*	*5.5*
Services	1,683	1,541	1,860	1,922	1,872	*11.2*	*(2.6)*
Total	**6,472**	**6,423**	**6,994**	**7,392**	**7,801**	*20.5*	*5.5*
Share %							
Technologies	59	60	60	62	64		
Systems	15	16	14	12	12		
Services	26	24	27	26	24		
International revenue							
Technologies	2,821	2,233	2,630	3,348	3,051	*8.1*	*(8.9)*
Systems	752	950	842	810	848	*12.7*	*4.6*
Services	1,128	1,568	1,788	1,242	1,752	*55.2*	*41.0*
Total	**4,702**	**4,750**	**5,260**	**5,400**	**5,650**	*20.2*	*4.6*
Share %							
Technologies	60	47	50	62	54		
Systems	16	20	16	15	15		
Services	24	33	34	23	31		

Source: Company

Fig 10 – Order inflow split (consolidated and international)

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Consol. order inflow							
Technologies	4,698	5,102	2,491	6,188	4,891	*4.1*	*(21.0)*
Systems	1,253	1,790	329	1,497	995	*(20.6)*	*(33.5)*
Services	1,879	2,059	1,880	2,295	2,404	*27.9*	*4.7*
Total	**7,830**	**8,950**	**4,700**	**9,980**	**8,290**	*5.9*	*(16.9)*
Share %							
Technologies	60	57	53	62	59		
Systems	16	20	7	15	12		
Services	24	23	40	23	29		
Intl. order inflow							
Technologies	3,391	3,341	1,338	3,796	2,502	*(26.2)*	*(34.1)*
Systems	1,130	1,740	274	1,460	723	*(36.0)*	*(50.5)*
Services	1,758	1,879	1,818	2,044	2,335	*32.8*	*14.2*
Total	**6,279**	**6,960**	**3,431**	**7,300**	**5,560**	*(11.5)*	*(23.8)*
Share %							
Technologies	54	48	39	52	45		
Systems	18	25	8	20	13		
Services	28	27	53	28	42		

Source: Company

Fig 11 – Quarterly trend (standalone)

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	% Y/Y	% Q/Q
Revenue	2,060	2,090	2,285	2,490	2,561	*24.4*	*2.9*
EBIDTA	510	379	392	407	423	*-17.2*	*4.0*
EBIDTA margins %	*24.8*	*18.1*	*17.2*	*16.3*	*16.5*	*-828bps*	*18bps*
Other income	12	5	12	7	10	*-15.1*	*45.7*
Depreciation	85	86	86	86	89	*4.0*	*2.8*
Finance cost	47	30	41	47	55	*18.0*	*16.5*
PBT	390	268	277	280	289	*-25.9*	*3.3*
Tax	98	72	74	71	76	*-22.9*	*6.0*
Effective tax rate %	*25.1*	*27.0*	*26.6*	*25.5*	*26.2*	*104bps*	*68bps*
PAT	292	195	204	209	214	*-27.0*	*2.3*

Source: Company

Fig 12 – Revenue, by segment (standalone)

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Technologies	1,895	1,881	2,080	2,216	2,151	*13.5*	*(2.9)*
Systems	62	125	114	149	256	*314.5*	*71.4*
Services	103	84	91	125	154	*49.2*	*23.4*
Total	**2,060**	**2,090**	**2,285**	**2,490**	**2,561**	***24.4***	***2.9***
Share %							
Technologies	92	90	91	89	84		
Systems	3	6	5	6	10		
Services	5	4	4	5	6		

Source: Company

Fig 13 – Order-inflow split (standalone)

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Y/Y Gr (%)	Q/Q Gr (%)
Order inflow							
Technologies	2,011	1,999	1,050	2,766	2,561	*27.4*	*(7.4)*
Systems	89	67	102	91	708	*692.0*	*676.0*
Services	134	180	128	182	101	*(24.6)*	*(44.6)*
Total	**2,234**	**2,246**	**1,280**	**3,040**	**3,370**	***50.9***	***10.9***
Share %							
Technologies	90	89	82	91	76		
Systems	4	3	8	3	21		
Services	6	8	10	6	3		
Standalone order book	5,488	5,680	5,240	5,620	6,500	*18.4*	*15.7*

Source: Company

Concall Highlights

Encouraging demand outlook

The 20.5% y/y revenue growth to Rs7.8bn was largely in line with Are, coming from the standalone business (up 24% y/y) and the international business (20% higher y/y). The chemicals and pharma segments are showing healthy traction domestically and internationally.

- In India, the company is seeing good enquiries for large orders, mainly driven by the PLI scheme for penicillin manufacturing. Traction is also seen from specialty chemicals (expected to be 70% of GLE sales, while the rest will be to the pharma sector). In India, the company has started focusing on service business orders, which should aid profitability.
- Internationally, it has started making inroads into segments such as metals and mining, power, bio-meat and paints, among others. In Europe, enquiry is healthy with customers' adding capacities; however, order finalization is taking time. Also, with manufacturing opening up post-pandemic, (high margin) service orders have started coming in strongly. This has led to ~33% increase in order inflow for international service business
- The company saw order inflows of Rs8.29bn, a 6% increase y/y. The order backlog at end-Sep'22 was Rs21.2bn. The standalone business should see higher order inflows in coming quarters, backed by large orders (4-6 months execution cycles) picking up momentum in GLE. Hence, the (standalone) GLE business is expected to be a good driver of growth in terms of orders as well as execution in coming period.

Standalone margin to be better in H2

GMM consolidated profitability was better than expected.

- The EBITDA margin of the international business was a robust 12.3%, a 160bp expansion y/y. The promising profitability was from the European plant, partially mitigating higher gas prices through stringent cost controls. This was done by adopting a four-day work week at the German operations. Moreover, the higher service business would support margins. Management, hence, said that 12-13% margins in the International business should continue in coming quarters.
- The EBITDA margin of the standalone business continues to be weak at 16.5% in Q2 FY23 (down 828bps y/y). The impact was due to high-priced steel inventory and an unfavourable product mix. Also, other expenses have considerably risen to Rs529m (Rs208m a year ago) due to higher power and fuel cost, stores & spares and freight costs (due to more exports in Q2). Management says the overall inventory and cost impact should be normal in coming quarters, leading to better H2 FY23 margins.

Other key highlights

- Interseal won a $2m order from a German customer. In India, the company recently sold ~20 seals.
- Mixion had ~Rs600m revenue in FY22, expected to double this year. Management claims it is the largest mixing player in India.
- The systems business has started seeing traction. In the previous quarter, the company bagged an acid-recovery order (FGD) of Rs200m from a power customer.

- Karamsad's 80,000-litre furnace, which can cater to super-large vessels has been commissioned. It expects five 80,000-litre orders in coming quarters. It has already received such an order recently and is now executing it.
- The ramp-up of the Vatva plant has been smooth. The site is now full with orders, and shipments have started.
- Capacity in equivalent unit (EU) is 2,900-3,000 p.a. Capacity utilisation is 80-90%.
- The increase in borrowing is due to debt taken to acquire the GMM International stake. Net debt at end-Sep'22 was Rs4.67bn. Net D/E is 0.7x.
- Net working capital increased due to increase in receivables owing to higher revenue share of its heavy engineering business.
- The (consolidated) effective tax rate was lower, at 4.4% of PBT, largely owing to a deferred tax write-back.
- Unbilled revenue (of Rs900m) has increased both in the international and India businesses. This should come down by Rs300m-400m in H2 FY23.
- The pension liability reduction from Rs3.73bn at end-Mar'22 to Rs2.43bn at end-Sep'22 was purely due to the rise in interest rates. The pension fund has been closed with no additions.
- The Patel family has increased its stake to ~24% from ~22%. The DBAG stake of 31.9% is committed to stay long.
- Due to consolidation of GMM International, no non-controlling interest from Q3 FY23.

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 (Rs21.2bn at end-Sep'22), and continuing sound balance sheet keep us sanguine regarding its business.

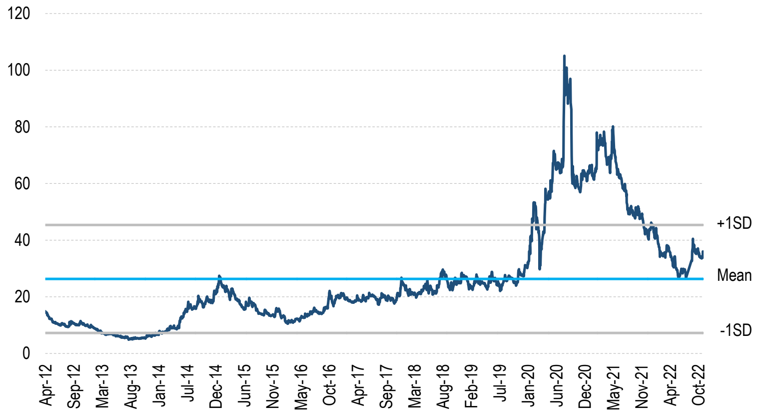
Management expects better standalone margins in H2 and to maintain its 12-13% margins in its international business. Hence, we have raised our FY23e EBITDA margin. We introduce FY25e, expecting revenue and PAT to grow ~13% and ~22%, respectively, and a 14.2% EBITDA margin. Also, post-acquisition of the entire stake of GMM Pfaudler International, the latter's financials will be a part of the consolidated entity against earlier being reflected in non-controlling interest. The adjustment for this has enabled a significant increase in our PAT estimates. Consequently, we expect ~18%/~56% revenue/PAT CAGRs over FY22-25. On rolling forward to FY25 and raising our EBITDA margin estimates, we arrive at a higher target price of Rs2,440 (33x FY25e EPS), earlier Rs1,929.

Fig 14 – Change in estimates

	Old			New			Change %		
(Rs m)	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Revenue	31,721	36,772	-	31,721	36,772	41,395	*0.0*	*0.0*	*NA*
EBITDA	4,143	5,157	-	4,238	5,157	5,883	*2.3*	*0.0*	*NA*
Adj. PAT	1,809	2,286	-	1,863	2,667	3,242	*3.0*	*16.7*	*NA*

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

Analyst Certification

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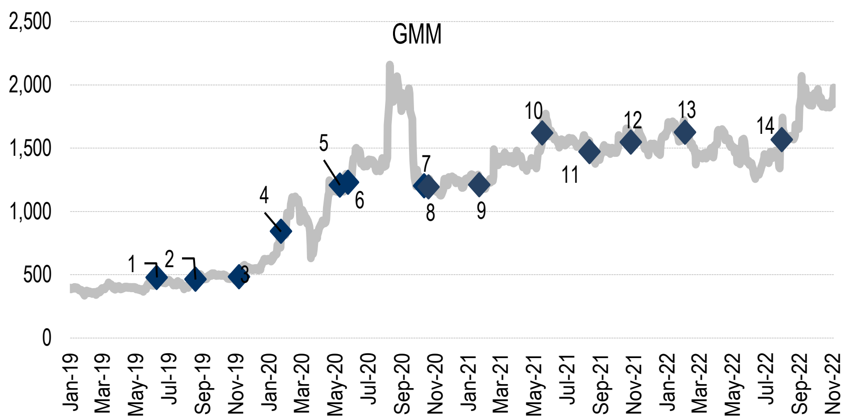
Rating and Target Price History (as of 4 November 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	10-Jun-19	Buy	567	451
2	20-Aug-19	Buy	518	463
3	8-Nov-19	Buy	615	483
4	24-Jan-20	Buy	1,011	843
5	11-May-20	Hold	899	1,163
6	26-May-20	Hold	1,370	1,298
7	11-Oct-20	UR	-	1,207
8	22-Oct-20	Hold	1,427	1,196
9	21-Jan-21	Hold	1,466	1,289
10	30-May-21	Hold	1,780	1,679
11	13-Aug-21	Buy	1,882	1,554
12	31-Oct-21	Buy	1,919	1,554
13	4-Feb-22	Buy	1,934	1,625
14	1-Aug-22	Buy	1,929	1,599

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Ratings Guide (12 months)

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Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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