Sector: Industrial Machinery | **RESULT REVIEW Q1FY23** | **Declared On: 28 July 2022**

GMM Pfaudler Limited

RECOMMENDATION SNAPSHOT					
*CMP	**Adj. Initiation Price	**Adj. Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs1568	Rs111	Rs2000	28%	Buy	22.9

*as on 01st Aug, 2022
**Corporate action: Bonus issue of 2:1

About the Company:

GMM Pfaudler Limited (GMM) is a leading supplier of engineered equipment and systems which have critical applications in the pharmaceutical and chemical market. The company pioneers in manufacturing Glass-lined steel equipment's which have applications in pharmaceutical, chemical, petrochemical, pesticide and food industries. The company is also involved in designing, manufacturing and marketing of glass-lined reactor vessels, storage tanks, valves and pipe & fittings. GMM is an ISO 9001:2008 company. The company has also been approved by Special Equipment Licensing Office (SELO) for the supply of pressure vessels to the Peoples Republic of China. GMM has its manufacturing plant located at Karamsad in Gujarat

Results: Quick Glance:

- On a consolidated level, the company has reported net sales of Rs7392mn as compared to Rs5517mn in the same quarter last year, growth of 34%
- Ebitda margins for the quarter under review stood at 13.2% as compared to 6.5% in the corresponding quarter last year
- Net profit came in at Rs615mn as against a loss of Rs184mn in the same quarter last year
- EPS for the quarter under review stood at Rs10.15

Conference Call Highlights:

- The company's focus on **execution** and cost control has helped achieve a strong performance for the quarter under review with increased revenues and improved margins. The Management mentions, softening of the commodity prices however, the energy costs continue to remain a concern. Order intake of Rs9980mn (increased 24% driven by international business on a y-o-y basis and ~112% on q-o-q basis) which is putting the company in a strong position for the upcoming quarters. The **order backlog** stands at Rs21.82bn (grew by 27% on y-o-y basis and 13% on q-o-q basis)
- In terms of commodity prices, the Management is seeing a cool-off in the metal prices, (costs of carbon steel and stainless steel) have significantly reduced, the impact of which will be seen in **Q3FY23 and Q4FY23** onwards. Energy costs will continue to be a concern in the UK, Germany and India has higher energy costs (especially gas prices). The Management is vigilant of cost increases
- For the standalone business the segmental break-up of the **revenue** consisted of 89% for technologies; 6% by the systems, 5% service; On the International business, the segmental break-up consisted of 50% for technologies; 14% by the systems, 36% service; For the consolidated business, the segmental break-up consisted of 62% for technologies; 12% by the systems, 26% service
- For the standalone business the segmental break-up of the **order intake** consisted of 91% for technologies; 3% by the systems, 6% service; On the International business, the segmental break-up consisted of 52% for technologies; 20% by the systems, 28% service; For the consolidated business, the segmental break-up consisted of 62% for technologies; 15% by the systems, 23% service
- The India business has performed exceedingly well in terms of revenue as well as order intake; strong position in terms of order backlog with a visibility for the next few quarters. Order intake has been spread over the tech, system and services business and all business lines are doing quite well. In Q1FY23, the GLE **order intake** remains strong with large projects in India, China and Europe. Value sourcing and stock & sale of equipment continues to gain traction with strong opportunity
- The **gross margins** in the India business are majorly affected by the steel prices in India which is anticipated to correct itself by the end of the quarter. In addition to this, there has been a slight change in the product mix; Heavy Engineering (HE) is not as profitable as GLE; the focus of the Management is to try and improve the margins. There is higher mix on HE during the quarter under review
- The company has become very selective in order selections; chemical sector in India is doing well; there is a very strong opportunity pipeline
- There has been price and volume growth across all the geography; there was price increase taken in India; the company has witnessed; volume increase across the geography was seen in Europe, China, US and India

Conference Call Highlights (contd.):

- **GLE business** has done well across geographies; there has been a good order intake in the GLE segment during the quarter under review
- The company has seen a major breakthrough in the mixing business (i.e. Mixion); this business was ~Rs300mn and then scaled to ~Rs500-600mn with the Pune IMSD acquisition. The Management is anticipating doubling this business which will be propelled by fermentation activities which related to PLI and penicillin production by customers in Hyderabad and Vizag. The division of **Mixion** has an order of ~Rs450mn order with a major break-through in fermentation application. The mixing technology which GMM has enabled the division to fetch good orders. Paint manufacturing from players in India and potential to expand; Asian paints and Grasim to add to the order intake for Mixion
- In India, the company has added 4 new clients to the **Interseal** list and the company is expecting ~20-25 mechanical seals in the upcoming quarter
- In India, chemicals continue to be the biggest sector for consistent growth and the Management is anticipating the Pharma sector to perform well and pick up
- The company is already working on a large **Acid recovery** project and the Management is anticipating a breakthrough here as well
- GMM has entered into an agreement to acquire 100% stake in **Hydro Air Research Italia S.r.l.,(HARI)** based in Milan, (Italy), for a total consideration of Euro4.96mn (Rs382.4mn) which is funded through internal accruals and expected to be completed in August 2022. HARI is an engineering company specializing in the field of liquid separation and filtration while serving the Pharma and chemical industries. It designs and manufactures advanced separation systems (skid mounted units and/or turnkey plants) for process applications. Working in separation technologies for more than 40 years and with over 60 plants completed in the last 5 years with 15 employees, HARI offers green solutions to various industries and has also recently entered high growth sectors such as plant-based proteins, bioplastics and lithium purification. The expertise and process know-how of HARI is a value addition to the product portfolio and is expected to augment GMMs capabilities to enter adjacent markets. The company has state-of-the-art membrane separation systems with an **asset-light company** with both production and assembly being outsourced**.** The technology know-how and experience in membrane technology will be complementary addition to the acid recovery related processes. The company did not have local manufacturing and now with the help of GMM will have local manufacturing in India and China. The opportunity pipeline in this company business is quite strong and will grow the business in green technology, plant based proteins, EV side etc. GMM was looking at adding new technology and HARI will complement this while looking at value add, moving up the value chain, catering to specific clients with specific issues and trying to double the business
- As per the Management, the opportunity pipeline across the system is quite strong in Europe Resurgence of investment activities in Europe and in the international business is showing growth for the future. The synergies with international business have also started blending well with value sourcing from India and are anticipating an increase in shipments from India to the rest of the world. The stock and sale trade programme is also gaining traction; the company has 25 odd vessels manufactured in India and these will be shipped to Germany
- The company is working on specialised products order from China and getting better cost competitive product; benefit from the blending of synergy from three different locations in terms of technology, cost and delivery
- **China plus one** will help the production move to India and benefit the operations
- The company has fetched a large systems order from China which will be manufactured in India; an order of USD6mn Systems order in China is leveraging group's capabilities via USA (Technology), India (Engineering & Manufacturing) and the local Chinese sales team has worked together to win this for the entire group
- The order backlog for **Mavag** ~Euro40mn (spread over 16-18 months); the performance and outlook has been good while margins are under pressure due to higher material costs; however with strong execution performance The company has added a furnace in Hyderabad and Karamsad. The furnaces outside India are electric furnaces; the company tries to balance the operations between gas and electric furnaces
- The approximate and blended business margins outside India stand at ~10.5% while that in India stand at ~16%. The average interest cost in India is ~7% and that of the international is ~5.5%. The other income in the consolidated revenues is on the revaluation of the loans in Euro which is to the tune of ~Rs220-230mn. Recently, the company has switched to a half year **dividend** pay-out strategy post the bonus shares (which was earlier on a quarterly basis). There has been margin improvement outside India; GMM is trying to maintain margins in India and outside India with aim to improve the same via better cost structure, trying to be more efficient and control in-house costs. The gross debt of the company stood at USD70mn on consolidated basis; Cash of USD38mn; Net Debt USD32mn

Conference Call Highlights (contd.):

- There is a change in pension liability due to an increase in the interest rate; which was earlier USD70mn and has come down to USD38mn. In the Indian context, there has been a strong investment pipeline by large chemical companies like SRF, PI, Divis etc. and investment is coming back in Pharma. GMM has orders for the next 6 months or so and intends to maintain pricing and the benefit of lower costs of RM will benefit in times to come. The total order book is quite balanced and evenly spread between technology, systems and services. Q2FY23 too appears to be good in terms of order intake, and the Management is not seeing a slowdown

Financials:

Performance (Q1FY23)							
Q1FY23 Result (Rs mn)	**Jun-22**	**Jun-21**	**y-o-y**	**Mar-22**	**q-o-q**	**FY22**	**FY23E**
Total Revenue	7392	5517	34.0%	6994	5.7%	25406	28391
EBITDA	978	359	-	718	36.2%	2839	3549
Other Income	285	12	-	14	-	67	355
Interest	156	141	10.7%	22	-	246	505
Depreciation	272	387	(29.6%)	273	(0.1%)	1326	1328
Exceptional Items	0	0	-	0	-	0	0
Tax	220	28	-	265	(17.0%)	580	559
Net Profit	**615**	**(184)**	-	**173**	-	**754**	**1512**

Outlook and Recommendations:

The company has reported a strong quarter both in terms of execution and order intake both on the international and India business front. GMM currently is in a position to pick and choose the companies (or orders) and continues to analyse business profile for further growth strategy via M&A. The company has started looking at domains and creating new businesses which were earlier not there in the portfolio. In addition to this, an area which the company is looking at for the future is continuous flow reaction and chemistry which has a promising future across the globe. With the acquisition of HARI, GMM will be exploring new markets and HARI will get a global reach for itself as well as manufacturing capabilities from India and China thus adding global reach with low cost manufacturing. The current size of the business is ~Euro7-8mn; the market is quite large, and GMM aims to double the same while creating a new business which was earlier not there. The major integration projects are now completed; GMM has crossed the internal international targets comfortably. The India made value sourcing is quite high with components sourced from India are blended with multiple synergies. The sales network is quite robust with an extensive network and in the process to increase the sales force in India, Europe and US; the company has launched new brand, new ESOPs etc. and getting new synergies within the group with same platform. The company is very flexible with what the customers want and what GMM can offer. With the help of the different facilities in the world, the company is in a position to get the right product which the customer demands. The players to which GMM caters to i.e. chemicals and Pharma are seeing customers investing in new capacities which provide a positive outlook while benefiting the company. GMM Pfaudler continues to be a technology leader with strong brand recognition, low cost sourcing for the vessels is providing the company an edge; coupled with the new investments in Europe and the US, Pfaudler is the first choice for many players in the industry. The company intends to roll out the strategic plan with avenues for growth as well as the revised guidance for the consolidated entity. All these factors mentioned above bode well for GMM, and we continue to maintain our positive stance on the business with (adjusted) target price of Rs2000.

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Registered Office Address:

Progressive Share Brokers Pvt. Ltd,

122-124, Laxmi Plaza, Laxmi Indl Estate,

New Link Rd, Andheri West,

Mumbai—400053, Maharashtra

www.progressiveshares.com | Contact No.:022-40777500.

Compliance Officer:

Mr. Shyam Agrawal,

Email: compliance@progressiveshares.com,

Contact No.:022-40777500.