

BUY (NO CHANGE)

Current Price (Rs)	: 1,447
Target Price (Rs)	: 2,230 (2,600)
Potential Upside	: 54%

Market Data

No. of shares	: 45 mn
Free Float	: 61%
Market Cap (USD)	: 788 mn
52-week High/ Low (Rs)	: 2,190/ 1,251
Avg. Daily Volume (6M)	: 0.22 mn
Avg. Daily Value (6M;USD)	: 4.35 mn
Bloomberg Code	: GMM IB
Promoters Holding	: 39%
FII / DII	: 20% / 9%

Price Performance

(%)	1M	3M	12M
Absolute	(1.3)	(7.9)	3.3
Relative	(4.3)	(13.3)	(10.6)

Source: Bloomberg

Q4 margins were below our expectations as we had not factored in the cyclically lower Q4 international margins in our estimates. Looking at FY23 numbers, one realizes they are quite good with revenue +25% and PBT +108%. Management reiterated its FY25 revenue and EBITDA guidance once again in the results call, which is comforting, but our estimates have been toned down (4% cut at the EBITDA level and 11-14% cut at the PAT level for FY24-25E). We lower our target price to Rs 2,230 (Rs 2,600 earlier) as we cut our target P/E to 32x (35x earlier) and roll forward the same to Mar'25E (Dec'24E earlier). We keep the faith and maintain **BUY**.

Q4FY23 EBITDA below our expectations

- Revenue at Rs 8.7 bn, up 24% YoY (+28% standalone and +22% others), was 4% ahead of expectations. EBITDA at Rs 962 mn, up 34% YoY, was 23% below expectation. EBITDA margin at 11.1% was up 84 bps YoY but down 383 bps QoQ (standalone margin down 55 bps QoQ while others margin down 549 bps QoQ).
- Salary increments from January 1 onwards and certain cost allocations normally impact Q4 international margins every year. In FY23, costs were even higher due to acquisition-related costs. From Q1, margins will normalize again.
- Recurring PBT at Rs 367 mn was down 16% YoY. Reported profit at Rs 385 mn was ahead of our expectation, on Rs 189 mn from one-off Mumbai property sales.

Order inflow outlook

- It won orders worth Rs 33.9 bn in FY23, up 15% YoY, ending the year with a backlog of Rs 21.6 bn, up 12% YoY. The International order book has 8-9 months visibility while the India order book has 6-7 months visibility.
- It expects new orders in the systems business to be finalized in a few months, and a strong recovery in pharma and chemical capex by end CY23 or early CY24. Chemicals and pharma have been stable globally, especially in Germany and Europe.

Guidance

- It expects 15% revenue growth in FY24, and both India and international margins should improve 100 bps each at least in FY24. Effective tax rate on the consolidated level should be ~26-27% in FY24.
- It is on track to achieve the Rs 37 bn revenue and Rs 6.3 bn EBITDA guidance for FY25.
- The company can reach Rs 40-45 bn in revenue using the existing asset base. Growth capex not required over the next 2 years, but will need some maintenance capex.

Financial summary (Consolidated)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Sales (Rs mn)	25,406	31,776	36,500	40,009	43,000
EBITDA (Rs mn)	2,839	4,667	5,300	6,300	6,800
Adj. PAT (Rs mn)	850	2,049	2,397	3,132	3,469
Con. EPS* (Rs)	-	-	59.3	72.8	-
EPS (Rs)	19.4	45.6	53.3	69.7	77.2
Change YoY (%)	(20)	135	17	31	11
Previous EPS (Rs)	-	-	65.8	81.1	-
RoE (%)	18.2	30.8	26.1	26.5	23.1
RoCE (%)	9.6	20.6	19.5	22.6	22.9
P/E (x)	74.6	31.8	27.1	20.8	18.8
EV/E (x)	24.2	14.8	13.2	10.7	9.6

Source: *Consensus broker estimates, Company, Axis Capital

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Results conference call takeaways

Order outlook

- The International order book has visibility for 8-9 months while the India book has 6-7. It expects new orders in the systems business to be finalized in the coming months.
- It expects a strong recovery in pharma and chemical capex by end CY23 or early CY24. Chemicals and pharma have been stable globally, especially in Germany and Europe.

On margins

- Salary increments from January 1 onwards and certain cost allocations normally impact Q4 international margins every year. In FY23, costs were even higher due to acquisition-related costs. From Q1, margins will normalize again.
- India margins saw pressure due to high input cost and a slight slowdown in pharma and chemical capex. The company started an operating efficiency programme in the Hyderabad facilities.
- Seeing some stability in energy and steel prices. Another crucial material which goes into glass lining has seen a 50% reduction in cost.
- It is moving engineering, documentation, and other back-office/ non-critical work to India, using lower-cost employees.
- Value sourcing from India is moving beyond glass-lined equipment to systems and non-GLE equipment (for instance, in oil & gas).
- Hydro Air engineering being done by the Italian units while manufacturing and assembly is being done in India and China, to ensure low-cost production.
- In FY23, the heavy engineering business broke even. A margin-dilutive order from L&T is now completed, ensuring that upcoming orders in this business are more lucrative.

Guidance

- It expects 15% revenue growth in FY24.
- Both India and international margins should improve 100 bps each at least, which should improve consolidated EBITDA margins from 13.6% in FY23.
- It is on track to achieve the Rs 37 bn revenue and Rs 6.3 bn EBITDA guidance for FY25.
- It expects effective tax rate on the consolidated level should be ~26-27%.
- Hydro Air has US\$ 7-8 mn in revenue currently, and expects that to double in the next 3 years. Mixel acquisition was completed in Feb'23 and only 2 months of revenue was accounted in FY23. The backlog remains strong, and it expects mixing to be a big opportunity going forward. Mixel should double revenues in the next 3-5 years.
- Its China factory is doing well, and revenues may be 2-3x in the next few years.
- It can reach Rs 40-45 bn in revenues using the existing asset base, hence growth capex is not required over the next 2 years, but will need 2-2.5% of sales for maintenance capex.

Others

- Weighted average interest cost is 7.7% on a consolidated level and India at 8.3%.
- It is already working with several American players on bio-proteins. For EVs, no specific involvement, but it has been looking at projects in the lithium space and won a US\$ 10 mn acid recovery project in Korea. It is also executing a similar order for Hindalco for a desulphurization plant in India.
- No significant acquisition planned in the future. the focus will now be on repaying debt and further strengthening the balance sheet.

- Rs 3.73 bn pension liabilities at the start of FY23, now at Rs 2.80 bn due to higher interest rates. The present value of liabilities has gone down, which is reflected in other comprehensive income.
- The original repayment schedule for its Rs 8 bn gross debt is up to FY28. However, this may be repaid in the next 2-3 years if no major acquisition comes up.
- India is a growing market, with the installed base still growing. In the next 5-8 years, as the installed base is built up, the services business will grow massively.
- The mixing business in India is now closer to Rs 1.50 bn (up from Rs 250-300 mn).

Exhibit 1: GMM Pfaudler EPS revision table

Year End Mar31 (Rs mn)	FY24E	FY25E	FY26E
Revenues			
Old	35,500	40,115	na
New	36,500	40,009	43,000
Chg	2.8%	-0.3%	nm
EBITDA			
Old	5,525	6,573	na
New	5,300	6,300	6,800
Chg	-4.1%	-4.1%	nm
EBITDA Margins			
Old	15.6%	16.4%	na
New	14.5%	15.7%	15.8%
bps	(104)	(64)	nm
Recurring PAT			
Old	2,773	3,529	na
New	2,397	3,132	3,469
Chg	-13.5%	-11.2%	nm
Reported PAT			
Old	2,773	3,529	na
New	2,397	3,132	3,469
Chg	-13.5%	-11.2%	nm

Source: Company, Axis Capital

Exhibit 2: Consolidated Q4FY23 and FY23 order statistics

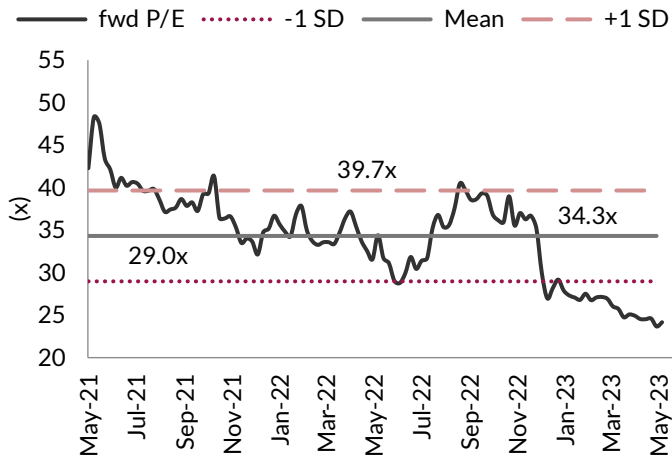
Year End March31 (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	FY23
Order Inflow	8,083	7,830	8,950	4,700	29,563	9,980	8,290	7,730	7,920	33,920
YoY	378%	216%	224%	0%	154%	23%	6%	-14%	69%	15%
Standalone	2,907	2,307	2,246	1,280	8,740	3,040	3,370	2,510	2,200	11,120
International	5,176	6,279	6,960	3,430	21,845	7,300	5,560	5,420	5,830	24,110
Elimination		(756)	(256)	(10)	(1,022)	(360)	(640)	(200)	(110)	(1,310)
Order Backlog	17,135	18,135	20,670	19,320	19,320	21,820	21,190	22,470	21,620	21,620
YoY	343%	350%	301%	30%	30%	27%	17%	9%	12%	12%
Standalone	5,011	5,488	5,680	5,240	5,240	5,620	6,500	6,240	5,450	5,450
International	12,022	13,587	15,890	14,250	14,250	16,780	15,900	16,970	16,690	16,690
Elimination	102	(940)	(900)	(170)	(170)	(580)	(1,210)	(740)	(520)	(520)

Source: Company, Axis Capital

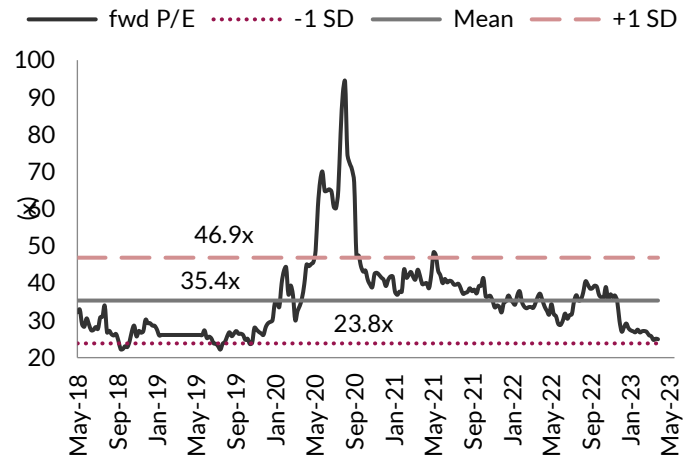
Exhibit 3: Consolidated Q4FY23 and FY23 results review

March31 (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	FY23	Q4FY23E
Net Revenues	5,517	6,472	6,423	6,994	25,406	7,392	7,801	7,923	8,660	31,776	8,300
YoY	257%	248%	218%	52%	154%	34%	21%	23%	24%	25%	19%
Standalone	1,714	2,060	2,090	2,285	8,148	2,490	2,561	2,766	2,931	10,748	
YoY	30.9%	33.6%	26.1%	20.3%	27.2%	45.3%	24.4%	32.4%	28.2%	31.9%	
Others (Consolidated - Standalone)	3,803	4,413	4,333	4,708	17,258	4,902	5,239	5,157	5,729	21,028	
YoY	1515.9%	1274.3%	1101.0%	75.3%	379.0%	28.9%	18.7%	19.0%	21.7%	21.8%	
Gross Profit	3,347	3,925	3,897	4,098	15,267	4,389	4,685	4,799	5,087	18,960	5,022
GP Margin %	60.7%	60.6%	60.7%	58.6%	60.1%	59.4%	60.1%	60.6%	58.7%	59.7%	60.5%
YoY	317%	273%	254%	59%	176%	31%	19%	23%	24%	24%	23%
Standalone	1,037	1,189	1,111	1,200	4,537	1,248	1,387	1,371	1,459	5,465	
GP Margin %	60.5%	57.7%	53.2%	52.5%	55.7%	50.1%	54.1%	49.6%	49.8%	50.8%	
Others (Consolidated - Standalone)	2,310	2,736	2,786	2,898	10,730	3,142	3,298	3,428	3,628	13,495	
GP Margin %	60.7%	62.0%	64.3%	61.5%	62.2%	64.1%	62.9%	66.5%	63.3%	64.2%	
EBITDA	359	938	824	718	2,839	978	1,188	1,184	962	4,312	1,247
EBITDA Margin %	6.5%	14.5%	12.8%	10.3%	11.2%	13.2%	15.2%	14.9%	11.1%	13.6%	15.0%
YoY	30.7%	137.7%	96.4%	141.2%	104.7%	172.1%	26.7%	43.7%	33.9%	51.9%	73.5%
Standalone	436	510	379	392	1,717	407	423	437	447	1,712	
EBITDA Margin %	25.5%	24.8%	18.1%	17.2%	21.1%	16.3%	16.5%	15.8%	15.2%	15.9%	
Others (Consolidated - Standalone)	(77)	427	445	326	1,121	572	765	747	516	2,599	
EBITDA Margin %	-2.0%	9.7%	10.3%	6.9%	6.5%	11.7%	14.6%	14.5%	9.0%	12.4%	
D&A	(387)	(392)	(275)	(273)	(1,326)	(272)	(282)	(301)	(339)	(1,195)	(301)
EBIT	(27)	546	549	446	1,513	706	906	882	624	3,117	945
EBIT Margin %	-0.5%	8.4%	8.5%	6.4%	6.0%	9.5%	11.6%	11.1%	7.2%	9.8%	11.4%
Other Income	12	30	12	14	67	65	(25)	76	(43)	73	76
Fx gains/(loss)	-	-	-	-	-	220	220	(185)	0	255	(100)
Finance Costs	(141)	(19)	(64)	(22)	(246)	(156)	(86)	(209)	(214)	(666)	(209)
PBT	(157)	556	497	437	1,334	834	1,014	564	367	2,779	712
YoY	-167.8%	65.9%	55.5%	240.2%	141.8%	-633.1%	82.2%	13.6%	-16.1%	170.6%	62.9%
Income Tax Expense	(28)	(168)	(120)	(265)	(580)	(220)	(45)	(162)	(191)	(617)	(406)
Rate %	-17.6%	30.3%	24.1%	60.5%	43.5%	26.3%	4.4%	28.7%	52.0%	22.2%	57.0%
Exceptional Items					-			(216)	189	(216)	
Minority Interest	210	(42)	(59)	(12)	97	(170)	(319)	-	20	(469)	
Net Profit to Shareholders	26	346	318	160	851	445	650	187	385	1,478	306
Net Margin%	0.5%	5.3%	5.0%	2.3%	3.3%	6.0%	8.3%	2.4%	4.4%	4.6%	3.7%
YoY	-87%	29%	37%	288%	16%	1618%	88%	-41%	140%	74%	91%

Source: Company, Axis Capital

Exhibit 4: 1-yr forward P/E chart (last 2 years)


Source: Bloomberg, Axis Capital

Exhibit 5: 1-yr forward P/E chart (last 5 years)


Source: Bloomberg, Axis Capital

Financial summary (Consolidated)

Profit & Loss (Rs mn)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Net sales	25,406	31,776	36,500	40,009	43,000
Other operating income	-	-	-	-	-
Total operating income	25,406	31,776	36,500	40,009	43,000
Cost of goods sold	(10,139)	(12,460)	(14,721)	(16,136)	(17,342)
Gross profit	15,267	19,316	21,779	23,873	25,658
Gross margin (%)	60	61	60	60	60
Total operating expenses	(12,428)	(14,649)	(16,479)	(17,573)	(18,858)
EBITDA	2,839	4,667	5,300	6,300	6,800
EBITDA margin (%)	11	15	15	16	16
Depreciation	(514)	(1,195)	(1,415)	(1,631)	(1,866)
EBIT	1,512	3,473	3,885	4,669	4,934
Net interest	(244)	(593)	(601)	(378)	(182)
Other income	65	255	-	-	-
Profit before tax	1,334	3,135	3,284	4,291	4,752
Total taxation	(580)	(617)	(887)	(1,159)	(1,283)
Tax rate (%)	44	20	27	27	27
Profit after tax	754	2,518	2,397	3,132	3,469
Minorities	97	(469)	-	-	-
Profit/ Loss associate co(s)	-	-	-	-	-
Adjusted net profit	850	2,049	2,397	3,132	3,469
Adj. PAT margin (%)	3	6	7	8	8
Net non-recurring items	-	(27)	-	-	-

Balance Sheet (Rs mn)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	29	90	90	90	90
Reserves & surplus	5,242	7,950	10,235	13,255	16,589
Net worth	5,271	8,040	10,325	13,345	16,679
Borrowing	5,496	7,841	6,141	4,041	1,432
Other non-current liabilities	4,388	3,645	3,645	3,645	3,645
Total liabilities	16,568	19,638	20,223	21,143	21,868
Gross fixed assets	9,527	11,602	13,427	15,427	17,577
Less: Depreciation	(1,824)	(3,019)	(4,433)	(6,065)	(7,931)
Net fixed assets	7,703	8,583	8,993	9,362	9,646
Add: Capital WIP	130	133	133	133	133
Total fixed assets	7,832	8,716	9,126	9,496	9,780
Total Investment	0	0	0	0	0
Inventory	6,695	7,709	8,856	9,707	10,433
Debtors	3,562	4,355	5,003	5,484	5,894
Cash & bank	3,277	3,716	1,514	1,522	1,549
Loans & advances	-	-	-	-	-
Current liabilities	10,708	13,907	13,324	14,114	14,836
Net current assets	6,179	6,792	6,966	7,517	7,958
Other non-current assets	2,557	4,130	4,130	4,130	4,130
Total assets	16,568	19,638	20,223	21,143	21,868

Source: Company, Axis Capital

Cash Flow (Rs mn)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,431	2,284	3,284	4,291	4,752
Depreciation & Amortisation	1,326	1,195	1,415	1,631	1,866
Chg in working capital	360	(2,687)	(817)	(543)	(414)
Cash flow from operations	2,536	174	2,996	4,221	4,921
Capital expenditure	(1,067)	(3,313)	(1,825)	(2,000)	(2,150)
Cash flow from investing	(3,205)	(3,204)	(1,825)	(2,000)	(2,150)
Equity raised/ (repaid)	437	1,193	-	-	-
Debt raised/ (repaid)	279	3,462	(3,260)	(2,100)	(2,609)
Dividend paid	(88)	(90)	(112)	(112)	(135)
Cash flow from financing	808	3,265	(3,372)	(2,212)	(2,744)
Net chg in cash	139	235	(2,202)	8	27

Key Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL					
FDEPS (Rs)	19.4	45.6	53.3	69.7	77.2
CEPS (Rs)	49.6	71.6	84.8	106.0	118.7
DPS (Rs)	2.0	2.0	2.5	2.5	3.0
Dividend payout ratio (%)	10.3	4.4	4.7	3.6	3.9
GROWTH					
Net sales (%)	153.8	25.1	14.9	9.6	7.5
EBITDA (%)	104.8	64.4	13.6	18.9	7.9
Adj net profit (%)	(20.4)	141.0	17.0	30.7	10.8
FDEPS (%)	(20.4)	135.0	17.0	30.7	10.8
PERFORMANCE					
RoE (%)	18.2	30.8	26.1	26.5	23.1
RoCE (%)	9.6	20.6	19.5	22.6	22.9
EFFICIENCY					
Asset turnover (x)	2.7	3.0	2.9	2.8	2.6
Sales/ total assets (x)	1.0	1.0	1.1	1.2	1.2
Working capital/ sales (x)	0.1	0.1	0.1	0.1	0.1
Receivable days	51.2	50.0	50.0	50.0	50.0
Inventory days	108.3	103.8	103.6	105.1	105.2
Payable days	63.3	72.3	72.1	73.2	73.2
FINANCIAL STABILITY					
Total debt/ equity (x)	0.9	1.1	0.7	0.3	0.1
Net debt/ equity (x)	0.4	0.6	0.5	0.2	0.0
Current ratio (x)	1.6	1.5	1.5	1.5	1.5
Interest cover (x)	6.2	5.9	6.5	12.4	27.1
VALUATION					
PE (x)	74.6	31.8	27.1	20.8	18.8
EV/ EBITDA (x)	24.2	14.8	13.2	10.7	9.6
EV/ Net sales (x)	2.7	2.2	1.9	1.7	1.5
PB (x)	12.0	8.1	6.3	4.9	3.9
Dividend yield (%)	0.1	0.1	0.2	0.2	0.2
Free cash flow yield (%)	2.3	(4.8)	1.8	3.4	4.3

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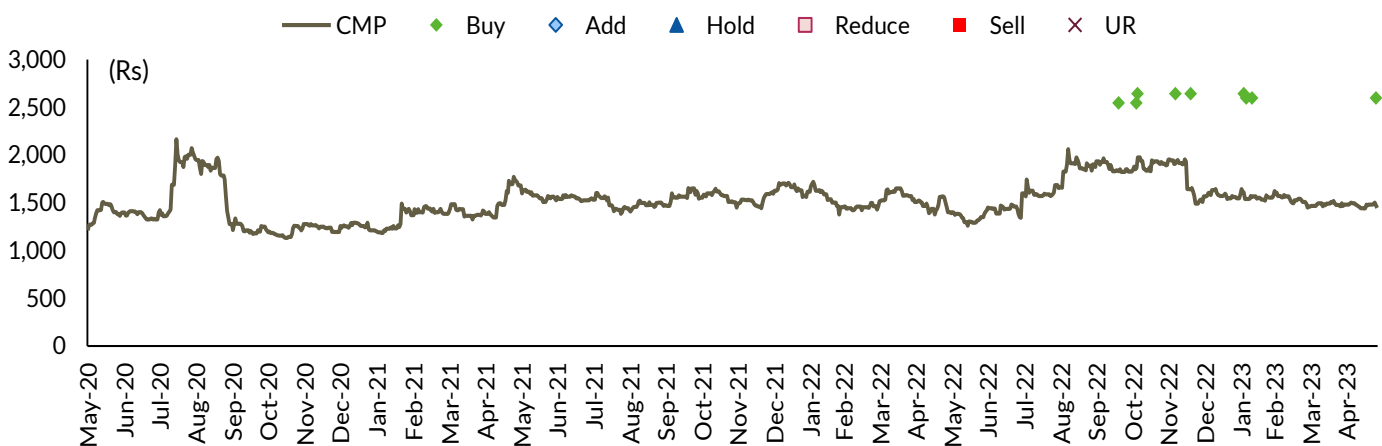
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DEFINITION OF RATINGS

Ratings	Expected absolute returns over 12 months
BUY	More than 15%
ADD	Between 5% to 15%
REDUCE	Between 5% to -10%
SELL	More than -10%

GMM Pfaudler (GMMP BO, GMM IB) Price and Recommendation History



Date	Target Price	Reco	Date	Target Price	Reco	Date	Target Price	Reco	Date	Target Price	Reco
19-Oct-22	2,548	Buy									
03-Nov-22	2,548	Buy									
04-Nov-22	2,644	Buy									
06-Dec-22	2,644	Buy									
19-Dec-22	2,644	Buy									
02-Feb-23	2,644	Buy									
04-Feb-23	2,600	Buy									
09-Feb-23	2,600	Buy									
25-May-23	2,600	Buy									

Source: Axis Capital