

GMM Pfaudler | BUY



Ramp up in recent acquisitions to drive growth

GMM Pfaudler reported a miss on EBITDA margins. Net sales recorded growth of 24% YoY to INR8.7bn, 7% above JMFe, given strong execution in standalone sales (+28% YoY), while international segment also grew at healthy pace of 17% YoY. Consolidated EBITDA was up 34% YoY, but was 19% below JMFe, as margins saw a sharp QoQ compression to 11.1% (14.9% in 3Q23), even as they are up YoY. International segment margins declined to 8% vs 12.7% in 3QFY23, while domestic margins sustained at 15%. Order intake grew 69%YoY to INR7.9bn, on a lower base, while order book stood at INR21.6bn (0.7x TTM sales), up 12% YoY. Management highlighted that demand has softened in near term from domestic pharma/chemicals segment, but a ramp up in recent acquisitions (Hydro Air, JDS Manufacturing, Mixel), market share gains in China and increased global sourcing from India should drive growth for the company. For FY24, the company guided for revenue growth of 15% and EBITDA margin improvement of 100bps (13.6% in FY23), while it maintained its FY25 targets: Revenue at INR37bn, EBITDA at INR6.3bn (margin: 17%) and RoCE at 25%. We maintain BUY with revised TP of INR1,800 (25x Mar'25E EPS).

- Better execution drives growth in domestic and international market:** Consolidated net sales posted growth of 24% YoY to INR 8.7bn, while standalone entity posted growth of 28% YoY to INR2.9bn. International segment sales grew by 17% YoY, mainly led by increased sourcing from India, as we observe a jump in related party transactions.
- Margin improvement to follow going forward:** Consolidated EBITDA was up 34% YoY, as operating margins stood at 11.1%, due to high raw material costs sequentially. The miss came in largely from international segment (margins at 8.8% vs 12.7% in 3QFY23), even as standalone margins sustained at 15%. Management expects margins to improve by 100bps in FY24 and further 250bps in FY25 due to **a)** reducing key raw material prices (steel and gas), **b)** new orders (particularly in Heavy Engineering) taken at better pricing levels and **c)** improvement in product mix (higher GL segment growth).
- Consolidating entities under one head:** The company completed acquisition of Mixel France SAS (3rd acquisition in FY23) in a bid to acquire complimentary businesses such as mixing. This would provide technical knowhow and provide access to the segments like mixing business to Europe and China and new segments like water treatment, mining and biogas. Management highlighted that sales could double or triple over next few years as it integrates products in mixing businesses across various entities.
- Maintain BUY with revised TP of INR1,800:** We forecast sales/EPS CAGR of 10%/33% over FY23-25E given **a)** scale up in non-GL segments and new acquisitions and **b)** steady improvement in margin profile due to normalisation of mix and reduction in key RM prices. We maintain BUY with revised TP of INR 1,800, as we cut our target PE multiple to 25x FY25E (vs 30x FY25E earlier) as acquisition of 46% balance stake in PFI and ramp up in new businesses acquired are likely to increase revenue share from international segment, which is likely to reduce blended revenue growth over FY23-25.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,800
Upside/(Downside)	24.3%
Previous Price Target	2,000
Change	-10.0%

Key Data – GMM IN

Current Market Price	INR1,448
Market cap (bn)	INR65.1/US\$0.8
Free Float	61%
Shares in issue (mn)	43.8
Diluted share (mn)	44.9
3-mon avg daily val (mn)	INR93.4/US\$1.1
52-week range	2,190/1,251
Sensex/Nifty	62,502/18,499
INR/US\$	82.6

Price Performance

%	1M	6M	12M
Absolute	-2.1	-24.1	-0.7
Relative*	-4.2	-23.9	-12.8

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Sales	10,011	25,405	31,776	35,683	38,825
Sales Growth (%)	69.4	153.8	25.1	12.3	8.8
EBITDA	1,843	3,303	4,312	5,167	6,010
EBITDA Margin (%)	18.4	13.0	13.6	14.5	15.5
Adjusted Net Profit	1,126	1,323	1,813	2,538	3,225
Diluted EPS (INR)	25.7	30.2	40.3	56.5	71.7
Diluted EPS Growth (%)	58.4	17.5	33.6	40.0	27.1
ROIC (%)	29.2	20.2	24.3	22.7	26.3
ROE (%)	30.0	28.3	27.2	28.1	28.4
P/E (x)	56.4	48.0	35.9	25.6	20.2
P/B (x)	15.6	12.0	8.1	6.5	5.2
EV/EBITDA (x)	36.3	20.3	15.8	12.8	10.7
Dividend Yield (%)	0.5	0.6	0.7	0.8	1.0

Source: Company data, JM Financial. Note: Valuations as of 26/May/2023

JM Financial Research is also available on:
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Quarterly performance- Consolidated

Y/E March (INR mn)	4QFY22	4QFY23	YoY (%)	3QFY23	QoQ (%)	4QFY23E	Var (%)	FY22	FY23	YoY (%)
Net Sales	6,993	8,660	23.8	7,923	9.3	8,073	7.3	25,405	31,776	25.1
Expenditure	6,275	7,698	22.7	6,740	14.2	6,889	11.7	22,102	27,464	24.3
EBITDA	718	962	34.0	1,184	-18.7	1,184	-18.7	3,303	4,312	30.5
EBITDA (%)	10.3	11.1	80bps	14.9	-380bps	14.7	-360bps	13.0	13.6	60bps
Other income	14	146	953.2	76	93.9	53	176.0	67	292	333.4
Depreciation	203	339	67.1	301	12.3	300	12.8	810	1,085	33.9
EBIT	529	770	45.5	958	-19.6	937	-17.8	2,561	3,519	37.4
Interest	22	214	856.3	209	2.5	207	3.3	246	666	170.6
PBT before Eol	507	556	9.6	749	-25.8	729	-23.8	2,315	2,853	23.2
Eol	-220	-	-	-400	-	-	-	-1,131	10	-
PBT	287	556	93.7	349	59.5	730	-23.9	1,183	2,863	141.9
Tax	115	191	66.7	162	18.0	255	-25.3	430	617	43.5
Tax rate (%)	22.6	34.4	-	21.6	-	35.0	-	18.6	21.6	-
PAT before MI/SA	172	365	111.6	187	95.4	474	-23.1	753	2,245	198.0
Minority Interest	12	-20	-	-	-	-	-	-97	469	-
PAT after MI/SA	160	385	140.3	187	106.1	474	-18.9	850	1,777	108.9
Reported EPS (INR)	3.6	8.6	140.3	4.2	106.1	10.5	-18.9	18.9	39.5	108.9
Adj PAT	268	385	43.8	529	-27.2	474	-18.8	1,323	1,796	35.7
Adj EPS (INR)	6.0	8.6	43.8	11.8	-27.2	10.5	-18.8	29.4	40.0	35.7

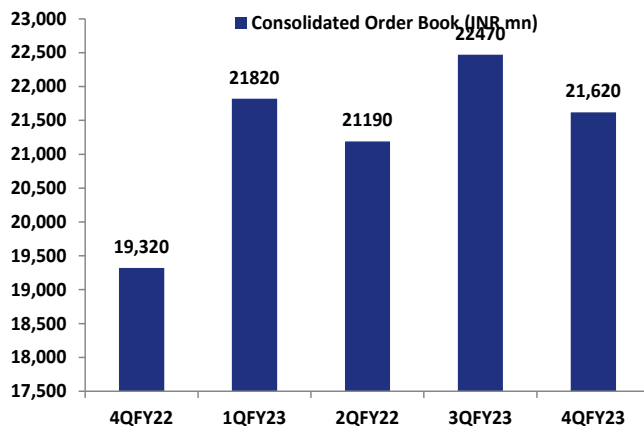
Source: Company, JM Financial

Exhibit 2. Cost break-up- Consolidated

Y/E March (INR mn)	4QFY22	4QFY23	YoY (%)	3QFY23	QoQ (%)	4QFY23E	Var (%)	FY22	FY23	YoY (%)
COGS	3,106	3,864	24.4	3,364	14.9	3,457	11.8	10,401	13,795	32.6
as a % of sales	44.4	44.6	20bps	42.5	220bps	42.8	180bps	41	43	250bps
Staff Cost	1,874	2,203	17.6	2,018	9.2	2,228	-1.1	7,134	7,916	11.0
as a % of sales	26.8	25.4	-130bps	25.5	0bps	27.6	-220bps	28	25	-320bps
Other Expenditure	1,296	1,630	25.8	1,357	20.1	1,204	35.4	4,567	5,753	26.0
as a % of sales	18.5	18.8	30bps	17.1	170bps	14.9	390bps	18	18	10bps

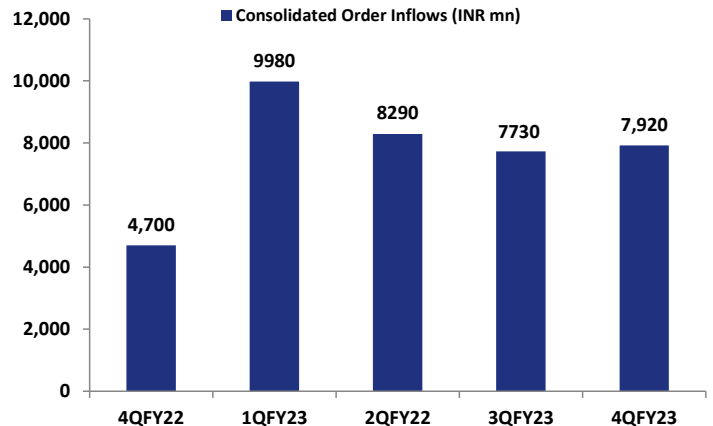
Source: JM Financial, Company

Exhibit 3. OB increased to INR 21.6bn, 0.7x TTM sales



Source: Company, JM Financial

Exhibit 4. Order inflows came in INR 7.9bn, 69% YoY



Source: Company, JM Financial

Key Concall Highlights:

- **Targeting 15% revenue growth in FY24, reiterated FY25 guidance:** Management reiterated their revenue growth guidance of 15% in FY24 with 100bps margin accretion. Also, they maintained FY25 guidance: Revenue of INR37bn and EBITDA of INR6.3bn, but are witnessing some slowdown in pharma and chemicals industry in India. Growth outlook remains intact from a long term perspective, currently demand in Europe and Germany is slow, but other countries are witnessing healthy demand to create local capacity. Current order book provides visibility 8-9 month in most of the geographies, but domestically it remains low at 6-7 months.
- **Acquisitions to complement existing operations:** The company closed three acquisitions in FY23 in order to increase product offerings to its customers and does not plan to incur any further capex in the near term. Acquisitions made were **a)** HydroAir with revenues of USD7-8 and is performing well, expect it to double in 4 years, **b)** Mixel in Feb'23, which did revenue of EUR15mn and is expected to double in 3-5 years as backlog is strong and **c)** JDS Manufacturing (consolidated since Nov'22), which is small in revenue terms and caters to spares/aftermarket demand in IUSA and will be ramping up revenue. Further, they highlighted that important opportunity is growing in mixing business in scale similar to glass lining business and it is ideal from company's perspective to put it under one global umbrella and combining with GMM's mixing business.
- **Bio-plastics and lithium possess large opportunity:** Management highlighted that opportunities in these areas are humongous and company has done acquisition of membrane separation technology in USA. In lithium, the company has large project for USD10mn for acid recovery systems. The company is expanding scope to lithium from traditional chemicals business. In India, the company is executing a large for Hindalco FGD plant and acid that comes of their plants can be used or sold in the market.
- **Improving capacity utilisation in domestic facilities:** Management highlighted that both factories in Vatva and Hyderabad are operational and fetched revenues of INR3bn. The company has operational excellence completed in Vatva and started in Hyderabad as well. Further, the cost reduction measures continued across geographies and is complemented by reduction in metal and energy price benefits, which will benefit margins in FY24.
- **Other key points:** **a)** Management is looking to increase promoter stake to 30% (24.2% currently), but its dependent on a lot of factors, but immediately looking to go to 25%+ by purchasing 1% stake from DBAG (post regulatory approval), **b)** Market share is stable in India GL segment and increased in India mixing and China GL segment. Indian market share stood at 50%+, China is sub 10%, Europe at 40% and USA at 30-35%, **c)** the company reported strong growth in mixing business and evaporator has also done well. Its also witnessing high growth in non-GL business, where it achieved revenues of INR1.5bn in mixing in India which was earlier just INR300mn and **d)** Acquisition of 46% stake in GMM International led to additional INR1.8bn borrowing, while additional working capital increased debt by INR500mn in India. However, net debt to EBITDA stood at 1x and net debt to equity at 0.7x and pension liabilities reduced from INR3.7bn to Rs2.8bn, due to higher interest rates.

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Sales	10,011	25,405	31,776	35,683	38,825	
Sales Growth	69.4%	153.8%	25.1%	12.3%	8.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	10,011	25,405	31,776	35,683	38,825	
Cost of Goods Sold/Op. Exp	4,490	10,401	13,795	14,987	16,112	
Personnel Cost	2,075	7,134	7,916	8,976	9,708	
Other Expenses	1,603	4,567	5,753	6,553	6,995	
EBITDA	1,843	3,303	4,312	5,167	6,010	
EBITDA Margin	18.4%	13.0%	13.6%	14.5%	15.5%	
EBITDA Growth	65.9%	79.2%	30.5%	19.9%	16.3%	
Depn. & Amort.	382	810	1,085	1,356	1,451	
EBIT	1,462	2,494	3,227	3,812	4,559	
Other Income	235	67	292	350	385	
Finance Cost	102	246	666	732	586	
PBT before Excep. & Forex	1,595	2,315	2,853	3,429	4,358	
Excep. & Forex Inc./Loss(-)	-916	-1,131	10	0	0	
PBT	679	1,183	2,863	3,429	4,358	
Taxes	45	430	617	892	1,133	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-100	-97	469	0	0	
Reported Net Profit	734	850	1,777	2,538	3,225	
Adjusted Net Profit	1,126	1,323	1,813	2,538	3,225	
Net Margin	11.2%	5.2%	5.7%	7.1%	8.3%	
Diluted Share Cap. (mn)	43.8	43.8	44.9	44.9	44.9	
Diluted EPS (INR)	25.7	30.2	40.3	56.5	71.7	
Diluted EPS Growth	58.4%	17.5%	33.6%	40.0%	27.1%	
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	FY23A	FY24E	FY25E	
Shareholders' Fund	4,071	5,271	8,040	10,039	12,634	
Share Capital	29	29	90	90	90	
Reserves & Surplus	4,042	5,242	7,950	9,949	12,544	
Preference Share Capital	0	0	0	0	0	
Minority Interest	1,233	1,413	112	112	112	
Total Loans	4,917	5,049	7,969	6,375	5,100	
Def. Tax Liab. / Assets (-)	171	386	590	590	590	
Total - Equity & Liab.	10,392	12,120	16,712	17,117	18,437	
Net Fixed Assets	10,406	10,147	12,466	11,910	12,260	
Gross Fixed Assets	11,210	11,805	15,208	16,008	17,808	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	848	1,657	2,742	4,098	5,548	
Capital WIP	44	0	0	0	0	
Investments	7	1	0	0	0	
Current Assets	13,409	17,026	20,962	24,111	26,446	
Inventories	5,849	6,695	7,709	9,287	10,105	
Sundry Debtors	3,096	3,562	4,355	5,377	5,850	
Cash & Bank Balances	2,923	3,277	3,716	4,069	4,641	
Loans & Advances	849	3,491	23	5,377	5,850	
Other Current Assets	692	0	5,158	0	0	
Current Liab. & Prov.	13,430	15,054	16,716	18,904	20,269	
Current Liabilities	7,515	7,566	8,197	8,639	9,100	
Provisions & Others	5,915	7,489	8,518	10,265	11,169	
Net Current Assets	-21	1,971	4,246	5,206	6,177	
Total - Assets	10,392	12,120	16,712	17,117	18,437	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Profit before Tax	679	1,334	2,752	3,429	4,358	
Depn. & Amort.	506	1,326	1,195	1,356	1,451	
Net Interest Exp. / Inc. (-)	69	244	665	0	0	
Inc (-) / Dec in WCap.	15	-836	-2,189	-550	-344	
Others	515	1,015	170	0	0	
Taxes Paid	-215	-719	-745	-892	-1,133	
Operating Cash Flow	1,567	2,364	1,848	3,343	4,331	
Capex	-775	-1,288	-688	-800	-1,800	
Free Cash Flow	792	1,077	1,159	2,543	2,531	
Inc (-) / Dec in Investments	116	122	-2,423	0	0	
Others	0	0	0	0	0	
Investing Cash Flow	-659	-1,166	-3,111	-800	-1,800	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-73	-72	0	-539	-629	
Inc / Dec (-) in Loans	1,122	-46	3,544	-1,594	-1,275	
Others	202	-726	-2,245	-57	-55	
Financing Cash Flow	1,251	-844	1,299	-2,190	-1,960	
Inc / Dec (-) in Cash	2,159	355	36	353	571	
Opening Cash Balance	764	2,923	3,277	3,716	4,069	
Closing Cash Balance	2,923	3,277	3,716	4,069	4,641	

Source: Company, JM Financial

Dupont Analysis		FY21A	FY22A	FY23A	FY24E	FY25E
Y/E March						
Net Margin	11.2%	5.2%	5.7%	7.1%	8.3%	
Asset Turnover (x)	1.1	1.6	1.8	1.8	1.9	
Leverage Factor (x)	2.5	3.3	2.7	2.2	1.8	
RoE	30.0%	28.3%	27.2%	28.1%	28.4%	

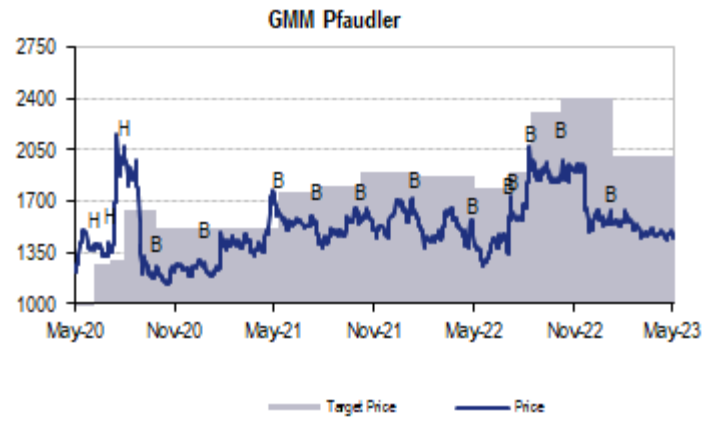
Key Ratios		FY21A	FY22A	FY23A	FY24E	FY25E
Y/E March						
BV/Share (INR)	92.9	120.2	178.9	223.3	281.1	
ROIC	29.2%	20.2%	24.3%	22.7%	26.3%	
ROE	30.0%	28.3%	27.2%	28.1%	28.4%	
Net Debt/Equity (x)	0.5	0.3	0.5	0.2	0.0	
P/E (x)	56.4	48.0	35.9	25.6	20.2	
P/B (x)	15.6	12.0	8.1	6.5	5.2	
EV/EBITDA (x)	36.3	20.3	15.8	12.8	10.7	
EV/Sales (x)	6.7	2.6	2.1	1.9	1.7	
Debtor days	113	51	50	55	55	
Inventory days	213	96	89	95	95	
Creditor days	132	65	71	70	71	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jun-20	Hold	1,265	
30-Jul-20	Hold	1,299	2.6
26-Aug-20	Hold	1,632	25.6
21-Oct-20	Buy	1,515	-7.1
20-Jan-21	Buy	1,515	0.0
2-Jun-21	Buy	1,765	16.5
12-Aug-21	Buy	1,798	1.9
31-Oct-21	Buy	1,898	5.6
7-Feb-22	Buy	1,865	-1.8
26-May-22	Buy	1,782	-4.5
29-Jul-22	Buy	1,900	6.6
5-Aug-22	Buy	1,900	0.0
7-Sep-22	Buy	2,300	21.1
4-Nov-22	Buy	2,400	4.3
3-Feb-23	Buy	2,000	-16.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REIT refers to Real Estate Investment Trusts.

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