

BUY (NO CHANGE)

Current Price (Rs)	: 1,452
Target Price (Rs)	: 2,230 (no chg)
Potential Upside	: 54%

Market Data

No. of shares	: 45 mn
Free Float	: 61.3%
Market Cap (USD)	: 789 mn
52-week High/ Low (Rs)	: 2,190/ 1,415
Avg. Daily Volume (6M)	: 0.08 mn
Avg. Daily Value (6M;USD)	: 0.13 mn
Bloomberg Code	: GMM IB
Promoters Holding	: 38.7%
FII / DII	: 19% / 9%

Price Performance

(%)	1M	3M	12M
Absolute	(1.4)	(0.7)	(8.8)
Relative	(2.0)	(6.7)	(20.5)

Source: Bloomberg

Q1FY24 PAT at Rs 550 mn was up +23% YoY and was 8% ahead of expectations. Order inflow at Rs 7.7bn was down 23% YoY while the order backlog was down 8% YoY. Management reiterated it will surpass revenue and meet its EBITDA guidance for FY25. Beyond FY25, management aspires to grow revenue at 13-15% and EBITDA at 18-20%. We keep the faith and maintain **BUY** with a TP of Rs 2,230 at 32x Mar'25E.

Q1FY24 PAT 8% ahead of expectations

- Q1FY24 PAT at Rs 550 mn +23% YoY was 8% ahead of expectations on revenue of Rs 9.1 bn, +23% YoY and 7% ahead of expectations, and EBITDA margin of 14.5%, up 125 bps YoY and 49 bps ahead of expectations.
- The 289 bps EBITDA margin improvement to 14.5% in the consolidated ex standalone business, driven by strong execution, pricing improvements, favorable revenue-mix (higher services share), and lower costs (raw material and energy).
- The 198 bps EBITDA margin decline to 14.4% in the standalone business, driven by lower exports (which is a higher-margin business), slower execution (leading to negative operating leverage), and competitive pressures.

Subdued inflows, but decent opportunity pipeline

- Order inflows at Rs 7.7 bn, down 23% YoY, was subdued due to general weakness in the chemical sector.
- The opportunity pipeline remains strong across all businesses and management expects some of the customer decision-making which have been delayed will come through in the next quarter.
- Order backlog at Rs 20.1 bn was down 8% YoY and translates to eight to nine months of visibility in international and around six months of visibility in India.
- Management highlighted that it is not seeing significant cancellations of projects, but customers are taking longer to finalize, especially in the chemicals space.

Management guidance and looking beyond FY25

- Management has reiterated that the company remains on track to surpass the FY25 revenue guidance of Rs 37 bn and meet the EBITDA guidance of Rs 6.3 bn.
- Beyond FY25, management aspires to grow revenue at 13-15% and EBITDA at 18-20%.
- This growth beyond FY25 will be driven by further diversification and ramping-up of the non-GLE businesses and catering to newer geographies.

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)	-	-	54.9	70.7	77.2
EPS (Rs)	19.4	45.6	53.3	69.7	77.2
Change YoY (%)	(20)	135	17	31	11
Previous EPS (Rs)	-	-	53.3	69.7	77.2
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)	74.9	31.9	27.2	20.8	18.8
EV/E (x)	24.3	14.9	13.2	10.8	9.6

Source: *Consensus broker estimates, Company, Axis Capital

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Results conference call takeaways

Order and Industry outlook

- The current order backlog gives eight to nine months of visibility in international business and six months in the India business.
- Chemical (majorly) and pharmaceutical industries seeing a slowdown – the reason for decline in order intake. Hence, management is adopting diversification strategies away from GLE. In Q1FY24, the company won new orders in heavy engineering and mixing.
- The past four to five years were an upcycle in chemicals capex, and given the cyclical nature of these industries, a slowdown cannot be avoided.
- Not seeing cancellations of projects, but customers are taking longer to finalize, especially in the chemicals space.

On domestic business margins

- Historically, the India business has seen a slow Q1. Additionally, a lower share of exports, increased competitive intensity, and slowdown in chemical capex led to added pressures.
- Adopting more aggressive strategies through Q2 and targeting 15-16% EBITDA margin in FY24 for the India business.
- Steel and energy prices have cooled off; however, steel prices remain above 2021 levels.

On international business margins

- EBITDA margin improvement driven by a favorable business-mix due to an uptick in the services business (high margins) and lower steel and energy costs.
- Steel and energy prices have cooled off, back to older levels.

Guidance

- Management is confident of surpassing FY25 revenue guidance, and is on track to meet the FY25 EBITDA guidance.
- Beyond FY25, management is aspiring to clock in 13-15% CAGR in revenue and 18-20% CAGR in EBITDA, driven by a ramp-up in the non-GLE business and catering to newer geographies; and the India business growth (17-18% CAGR in revenues and 20% CAGR in EBITDA) will outpace international business.
- Interest cost: Rs 8 bn debt (Rs 5 bn net debt) at an interest rate of 7.7-7.8%, should account for Rs 600-640 mn interest cost for FY24, Q1 number at Rs 203 mn factors in some bank charges as well.
- Capex: 2-3% maintenance capex is sufficient to achieve FY25 guidance. To grow beyond FY25, will incur 3-5% of revenue as capex, for both growth as well as to meet maintenance requirements.
- Effective tax rate for the year 26-27%, higher rate in Q1 due to deferred tax impact.

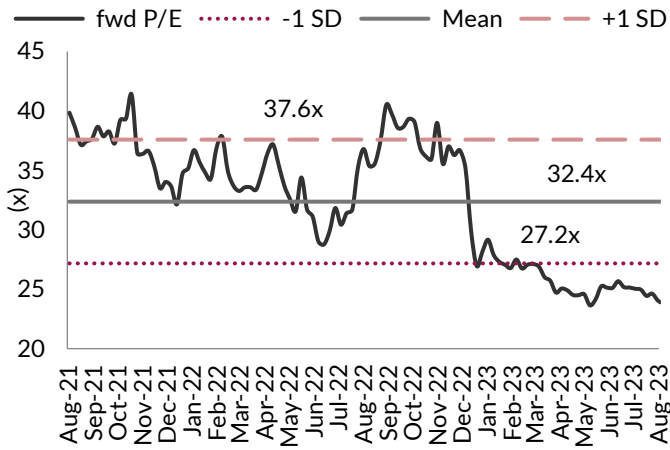
Other takeaways

- Update on 1% stake by the Patel family at Rs 1,700/share – pending French FDI approval.
- Hoping to get approval by Sep'23; remains committed to this agreement

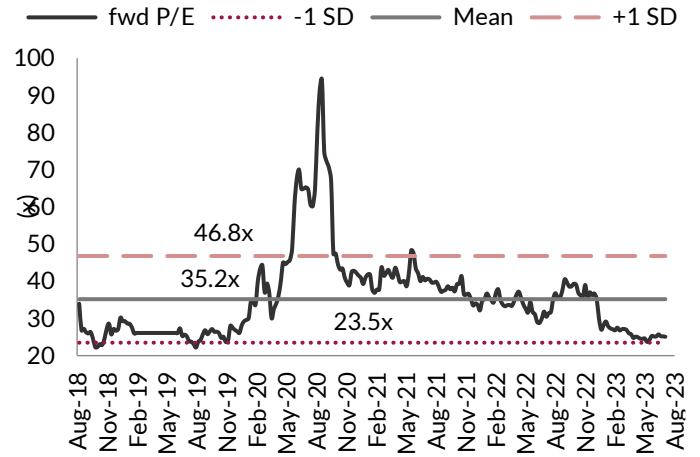
Exhibit 1: GMM Pfaudler Q1FY24 results review

Year End March31 (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	FY23	Q1FY24	Q1FY24E
Order Inflow	9,980	8,290	7,730	7,920	33,920	7,700	
YoY	23%	6%	-14%	69%	15%	-23%	
Order Backlog	21,820	21,190	22,470	21,620	21,620	20,130	
YoY	27%	17%	9%	12%	12%	-8%	
Net Revenues	7,392	7,801	7,923	8,660	31,776	9,123	8,501
YoY	34%	21%	23%	24%	25%	23%	15%
Standalone	2,490	2,561	2,766	2,931	10,748	2,802	2,913
YoY	45.3%	24.4%	32.4%	28.2%	31.9%	12.5%	17.0%
Others	4,902	5,239	5,157	5,729	21,028	6,321	5,588
YoY	28.9%	18.7%	19.0%	21.7%	21.8%	28.9%	14.0%
Gross Profit	4,389	4,685	4,799	5,087	18,960	5,389	5,190
GP Margin %	59.4%	60.1%	60.6%	58.7%	59.7%	59.1%	61.0%
YoY	31%	19%	23%	24%	24%	23%	18%
Employee Expenses	(1,856)	(1,838)	(2,018)	(2,203)	(7,916)	(2,241)	(2,100)
% of sales	25.1%	23.6%	25.5%	25.4%	24.9%	24.6%	24.7%
Manufacturing and other expenses	(1,556)	(1,658)	(1,597)	(1,922)	(6,733)	(1,826)	(1,900)
% of sales	21.0%	21.3%	20.2%	22.2%	21.2%	20.0%	22.3%
Other expenses	(3,411)	(3,497)	(3,616)	(4,125)	(14,649)	(4,067)	(4,000)
% of sales	46.1%	44.8%	45.6%	47.6%	46.1%	44.6%	47.1%
EBITDA	978	1,188	1,184	962	4,312	1,321	1,190
EBITDA Margin %	13.2%	15.2%	14.9%	11.1%	13.6%	14.5%	14.0%
YoY	172.1%	26.7%	43.7%	33.9%	51.9%	35.1%	21.6%
Standalone	407	423	437	447	1,712	402	
EBITDA Margin %	16.3%	16.5%	15.8%	15.2%	15.9%	14.4%	
Others	572	765	747	516	2,599	919	
EBITDA Margin %	11.7%	14.6%	14.5%	9.0%	12.4%	14.5%	
D&A	(272)	(282)	(301)	(339)	(1,195)	(347)	(339)
EBIT	706	906	882	624	3,117	974	851
EBIT Margin %	9.5%	11.6%	11.1%	7.2%	9.8%	10.7%	10.0%
Other Income	65	(25)	76	(43)	73	87	50
Fx gains/(loss)	220	220	(185)		255		
Finance Costs	(156)	(86)	(209)	(214)	(666)	(203)	(214)
PBT	834	1,014	564	367	2,779	858	687
YoY	-633.1%	82.2%	13.6%	-16.1%	170.6%	2.9%	-17.7%
Income Tax Expense	(220)	(45)	(162)	(191)	(617)	(315)	(179)
Rate %	26.3%	4.4%	28.7%	52.0%	22.2%	36.7%	26.0%
Exceptional Items			(216)	189	(216)		
Minority Interest	(170)	(319)	-	20	(469)	7	
Net Profit to Shareholders	445	650	187	385	1,478	550	508
Net Margin%	6.0%	8.3%	2.4%	4.4%	4.6%	6.0%	6.0%
YoY	1618%	88%	-41%	140%	74%	23%	14%

Source: Company, Axis Capital

Exhibit 2: 1-year-forward P/E chart (past 2 years)


Source: Bloomberg, Axis Capital

Exhibit 3: 1-year-forward P/E chart (past 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)	74.9	31.9	27.2	20.8	18.8
EV/ EBITDA (x)	24.3	14.9	13.2	10.8	9.6
EV/ Net sales (x)	2.7	2.2	1.9	1.7	1.5
PB (x)	12.1	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	4.2

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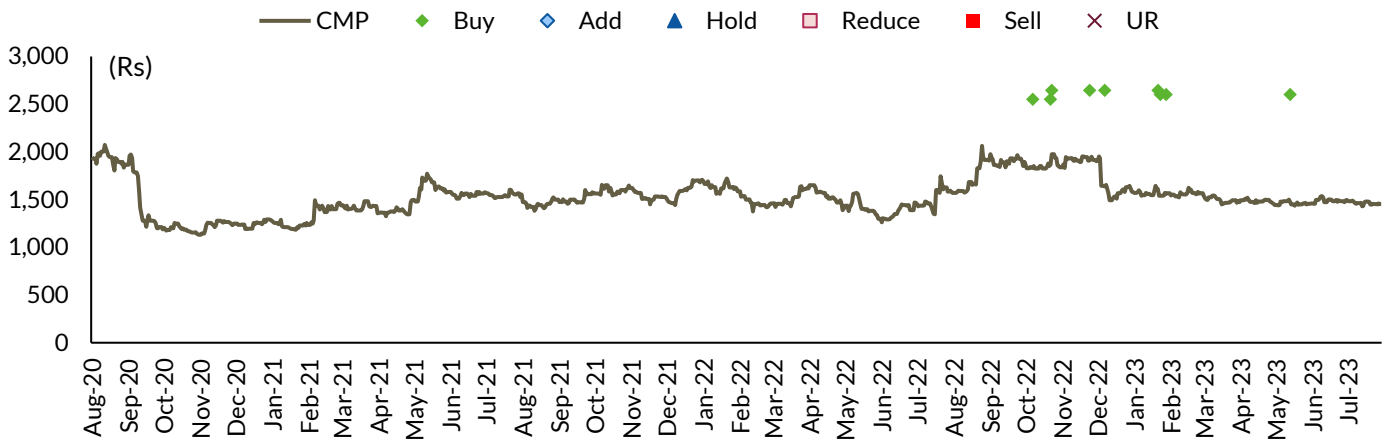
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DEFINITION OF RATINGS

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									
19-Dec-22	2,644	Buy									
02-Feb-23	2,644	Buy									
04-Feb-23	2,600	Buy									
09-Feb-23	2,600	Buy									
09-Feb-23	2,600	Buy									
25-May-23	2,600	Buy									
25-May-23	2,230	Buy									

Source: Axis Capital