

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs1508	67.8	Buy	Rs2000	33%

\*as on 16th Aug, 2023

### 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 Rs9123mn as compared to Rs7392mn in Q1FY23, growth of 23.4%
- The Ebitda margins for the quarter under review stood at 14.5% as compared to 13.2% in Q1FY23
- The company reported profit of Rs543mn as compared to Rs613mn in the same quarter last year
- The EPS for the quarter stood at Rs12.22 as compared to Rs10.15 in the corresponding period of last year

### Conference Call Highlights:

- The company has reported a strong start to the financial year and continues to remain on track to **meet the FY25 guidance**. The improvement in profitability during the quarter under review was driven by the international business with strong execution, pricing improvement, low raw materials and energy costs. The chemical industry has seen a **slowdown** due to which the order intake has been affected for the quarter under review; however, the opportunity pipelines continue to remain strong across all business platforms and geographies. The company has seen good traction in the technologies and services business (though slightly behind budget). There seems to be **delay in decision** making by some of the clients, which is anticipated to bounce back in a quarter or two
- The overall business of the company is **diverse** with a wider range of products in the portfolio with a number of clients catered to in various geographies. GMMP has been exploring newer market segments which is anticipated to help enter into new market segments. These initiatives will also reduce the dependence on chemical and Pharma segments in the long term
- While the competitive intensity has increased, GMMP has had a good **order intake** in Q1FY24. The **order backlog** stands at Rs20.13bn, down by ~7% on q-o-q basis which translates to ~3 quarters of visibility in the international business and ~2 quarter for the Indian business; while the order intake stood at Rs7.7bn, down by ~3% on q-o-q basis. The **order intake** remains subdued due to the general weakness in the chemical sector (which is a cyclical business); however, the opportunity pipeline remains strong across all business platforms and geographies
- The **long term** growth strategy of GMMP remains intact. The company will surpass the FY25 revenue guidance of Rs37bn with Ebitda of Rs6.3bn. Beyond FY25, Management is anticipating revenue growth to continue in the range of ~13-15% and Ebitda growth in the range of ~18-20%. The anticipated growth in revenue is expected from the **new geographies** which the company is currently exploring
- In the **GLE business**, GMMP is the market leader with high market share and Management is striving to sustain this. Currently ~60% revenues come from GLE and the company intends to maintain the market share. In the long run, the company will try and fetch one third for each of the business segments. As per the Management commentary, the non-glass line portfolio is growing faster and the services business continues to grow across geographies. Management is expecting the India business to grow faster than the international business. The company is expecting the India business revenue to increase at 17-18% and the Ebitda to grow at a CAGR of ~20%
- **Operational excellence projects** have been initiated at Mavag, Switzerland and Mixel. In addition to this, **cost reduction measures** also continue across geographies. Cost saving initiatives and operational excellence programs across the organization are anticipated to have a positive impact on margins going forward
- For the **international business**, the Management has put in a lot of efforts and initiatives especially in Germany, Italy and China; built a service network across the world; strengthened the system business; have been able to enter new markets and new geographies with products made in India. The overall strategy of growing into non-GLE application and technologies is playing out well for GMMP

**Conference Call Highlights (contd.):**

- The **acquisition** done in the space of the **mixing** has significant growth opportunities. The recently made acquisitions in Italy and France, are helping increase the overall intake, diversifying the industries catered to and is bringing an uptick in the performance of the overall business. GMMP has good priced orders with a significantly improved cost structure as compared to the last year
- The company has completed the first **acid recovery project** in India. The company has three acid recovery plans (in China, South Korea and in India) which they are working on; one such project is already commissioned in India where the recovery is much better than the committed agreement of ~80% (GMMP is delivering ~81.6% concentration). The company is working on multiple options and over time some of these will be converted into actual orders
- The Management intends to **stabilize the businesses** while making sure that the order intake is maintained and with a strategy of diversification GMMP will try to mitigate some of the risk associated with the same. The company is looking at setting up a **dedicated engineering centre** somewhere in India to cater to the global business needs. The concept of bringing engineering, documentation and calculation of resources to India is currently ongoing and the same is a long term story with a 3-5 years' horizon going forward
- Small M&A activity is a constant process at GMMP. The company has a very large mixing business namely Mixion in India, Mixel in France and China. In addition to this, the company is in the advanced stage of a small acquisition in North America. The company intends to launch a global brand and aim to grow this business significantly over the next 3-5 years
- The company is closely watching **mega trends** related to bio-plastic, bio proteins and mock meats and lithium batteries where the Management is seeing opportunities in bio proteins and lithium

**Financials:**

Performance (Q1FY24)							
Q1FY24 Result (Rs mn)	Jun-23	Jun-22	y-o-y	Mar-23	q-o-q	FY23	FY24E
Total Revenue	9123	7392	23.4%	8660	5.3%	31776	37495
EBITDA	1321	978	35.1%	962	37.3%	4312	5343
Other Income	87	285	(69.5%)	146	-	517	371
Interest	203	156	29.9%	214	(5.2%)	666	795
Depreciation	347	272	27.4%	339	2.5%	1195	1323
Exceptional Items	0	0	-	0	-	216	0
Tax	315	221	42.5%	191	65.2%	617	1007
Net Profit	543	613	(11.5%)	365	48.8%	2135	2589

**Outlook and Recommendations:**

GMMP continues to be a resilient technology leader with a very strong brand recall and is the first choice as an integrated player in corrosion resistance technologies for many players in Europe and US. GMMP is doing well on the international frontiers with good operational as well as profitable growth. The company is working towards cost control measures across various geographies to mitigate the issues related to commodity and energy costs etc. GMMP intends to leverage its strength of high market share, best in class technology coupled with a global sales & service network. Value sourcing will continue to be the key to the bottom-line accreditation for GMMP. The Management is targeting to be debt free by FY28E which is a conservative target as the cash flow generated over the period of time can help reduce the debt burden. The Management is focused on mixing and wants to create a global brand to become one of the top three global players. All the recent acquisitions made by the company will keep on adding to the anticipated guidance on the topline as well as the bottomline. With India being an integral part of the global sourcing programme, GMMP will be looking at entering newer geographies of Eastern Europe, South-East Asia, some parts of Africa etc. Apart from the maintenance capex, there are not many major capex plans chalked out by the company.

**Outlook and Recommendations (contd.):**

The Management is always on the look for smaller acquisitions (related to the mixing business) which can fit well with the synergies of GMMP. The soft diversification which the company is pursuing, will help even if there is a slowdown in one or two industries, the other can try and fill in the gaps created; this is a good mitigation plan to offset the total dependence on GLE business. By doing this, the Management has not only de-risked from the India centric focus, but also created a comfort zone with the overseas operations. While the company has been successful in maintaining the Ebitda and ROCE targets, the company is looking at breaching the revenue guidance which was earlier provided. The overhang of the stake sale of Pfadler Inc. and the Patel family nibbling into the shareholding still persists. As per the Management commentary, most of the large acquisitions are now completed, the focus is to generate healthy cash flows, reduce the debt coupled with strong execution plans for the next 4-6 years, which maintains our confidence in GMMP, and we continue to advocate sipping into the stock with our target price of Rs2000.

#### DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) for its stock broking services and is Depository Participant with Central Depository Services Limited (CDSL) and is a member of Association of Mutual Funds of India (AMFI) for distribution of financial products.

PSBPL is SEBI registered Research Analyst under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration No. INH000000859. PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company (s) covered in this report:-

- PSBPL or its associates financial interest in the subject company: NO
- Research Analyst (s) or his/her relative's financial interest in the subject company: NO
- PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.
- PSBPL or its associates actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
- Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
- PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.
- The research analyst has served as officer, director or employee of the subject company: NO
- Registration granted by SEBI and certification from NISM is in no way guarantee performance of the intermediary or provide any assurance of returns to investors

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses (if any) may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

#### Terms & Conditions:

This report has been prepared by PSBPL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of PSBPL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and its at discretion of the clients to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. PSBPL will not treat recipients as customers by virtue of their receiving this report.

#### 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:

Ms. Neha Oza,  
Email: compliance@progressiveshares.com,  
Contact No.:022-40777500.

#### Grievance Officer:

Email: grievancecell@progressiveshares.com