Sector: Industrial Products **RESULT REVIEW Q2FY24** **Declared On: 09 Nov 2023**

GMM Pfaudler Limited

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs1620	72.8	Buy	Rs2000	23%

as on 16th Nov, 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 Rs9,375mn as compared to Rs7,800mn in the same quarter last year, growth of 20.2%
- The Ebitda margins for the quarter under review stood at 15.1% as compared to 15.2% in the comparative quarter last year
- The company reported profit of Rs703mn as compared to Rs967mn in the same quarter last year
- The EPS for the quarter stood at Rs15.82 as compared Rs14.81 in the corresponding period of last year
- The board of director of the company have approved payment of interim dividend of Rs1 for FY23-24

Conference Call Highlights:

- During the quarter under review, **revenue growth** was driven by strong execution across international and the India businesses. The market in India has been challenging for the last 6-9 months especially in the chemical and pharmaceutical segments. However, the execution of the **order backlog** both in India, and international business has been quite strong
- The **international business** has recorded the highest ever profitability during the quarter under review. The profitability improvement in the international business driven by operational excellence and pricing improvements. For the international business, GMMP is looking at internal **cost efficiencies** which is quite important in terms of improving and maintaining profitability
- GMMP has been able to increase its **market share** especially in Europe, and has been able to get a foothold in Southern and Eastern Europe. As a part of the global strategy, the company wanted to be a global player in mixing which appears to be completed with the recent acquisitions. The vision of the Management is to be among the top five mixing companies in the world in the long run. **Mixing** is an important business for GMMP, the Management has a strategy in place as a growth driver both in terms of revenue and profitability. During the quarter under review, the company has signed an agreement to purchase 100% stake in **Mixpro** which is a mixing company based in Ontario (Canada) for a consideration of about USD7mn. The transaction is expected to be completed by 31st November 2023.
- For the mixing business, the company is using the global sales network to combine the platforms into one and offer the same product ranges to multiple customers across multiple regions. Seeing significant improvement in the mixing business for the India operation and on the international front; the Management believes the mixing business to become stronger with a vision to almost double the business to ~USD100mn or so. For the mixing business, the company is also looking at adding some experienced industry personnel**.** The **mixing business** is anticipated to grow at a faster pace and the company is exploring newer areas in the mixing business-like lithium extraction, gold extraction etc. and moving away from the traditional chemical and pharmaceutical space
- **Services business** is very profitable and something that GMMP continues to focus on, the company is creating service centers in the right geographies. The international business has a much larger component of services where India is currently ~9-10% of the total revenue from services segment. The Management is looking at increasing the same to a double-digit number. Services and the capex are inversely proportional to each other i.e., when capex increases services decrease and vice versa. The strategic intent of the Management is not only restricted at servicing their own equipment but also, be able to service other equipment in the chemical or pharma plants. The Management believes that the services business will continue to grow. The company has opened **new service centres** in Taubate (in Brazil) and Venice (in Italy); both the newly set **up service centres** are for the mechanical industry i.e. is the **Interseal business** and the aim is to improve the services in these regions

Conference Call Highlights (contd.):

- GMMP is focusing on making the **balance sheet stronger** and has reduced the long-term debt. The strategy of **cost reduction and various other measures** continue across geographies. the company has reported ROCE of ~25% and ROE of ~27% (on annualized basis) in H1FY24
- The long term borrowings have decreased to Rs6,730mn as on September 30, 2023, (including prepayment of Rs290mn related to Hyderabad and Vatva's properties loan) while the short term borrowings have increased to Rs1,500mn on account of higher working capital requirements
- **GLE business** is the core business for the company, and they maintain their market share in this domain. Pharma companies like Divis, Laurus, Neuland, Cipla, and Sun Pharma are gradually expanding which is good for the GLE business. GLE margins have been strong, the non GLE businesses are also generating similar levels of profitability like those of GLE business. The three new facilities in Germany, Italy and China are executing the momentum which translates into significant improvement in revenue
- The management is very much aligned in terms of strategic direction in terms of **order intake** and believe that over the next few months will be able to build a backlog. The company believes that this order book can continue to grow as the team is already working on some of these opportunities which are delayed. GMMP continuous to work on the stock and sale strategy which is a success story already
- The **order intake** of the company for the quarter under review stood at Rs6,260mn while the total order backlog stood at Rs17.05bn. The order intake remained subdued due to general weakness in the chemical sector; however, the strategy of soft diversification and entering new industry segments has led to a strong opportunity pipeline across various geographies. 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. In terms of the order intake for the **Technologies and Systems** business continued to be subdued due to slowdown in Chemical segment while that for the services segment continued to remain on track
- The **current order backlog** translates into about 6 months of **order visibility** in India and about 7-8 months in the international business. The revenue growth is basically driven by **strong execution** across the India and the International businesses. The Management is seeing strong **opportunity pipeline** across all business verticals, however decision making delays are seen from the customer's end
- As far as the mixing business is concerned, this business gives a little bit of diversification to the company which is profitable and hence GMMP is looking at extending the same; the only pain point for the company is the **HE business** where the margins are slightly lower than the GLE business. however, the company has a clear strategy of picking and choosing the right metallurgy so that the margin profile is closer to ~12-15%
- The company has received the **requisite approvals**; where the Patel family will purchase 1% stake from DBAG Fund- VI at Rs1700 per share

Financials:

Performance (Q2FY24)									
Q2FY24 Result (Rs mn)	**Sept-23**	**Sept-22**	**y-o-y**	**Jun-23**	**q-o-q**	**H1FY24**	**H1FY23**	**y-o-y**	**FY24E**
Total Revenue	9375	7800	20.2%	9123	2.8%	18498	15193	21.8%	37495
EBITDA	1420	1187	19.6%	1321	7.5%	2741	2166	26.6%	5343
Other Income	85	194	(56.1%)	87	-	172	480	(64.1%)	371
Interest	215	86	-	203	5.9%	418	243	72.4%	811
Depreciation	322	282	14.3%	347	(7.1%)	669	555	20.7%	1323
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	265	46	-	315	(16.1%)	580	265	-	1003
Net Profit	**703**	**967**	**(27.3%)**	**543**	**29.6%**	**1246**	**1584**	**(21.3%)**	**2578**

Outlook and Recommendations:

The company has performed quite well for the first half of the year and the Management expects to continue the momentum into the second half as well. GMMP has reported a **strong performance for the quarter** under review where both the revenue as well as the profitability are in line with the FY25 guidance. When the three businesses are combined, the company has a much wider range of industry segments that can be used while catering to a much wider range of industries. **Mixing** is an important business for GMMP, the Management has a strategy in place as a growth driver both in terms of revenue and profitability. Management believes the mixing business has the potential to almost double to ~USD100mn. GMMP has been able to increase market share especially in Europe, and has been able to get a foothold in Southern and Eastern Europe. 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. Going forward, the Management intends to **focus on strengthening** the market share, reducing costs and improving efficiencies. Value sourcing will continue to be the key to the bottom-line accreditation for GMMP. The Management is targeting to be debt **free by FY28** which is a conservative target as the cash flow generated over the period of time can help reduce the debt burden. Apart from the maintenance capex, there are not many major capex plans chalked out by the company. Services business is very profitable and something that GMMP continues to focus on, the company is creating service centres in the right geographies. 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 Management is very diligently looking at the internal cost structure, trying to rationalize manufacturing footprint and looking at opportunities to reduce cost etc. While the company has been successful in marinating the Ebitda and ROCE targets, the company is looking at breaching the revenue guidance which was earlier provided. With the absence of any large acquisitions the focus of GMMP is to generate healthy cash flows, reduce the debt coupled with strong execution plans for the next 4-6 years, which helps us maintain our confidence, and we continue to advocate sipping into the stock with our target price of Rs2000.

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