Capital Goods | 2QFY24 Result Review

GMM Pfaudler (GMM IN)

BUY ▲20% | Target Price: Rs. 2,100

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Institutional Equity Research

Healthy Revenue Growth despite Subdued Order Intake; Maintain BUY

What are the key highlights of 2QFY24 results?

⇑ **Revenue grew by 20% YoY (up 3% QoQ) to Rs9,375mn in 2QFY24, led by strong capex growth and pricing.**

⇓ **Order intake continued to face a subdued environment owing to general weakness in chemical sector. However, the management observed a positive trend in Oct'23, as the company securing order of about Rs2.5-2.7bn.**

⇑ **EBITDA margin in non-GLE businesses, particularly in mixing, is currently at par with or even higher than GLE. The importance of mixing equipment in clients' capex is considered just as critical as that of GLE.**

⇑ **GMM witnessed rise in RoE to 27.1% in 1HFY24, marking a notable improvement from 22.5% recorded in FY23, which is attributable to effective optimization cost structure and economies of scale resulting from THE previous strategic capex and acquisitions.**

Vertical-wise Performance: The company's standalone business witnessed underperformance vs. its international counterpart, evident from a modest 4% growth in revenue. Conversely, the consolidated business achieved a robust 28% revenue growth, attributable to effective execution and successful ramp-up in Germany, Italy and China facilities. The muted standalone revenue growth (4%) is due to a slowdown in chemicals and pharma capex. In response, the management is implementing measures i.e., expanding non-glass-lined equipment offerings and adopting aggressive pricing. It expects standalone margin to sustain at current levels in FY24. The mixing business is anticipated to gain momentum in the coming year, with the management guiding for 50% share in revenue. The FY26 guidance remains consistent at Rs3,7000 mn with a 15% EBITDA margins.

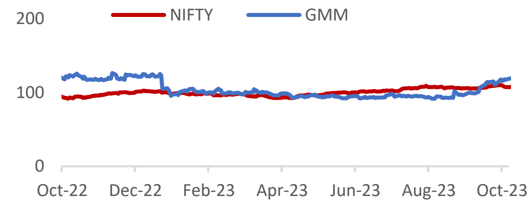
What is our view on the stock considering 2QFY24 results and other relevant factors?

We anticipate significant benefits for GMM from the structural tailwinds in the end-user industries, supported by its strong market share of ~40%. Further, the long-term demand outlook remains robust driven by substantial capex in the pharmaceutical and chemical sectors. Its mixing business aligns with the new growth trajectory, exhibiting comparable or even higher margin than the Glass-Lined Equipment (GLE) business. **Therefore, we maintain BUY on GMM Pfaudler with a Target Price of Rs2,100, valuing the stock at 26x FY25 earnings.**

Stock Information	
CMP (Rs)	1,750
Market Cap (Rs bn)	78
Free Float (%)	74.8
52 Week H/L	1,999/1,350
O/S Shares (mn)	45
Daily 3m Avg Volume (mn)	0.26

Shareholding Pattern (%)	Mar-23	Jun-23	Sept-23
Promoters	38.74	38.74	25.18
- Pledged	-	-	-
FII / NRI	19.96	19.96	26.49
MF/DII	10.58	10.58	12.58
Others	30.72	30.72	35.75

Stock Relative Performance



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Financials (Rs Mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23	FY24E	FY25E
Revenue	7,801	7,923	8,660	9,123	9,375	*20.2*	*2.8*	31,776	36,500	41,566
EBITDA	1,190	1,180	960	1,320	1,420	*19.3*	*7.6*	4,312	5,475	6,858
EBITDA (%)	15.3	14.9	11.1	14.5	15.1			13.6	15.0	16.5
PAT	969	187	365	543	703	*(27.4)*	*29.6*	2,135	2,584	3,631
EPS (Rs)	14.81	4.15	8.56	12.22	15.82	*6.8*	*29.5*	47	57	81
PAT Margin (%)								6.7	7.1	8.7
Net Asset Turns (x)								3.70	4.06	4.44
Working Capital Day:								57	60	58
RoE (%)								26.6	25.0	27.2
RoCE (%)								27.2	33.3	39.4

2QFY24 - Actual vs. Estimated Performance

(Rs mn)	Actual	Estimated	Variance (%)	Comment
Revenue	9,375	7,551	24.2	Revenue and margin improved a lot and we expect this to sustain. going forward.
EBITDA	1,420	997	42.4	
EBITDA Margin (%)	15.1	13.2		
PAT	703	530	32.6	

Source: Company, Ashika Institutional Research

Change in Estimates

Particulars (Rs mn)	FY24E (Introducing)			FY25 (Introducing)		
		New			New	
Revenue		36,500			41,566	
EBITDA		5,475			6,858	
PAT		2,584			3,631	

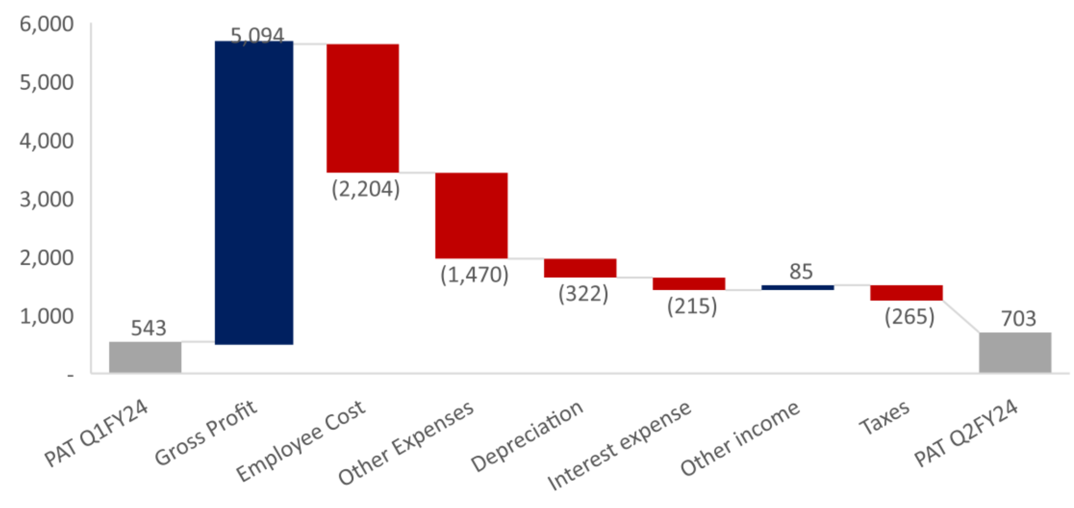
Source: Company, Ashika Institutional Research

Conference Call – Key Takeaways

- Order intake declined in 2QFY24 primarily due to slowdown in demand within the Chemical and Pharma sector. The management anticipates significant growth in the pharma sector in FY25, driven by substantial capex in the industry.
- Although order intake in Technologies and Systems faced a slowdown due to sluggish Chemical segment, there was a fresh influx of orders in Service segment, accounting for ~35% of revenue in 1HFY24.
- Driven by on-track execution, the international business achieved its highest-ever profitability in 2QFY24. However, the gross margin witnessed a sequential decline due to a shift in revenue-mix. The quarter's revenue was tilted towards technology offerings, which inherently carry lower margin compared to systems and services. Notably, newer facilities in Italy, Germany and China, although taking a bit longer to ramp up, are operating in line with expectations dates.
- Domestic business is facing challenges amid a slowdown in chemicals and pharmaceutical capex. Standalone EBITDA margin is expected to remain in the range of 14-14.5%.
- The company is strategically emphasizing the expansion of its mixing business, given its superior margin compared to Glass Line business. The management anticipates that the mixing segment will contribute significantly to the company's overall revenue in the coming years.
- The company maintains its revenue and EBITDA margin guidance at Rs3,7000 mn and a 15% margin. The management has observed a resurgence in order inflows in Oct'23, securing new projects. However, the next 6-9 months are expected to reflect the ongoing challenges in the chemical sector.
- The management aims for a balanced revenue distribution, targeting a 50% contribution from GLE segment and the rest from the Mixing business.
- The Patel family's acquisition of 1% stake is set to conclude by November 20, 2023 at Rs1,700/share, following the receipt of the final regulatory approvals.
- Raw material prices have reverted to comfortable levels, akin to the preceding level. Notably, utilization of most high-cost inventory has been completed.

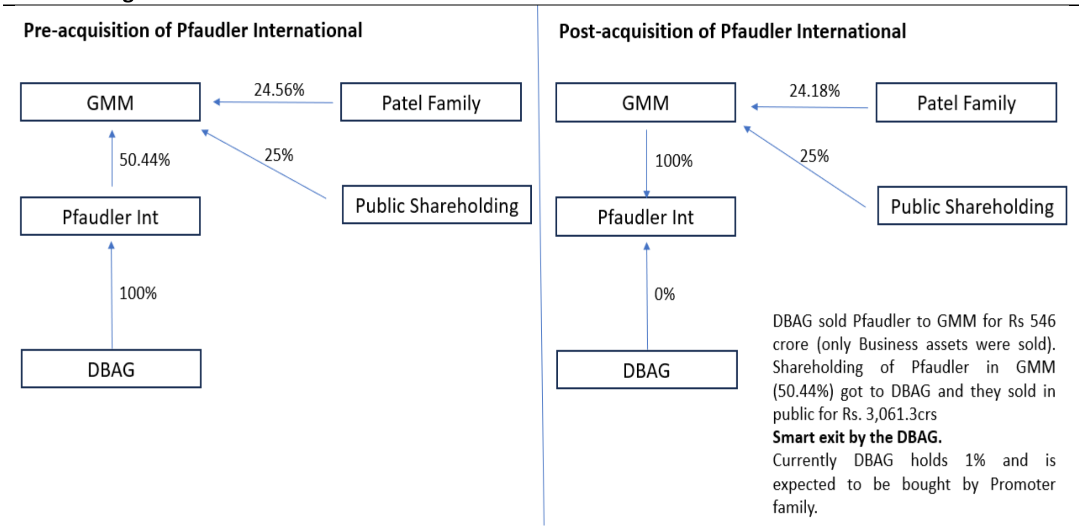
Story in Charts

PAT Walk – 2QFY24 vs. 1QFY24 (QoQ)



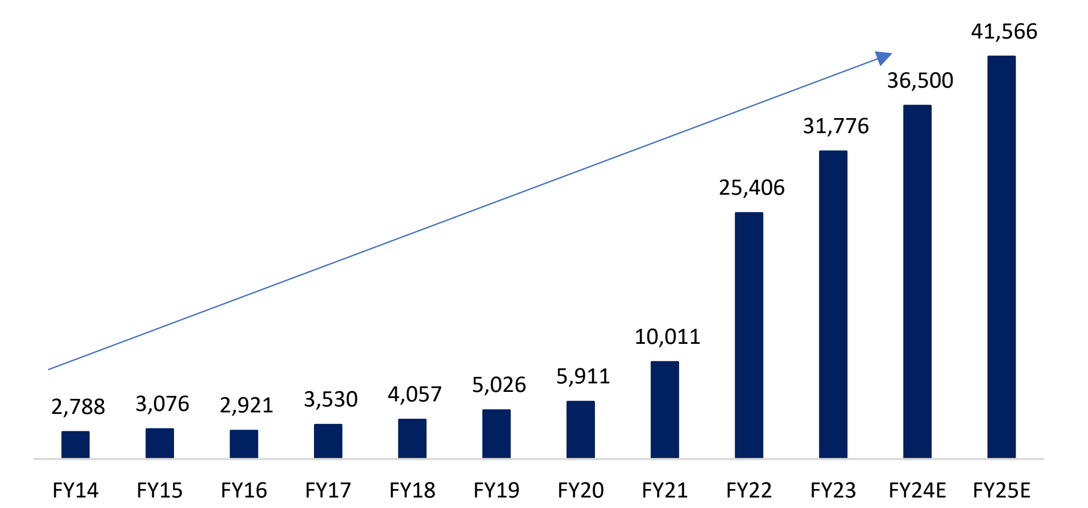
Source: Company, Ashika Institutional Research

Shareholding Game



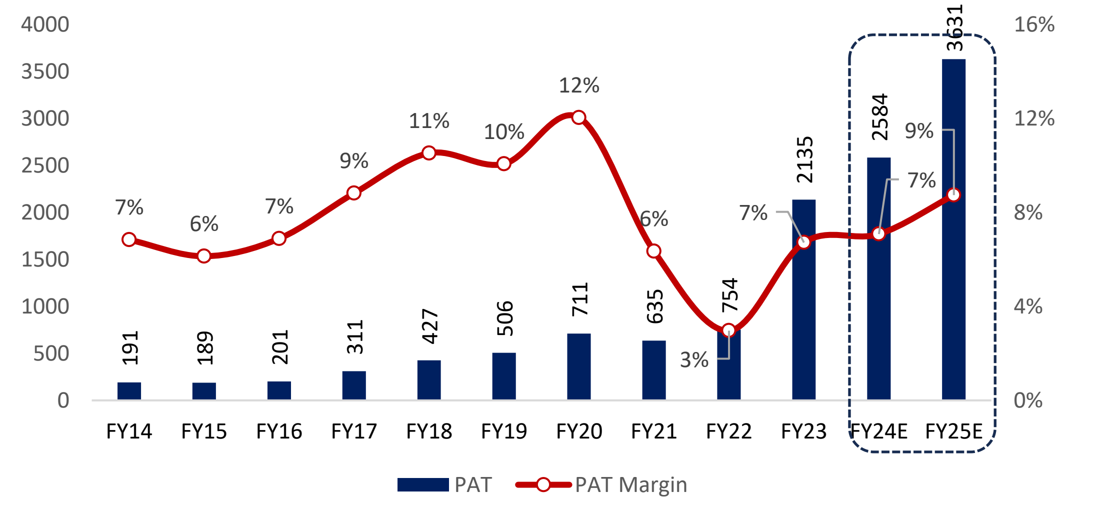
source: Company, Ashika Institutional Research

Revenue growth is growing at 28% CAGR



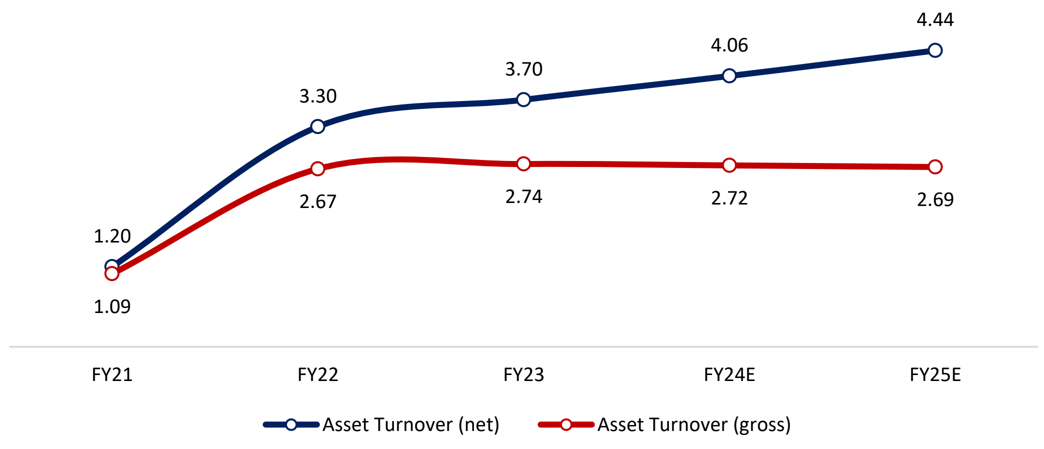
Source: Company, Ashika Institutional Research

PAT and PAT Margins over the last 12 years



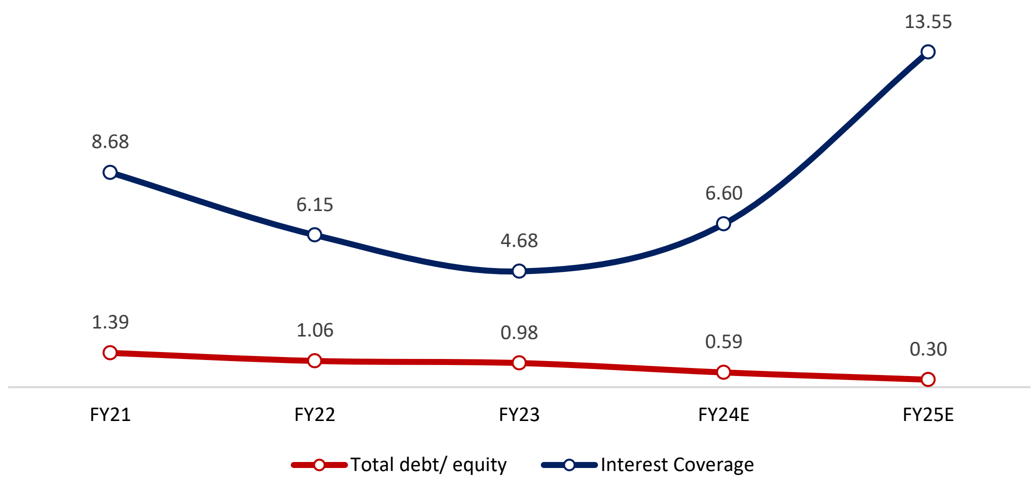
Source: Company, Ashika Institutional Research

Asset Turnover (Gross vs. Net)



Source: Company, Ashika Institutional Research

Debt to Equity & Interest Coverage comparison



Source: Company, Ashika Institutional Research

Additional Description

Company Background	GMM Pfaudler Limited is a prominent manufacturer of corrosion-resistant glass-lined equipment for chemical, pharmaceutical, and related industries worldwide. The company's comprehensive product portfolio includes glass-lined technology, filtration and drying solutions, mixing technology, sealing technology, alloy process equipment, fluoropolymers, and machined PTFE and engineered plastics products. Additionally, the company provides pilot testing and scale-up services, instrumentation and controls, and various systems catering to industrial applications. Established in 1962, GMM Pfaudler Limited is headquartered in Mumbai, India, and is known for its commitment to providing high-quality, innovative solutions for diverse industrial needs.	
Presence	15 Manufacturing facilities internationally and 3 in India (Karamsad, Vatva and Hyderabad)	
Key Management	▪ Mr. Tarak Patel: MD & Executive Director ▪ Mr. Aseem Joshi: CEO ▪ Mr. Manish Poddar: Chief Financial Officer	
Revenue Contribution (as of Q1FY24)	**Vertical-wise Revenue** ▪ Technologies – 62% ▪ Systems – 10% ▪ Services – 28%	**Order Intake** ▪ Technologies – 54% ▪ Systems – 13% ▪ Services – 33%
Credit Rating	ICRA AA-/Stable (as on 23rd June ’23)	
Auditors	Deloitte Haskins & Sells	

Source: NSE, Ashika Institutional Research

Top Non-Promoter Holdings (As per Latest Disclosure)

Name	Shareholdings (in %)
Chrys Capital	10.0
Aditya Birla Sun Life	3.92
HSBC Small cap Fund	3.08
Universities Superannuation	1.62
Taiyo Greater India Fund Ltd	1.60

Source: Ashika Institutional Research, Company | Bloomberg

Quarterly P&L

Financials (Rs mn)	Q2FY23	Q1FY24	2QFY24	YoY (%)	QoQ (%)
Revenue	7,801	9,123	9,375	20.2	2.8
Net Raw Materials	3,350	4,012	4,281		
Employee Cost	1,838	2,241	2,204		
Other Expenses	1,424	1,549	1,470		
EBITDA	1,188	1,321	1,420	19.6	7.5
EBITDA (%)	15.2	14.5	15.1		
Depreciation	282	347	322		
Interest expense	86	203	215		
Other income	195	87	85		
Profit before tax	1,014	858	968		
Taxes	45	315	265		
Net profit	969	543	703	(27.4)	29.6
Other Comprehensive income	146	57	(8)		
Net profit	1,115	600	695		
Net profit Margin (%)	12.4	5.9	7.5		
EPS (Rs)	14.81	12.22	15.8	6.7	29.3

Financial Projections

Balance Sheet Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	29	29	90	90	90
Reserves & surplus	4,042	5,242	7,950	10,235	13,255
Net worth	4,071	5,271	8,040	10,325	13,345
Borrowing	5,643	5,590	7,841	6,141	4,041
Other non-current liabilities	5,203	4,294	3,645	3,645	3,645
Total liabilities	**16,151**	**16,568**	**19,638**	**20,223**	**21,143**
Gross fixed assets	9,149	9,527	11,602	13,427	15,427
Less: Depreciation	(808)	(1,824)	(3,019)	(4,433)	(6,065)
Net fixed assets	8,341	7,703	8,583	8,993	9,362
Add: Capital WIP	44	130	133	133	133
Total fixed assets	8,385	7,832	8,716	9,126	9,496
Investment	-	-	-	-	-
Inventory	5,849	6,695	7,709	8,856	9,707
Debtors	3,096	3,562	4,355	5,003	5,484
Cash & bank	2,923	3,277	3,716	1,514	1,522
Current liabilities	8,024	10,708	13,907	13,324	14,114
Net current assets	5,285	6,179	6,792	6,966	7,517
Other non-current assets	2,480	2,557	4,130	4,130	4,130
Total assets	**16,151**	**16,568**	**19,638**	**20,223**	**21,143**

P&L Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Sales	10,011	25,406	31,776	36,500	41,566
% Growth YOY	69	154	25	15	14
Expenses	8,622	22,566	27,463	31,025	34,707
Operating Profit (EBITDA)	1,389	2,840	4,312	5,475	6,858
Operating Profit Margin	14	11	14	15	17
Other Income	(102)	66	300	-	-
Depreciation	505	1,326	1,195	1,415	1,632
Interest	102	246	666	615	386
Profit before tax (PBT)	6,806	13,338	27,524	3,445	4,841
% Growth YOY	(26)	96	106	(87)	41
PBT Margin	7	5	9	9	12
Tax	45	580	617	861	1,210
Net profit	**635**	**754**	**2,135**	**2,584**	**3,631**
% Growth YOY	(11)	19	183%	21	41
Net Profit Margin	6	3	7	7	9
EPS	14	17	47	57	81
% Growth YOY	(11)	19	176	21	41

Cash Flow Statement

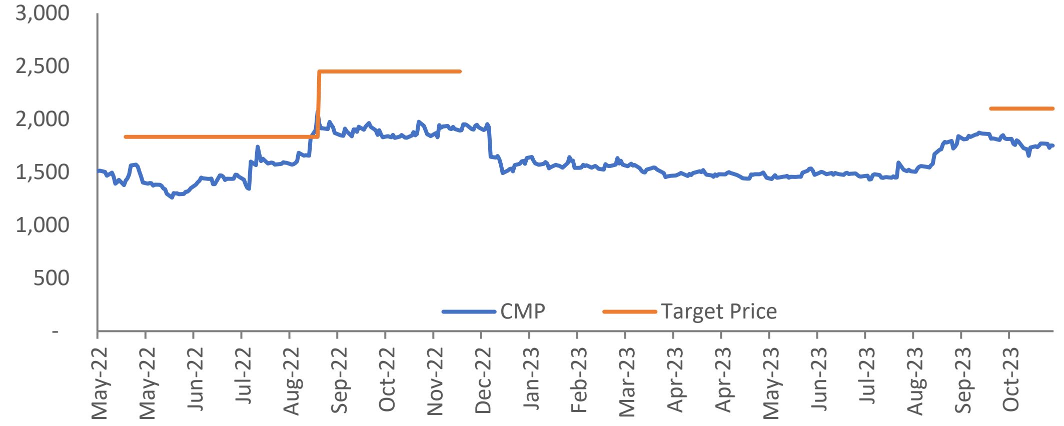
Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	778	1,431	2,284	3,284	4,291
Depreciation & Amortization	506	1,326	1,195	1,415	1,631
Chg in working capital	(1,046)	360	(2,687)	(817)	(543)
Cash flow from operations	193	2,536	174	2,996	4,221
Capital expenditure	(9,560)	(1,067)	(3,313)	(1,825)	(2,000)
Cash flow from investing	(4,791)	(3,299)	(3,204)	(1,825)	(2,000)
Equity raised/ (repaid)	121	437	1,193	-	-
Debt raised/ (repaid)	5,641	372	3,462	(3,260)	(2,100)
Dividend paid	(73)	(88)	(90)	(112)	(112)
Cash flow from financing	6,923	901	3,265	(3,372)	(2,212)
Net chg in cash	2,324	1,390	235	(2,202)	8

Recommendation History

Date	CMP (Rs)	TP (Rs)	Rating	Analyst	Report Link
17-Feb-22 (IC*)	1,536	1,833	BUY	Jason Soans	-
27-May-22	1,442	1,833	BUY	Jason Soans	-
17-Aug-22	1,578	1,833	BUY	Jason Soans	-
07-Sep-22 (AM**)	1,957	2,450	BUY	Jason Soans	-
28-Nov-22	1,893	-	Drop	Jason Soans	-
10-Nov-23	**1,750**	**2,100**	**BUY**	**Koushik Mohan**	

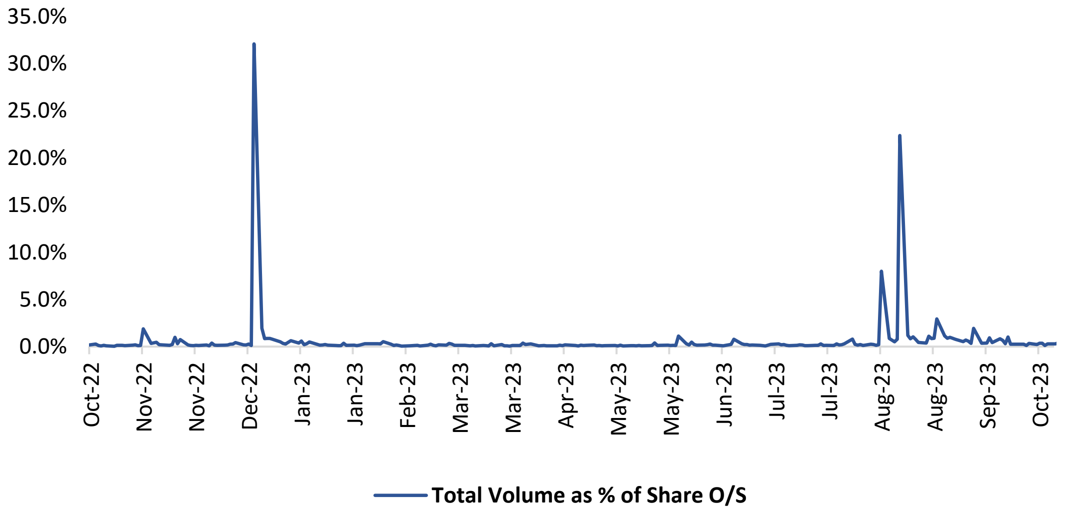
*Source: Ashika Institutional Research (*IC: initiating coverage, **AM: analyst meeting update) (Started back on 09-Oct-2023)*

Recommendation History & Target Price



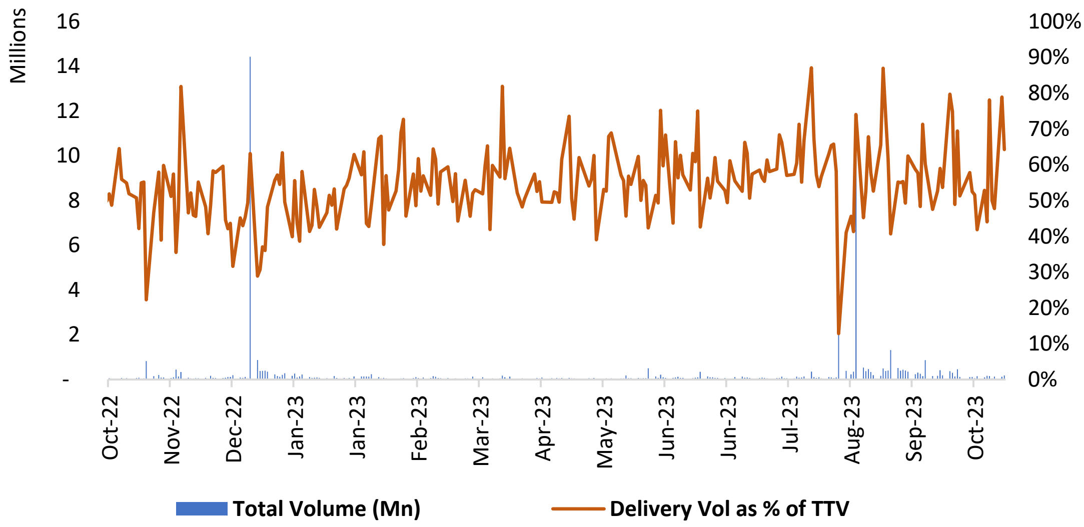
Source: NSE, Ashika Institutional Research

Traded volume as percentage of share O/S (1 Year)



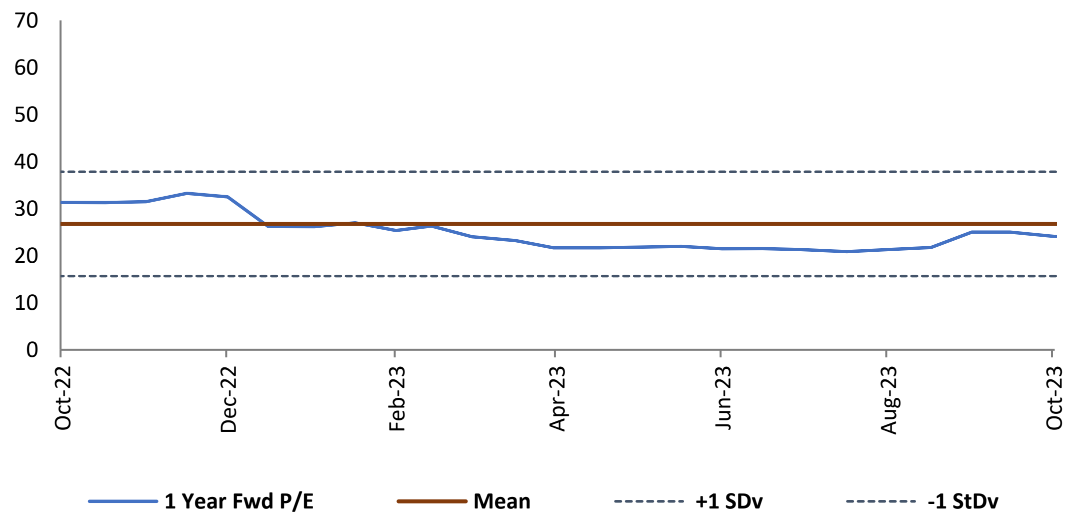
Source: Ashika Institutional Research, Company

Traded volume vs. delivery volume (1 Year)



Source: Company, Ashika Institutional Research

1 Year Fwd. P/E Chart with Standard Deviation



Source: Company, Ashika Institutional Research

Key Risks:

- Slowdown in capex by pharma and chemical industries.
- Selling by big shareholders.
- Withdrawal of incentive schemes.
- Commodity price inflation.

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Recommendation & Absolute Return

BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NR	**NOT RATED** - rating and fair value, if any, have been suspended temporarily
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