

Adverse product mix impacted earnings: Maintain BUY

GMM Pfaudler Ltd (GMM), for Q4FY19, reported a decent set of numbers. Revenue grew at 37.4% YoY to INR 1,207mn (est INR 1,155mn). EBITDA showed growth of 17.9% YoY to INR170mn (est INR191mn) with 231bps YoY contraction in margin from 16.4% in Q4FY18 to 14.1% in Q4FY19, due to adverse product mix mainly led by Heavy engineering business, which grew by 116% YoY with only 2.1% EBIT margin compared to 15.2% in Q4FY18. As per the management, the decline in margin was due to a single large order taken by the company for strategic reasons and is expected not to repeat going forward. Net profit surged by 27.9% to INR 108mn (est. INR112mn) due to operationally weak performance and lower tax expense (33.5% vs 39.7%). During the quarter, export share in revenue remained at 10%. Most of the export orders were mainly lead by Pfaudler Inc(Parent) network.

Capacity Expansion in Glass lined Equipment business to tap increasing demand

GMM's GL sales volume in FY19 was at ~2,000 equivalent units (EU) (vs tgt 1850 EU), which registered 30% volume growth compared to FY18. GMM is planning on expanding the capacity at its existing facility by 200 vessels per month by FY20 (Expected to be commissioned in June), which is similar to current monthly run rate and thereafter to 240 per month by FY21. In FY19, capacity utilization level was more than 90%, given the strong order book (9-10 months). The Management is targeting to achieve 2400 equivalent units in by the end of FY20 and 20% volume growth in FY21. Revenue contribution from pharmaceutical industry was restricted to 1/3rd during Q4FY19 compared to more than half (in FY17) of GL revenue due to the challenging environment in the sector and increased order from chemicals sector. However, the management expects recovery in the pharmaceuticals sector as the capex cycle is poised to witness better pace. The company is already getting enquiries from few companies in the Hyderabad region. Currently, the company has 5 furnaces- 3 electric and 2 natural gas based. During Feb 18, the company installed an additional natural gas furnace, post the installation of which the use of the electric furnaces has stopped. As a result, there was significant saving in power cost, which was already visible during FY19. The company would be installing one more natural gas furnace in Sep19 for increasing capacity. Given the above factors, we expect GMM's GL revenue to grow at CAGR of 20% over FY19- 21E, with overall revenue growth of 21.1% during the same period.

Recent acquisition to provide additional avenue of growth in non GL business

GMM is expected to register an exceptional growth in the Non-GL segment with Heavy Engineering and Proprietary Products (Mixing systems, engineered systems, filtration & drying) on the back of high order execution and robust order inflows. The Non-GL business contributed 37% to standalone revenues in Q4FY19. The Company is also bringing Mavag's high-end technology for filtration, drying and mixing applications to GMM's India business. During the quarter GMM acquired the mixing solution business of Sudarshan chemicals Ltd. This business has revenues of INR 320mn with EBITDA margins of 20-22% for FY19. GMM paid 4 times EBITDA for this acquisition. As GMM is already into mixing solutions, along with the sudarshan unit the mixing business would collectively contribute INR 600mn to the revenue. This acquisition will also help GMM to cater to different industries like fertilizers, minerals and metals, which provides good growth opportunity in INR 3bn mixing solution market in India. Moreover, with health export opportunity in Non GL business lead by Pfaudler Inc(Parent) network, we expect a gradual increase in export share from 10% to 15% going forward. We modeled 40% revenue growth in Non-GL (excl Mavag AG) over FY19-21E.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	1,267
Target Price (Rs)	1,489
BSE code	505255
NSE Symbol	GMMPFAUDLR
Bloomberg	GMM IN
Reuters	GMMP.BO

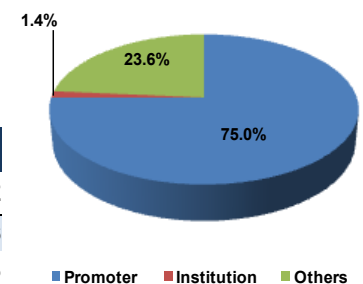
Key Data

Nifty	11,923
52WeekH/L(Rs)	1,425/754
O/s Shares (Mn)	14
Market Cap (Rs bn)	18
Face Value (Rs)	2

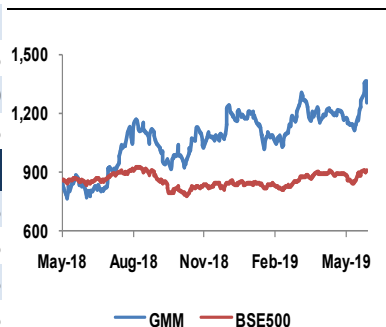
Average volume

3 months	5,962
6 months	5,567
1 year	6,135

Share Holding Pattern (%)



Relative Price Chart



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Key Financials

YE March (INR. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3,530	4,110	5,026	6,329	7,546
Growth %	21%	16%	22%	26%	19%
EBIDTA	475	577	770	1,046	1,351
Growth%	36%	21%	33%	36%	29%
Net Profit	314	390	506	674	871
Growth %	56%	24%	30%	33%	29%
Diluted EPS	21	27	35	46	60
Growth %	56%	24%	30%	33%	29%

Profitability & Valuation

EBIDTA (%)	13%	14%	15%	17%	18%
NPM (%)	9%	9%	10%	11%	12%
RoE (%)	17%	18%	20%	22%	23%
RoCE (%)	25%	28%	31%	35%	36%
P/E (x)	59.1	47.5	36.6	27.5	21.3
EV/EBITDA (x)	38.3	30.9	23.1	16.5	12.2
P/BV (x)	9.6	8.1	6.9	5.6	4.5

Source: Company, BP Equities Research



GMM Pfaudler Ltd Q4FY19 Quarterly Result

YE March (INR. mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %
Net Sales	1,207	1,056	14.3%	879	37.4%
Other Operating Income	0	0		0	
Total Revenue	1,207	1,056	14.3%	879	37.4%
Less:					
Raw Material Cost	608	512	18.8%	372	63.3%
Operating & Manufacturing Expenses	312	271	15.3%	267	16.9%
Employee Cost	117	101	15.9%	95	22.8%
Total Expenditure	1,037	884	17.4%	735	41.2%
EBIDTA	170	172	(1.4%)	144	17.9%
Less: Depreciation	24	28	(12.1%)	22	8.5%
EBIT	146	145	0.6%	122	19.7%
Less: Interest	3.3	3.2	2.5%	2.4	37.5%
Add: Other income	20	21		21	
Profit before tax	162	162	(0.1%)	140	15.8%
Adjusted Profit before Tax	162	162	(0.1%)	140	15.8%
Less: Total Tax	54	53	3.1%	56	(2.4%)
Profit After Tax	108	110	(1.6%)	84	27.9%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	108	110	(1.6%)	84	27.9%
Diluted EPS (Rs.)	7.4	7.5	(1.6%)	5.8	27.9%
Adjusted Diluted EPS	7.4	7.5	(1.6%)	5.8	27.9%
Diluted No of Share (mn)	14.6	14.6		14.6	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	14.1%	16.3%	(225)	16.4%	(231)
EBIT Margin %	12.1%	13.7%	(165)	13.8%	(178)
NPM %	8.9%	10.4%	(145)	9.6%	(66)
Effective Tax Rate %	33.5%	32.4%	104	39.7%	(627)

Revenue was higher than our estimates of INR 1,155mn lead by robust growth in non-GL Segment

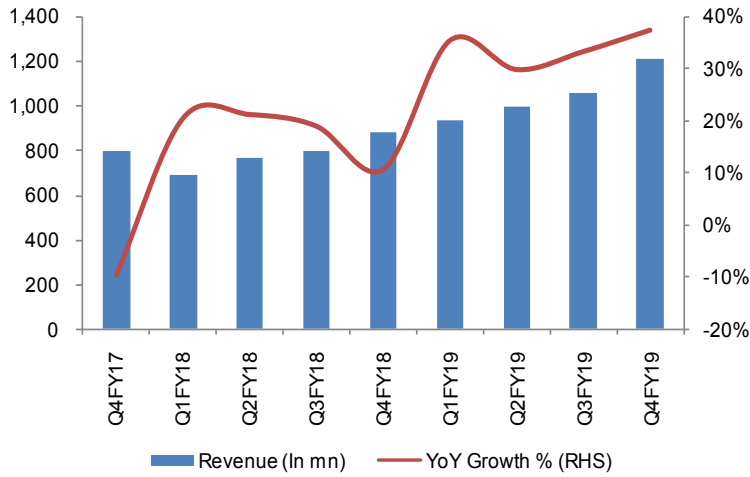
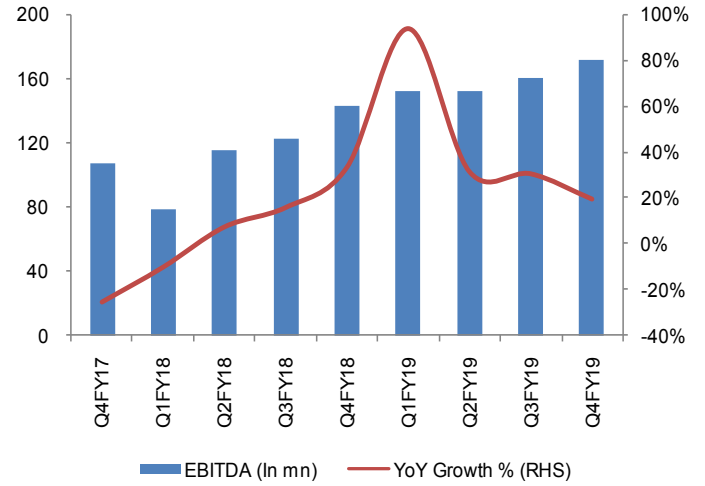
Adj. PAT came slightly below our estimate of INR 112mn, on the back of margin contraction

The EBITDA margin, at 16.3% was slightly below our estimate of 16.5% mainly due to high contribution from non-GL business (37% vs 27% (YoY)).

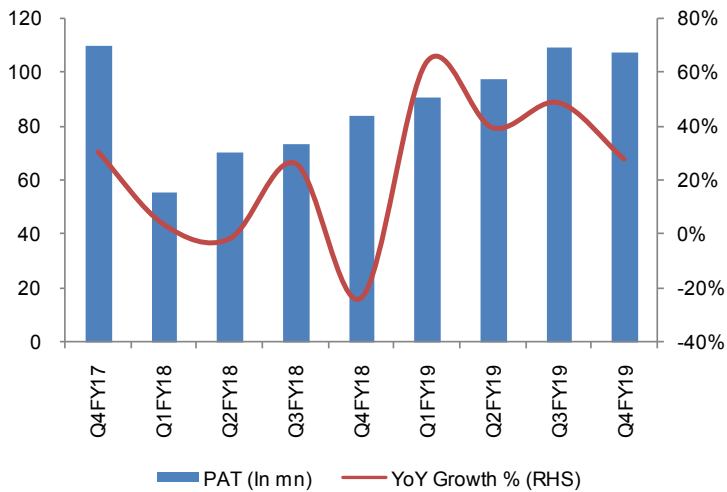
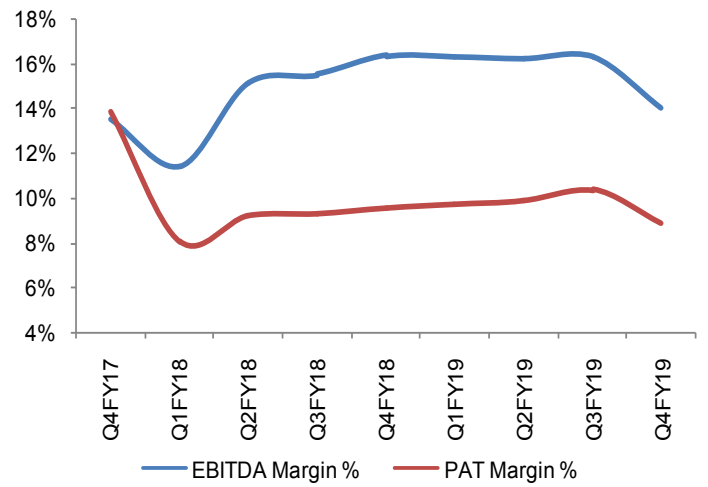
Source: Company, BP Equities Research

Valuation and Outlook :

GMM has a leadership position in GL reactors with strong pricing power in the domestic market. The company is well positioned to witness steady revenue and profitability growth over the next 2-3 years on the back of growing domestic demand. We believe, GMM is well placed to capture the opportunity from increasing demand through brown field expansion and higher capacity utilization. GMM is likely to leverage its deep-rooted relationship with GL customers to cross-sell its non-GL equipment. Recent acquisition of mixing solution business would further boost its growth engine. We estimate Revenue/EBITDA/PAT to clock 22.5%/32.5%/31.2% CAGR during FY19-21E. At the current market price (of INR 1,267) the stock is trading at 27.5x its FY20E EPS of INR46.1 and 21.3x its FY21E EPS of INR 59.6. We believe with the strong brand name, sticky client base and superior growth in non-GL deserves a premium valuation. We maintain our 'BUY' rating on the stock by assigning 25x (0.80x to PEG) of its FY21E earnings with upward revised target price of INR1,489(earlier INR1,273).

Revenue surged by 37.4% YoY

EBITDA grew by 17.9% YoY


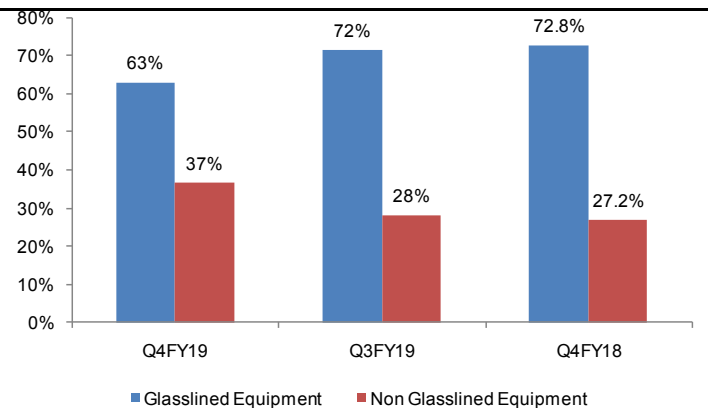
Source: Company, BP Equities Research

PAT showed growth of 27.9% YoY

EBITDA/ PAT margin trend


Source: Company, BP Equities Research

GL business contribution increased during Q4FY19

Revenue Mix (INR. mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %
Glasslined Equipments	763	757	0.7%	640	19.1%
Non Glasslined Equipments	445	299	48.9%	239	86.2%





Profit & Loss A/c (Consolidated)						
YE March (Rs. mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue	2,921	3,530	4,057	5,026	6,329	7,546
Growth %	-5.1%	20.9%	14.9%	23.9%	25.9%	19.2%
Total Revenue	2,921	3,530	4,057	5,026	6,329	7,546
Less:						
Raw Material Consumed	1,207	1,493	1,685	2,329	2,875	3,346
Employee Cost	562	663	635	726	884	1,036
Other Expenses	803	899	1,160	1,202	1,524	1,813
Total Operating Expenditure	2,571	3,055	3,480	4,257	5,283	6,195
EBITDA	350	475	577	770	1,046	1,351
Growth %	0.9%	35.9%	21.5%	33.4%	35.9%	29.2%
Less: Depreciation	81	82	98	110	125	141
EBIT	268	393	479	660	921	1,210
Growth %	8.2%	46.3%	22.0%	37.7%	39.5%	31.4%
Interest Paid	7	9	10	12	12	12
Non-operating Income	36	59	101	85	85	85
Extraordinary Income	0	0	0	0	0	0
Profit Before tax	298	443	569	733	994	1,283
Tax	97	129	180	227	319	412
Net Profit	201	314	390	506	674	871
Adjusted Profit	201	314	390	506	674	871
Reported Diluted EPS Rs	13.8	21.5	26.7	34.6	46.1	59.6
Growth %	6.6%	55.9%	24.3%	29.8%	33.3%	29.2%
Adjusted Diluted EPS Rs	13.8	21.5	26.7	34.6	46.1	59.6
Growth %	6.6%	55.9%	24.3%	29.8%	33.3%	29.2%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (Rs. Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
PAT	201.2	313.6	389.7	505.8	674.1	870.6
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(36.4)	(59.2)	(100.6)	(84.5)	(84.5)	(84.5)
Add: Depreciation	81.2	82.3	97.9	109.7	125.2	140.7
Add: Interest Paid	6.9	9.0	10.3	11.7	11.7	11.7
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	252.8	345.7	397.3	542.8	726.6	938.6
(Inc)/Dec in Current Assets	(117.4)	(1,049.1)	(230.5)	414.4	(730.4)	(162.8)
Inc/(Dec) in Current Liabilities	43.4	622.9	463.6	(483.6)	951.6	350.1
Changes in Inventory	34.0	(113.9)	(133.9)	(198.1)	(299.2)	(279.7)
Net Cash Generated From Operations	212.9	(194.4)	496.4	275.5	648.6	846.2
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(124.3)	555.5	(190.8)	(177.8)	(150.0)	(150.0)
(Inc)/Dec in Capital Work In Progress	5.1	23.2	(7.7)	(21.9)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	0.7	42.9	(1.0)	(41.7)	(5.6)	(6.1)
Add: Non Operating Income	36.4	59.2	100.6	84.5	84.5	84.5
(Inc)/Dec in Intangible Assets	0.0	(2.1)	(44.3)	48.6	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(82.0)	678.7	(143.2)	(108.3)	(71.1)	(71.6)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	5.3	64.0	62.7	28.7	0.0	0.0
Inc/(Dec) in Reserves & Surplus	6.7	14.7	8.1	(35.6)	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(43.9)	(58.5)	(58.5)	(58.5)	(58.5)	(58.5)
Less: Interest Paid	(6.9)	(9.0)	(10.3)	(11.7)	(11.7)	(11.7)
Adjustments	(26.0)	(715.3)	(3.9)	(0.0)	0.0	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(64.8)	(704.0)	(1.8)	(77.0)	(70.2)	(70.2)
Net Inc/Dec in cash equivalents	66.0	(219.8)	351.4	90.1	507.4	704.4
Opening Balance	470.2	536.3	316.5	667.9	758.0	1,265.3
Closing Balance Cash and Cash Equivalents	536.3	316.5	667.9	758.0	1,265.3	1,969.7

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March(Rs. mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Liabilities						
Equity Capital	29	29	29	29	29	29
Reserves & Surplus	1,639	1,909	2,248	2,660	3,276	4,088
Equity	1,668	1,938	2,278	2,689	3,305	4,117
Net Worth	1,668	1,938	2,278	2,689	3,305	4,117
Minority Interest						
Net Deferred tax liability/(Asset)	44	108	171	200	200	200
Total Loans	0	0	0	0	0	0
Capital Employed	1,713	2,046	2,448	2,889	3,505	4,317
Assets						
Gross Block	1,249	694	885	1,062	1,212	1,362
Less: Depreciation	715	82	176	286	411	552
Net Block	534	612	708	776	801	810
Capital WIP	43	20	28	50	50	50
Investments	56	13	14	56	61	67
Others - A	7	9	9	5	5	5
Current Assets						
Inventories	709	822	956	1,155	1,454	1,733
Sundry Debtors	487	699	505	672	846	1,009
Cash and Bank Balance	536	316	668	758	1,265	1,970
Loans and Advances	26	447	503	80	503	503
Other Current Assets	29	124	446	313	446	446
Current Investments	130	451	497	472	472	472
Total Current Assets	1,917	2,860	3,576	3,449	4,986	6,133
Less: Current Liabilities & Provisions						
Sundry Creditors	307	546	608	639	793	930
Provisions	35	354	498	30	498	498
Other Current Liabilities	502	567	824	777	1,108	1,321
Total Current Liabilities & Provisions	844	1,467	1,930	1,447	2,398	2,748
Capital Applied	1,713	2,046	2,448	2,889	3,505	4,317

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (Rs. mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios						
EBITDA Margin (%)	12.0%	13.5%	14.2%	15.3%	16.5%	17.9%
Tax / PBT (%)	32.5%	29.2%	31.6%	31.0%	32.2%	32.1%
Net Profit Margin (%)	6.9%	8.9%	9.6%	10.1%	10.7%	11.5%
RoE (%)	12.7%	17.4%	18.5%	20.4%	22.5%	23.5%
RoCE (%)	18.6%	25.4%	27.7%	31.1%	34.6%	35.9%
Current Ratio (x)	2.3x	1.9x	1.9x	2.4x	2.1x	2.2x
Dividend Payout (%)	21.8%	18.6%	15.0%	11.6%	11.6%	11.6%
Book Value Per Share (Rs.)	114.2	132.6	155.8	184.0	226.1	281.7
Financial Leverage Ratios						
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	50.8x	52.8x	56.0x	65.7x	89.3x	115.3x
Growth Indicators %						
Growth in Gross Block (%)	11.0%	(44.5%)	27.5%	20.1%	14.1%	12.4%
Sales Growth (%)	(5.1%)	20.9%	14.9%	23.9%	25.9%	19.2%
EBITDA Growth (%)	0.9%	35.9%	21.5%	33.4%	35.9%	29.2%
Net Profit Growth (%)	6.6%	55.9%	24.3%	29.8%	33.3%	29.2%
Diluted EPS Growth (%)	6.6%	55.9%	24.3%	29.8%	33.3%	29.2%
Turnover Ratios						
Debtors Days	61	72	45	49	49	49
Creditors Days	38	65	64	55	55	55
Inventory Days	89	85	86	84	84	84

Source: Company, BP Equities Research

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