

Reasonable performance with an unreasonable valuation: Revise to Sell

GMM Pfaudler Ltd (GMM), for Q4FY20, reported a decent set of numbers. Revenue de-grew by 5.3% YoY to INR 1318mn (est INR 1593mn) mainly due to a revenue loss of INR 300mn led by the nation-wide lockdown. EBITDA showed growth of 13.4% YoY to INR225mn (est INR323mn) with 280ps YoY improvement in margin from 14.2% in Q4FY19 to 17.1% in Q4FY20, due to favourable product mix mainly led by Glass-lined business, where EBIT margin improved by 463bps on YoY basis with 63% contribution in consolidated revenue. However, the Heavy engineering business has dragged growth momentum with 59.5% de-growth in revenue and -18.6% EBIT margin (vs 2.1%YoY) in Q4FY20. The loss came up as GMM couldn't ship the order to their Middle East client due to lockdown followed by higher fixed overheads. As per the management, heavy engineering can add strong growth on the back of a healthy order book with improved margin profile going forward. Proprietary products also reported weak performance with a 4% decline in revenue and 737bps contraction in EBIT margin compared to last year's same quarter. Current order book stands at INR 3,500mn (~60% of FY20 revenue), of which 90% pertains to new orders, and 10% pertains to replacement demand. Net profit declined by 12.8% to INR 116mn (est. INR218mn) due to lower other income (INR 7mn vs INR 24mn), higher depreciation and finance cost. GMM's Swiss-based subsidiary Mavag AG posted revenue of INR184mn (est 187mn) with EBITDA of INR23mn (est INR29mn), and profit came at INR16mn (est 23mn). Muted performance in Mavag AG is due to the poor demand environment in the European market. However, management believes momentum will regain in coming quarters. For FY21, Management has guided revenue of Swiss franc 12mn (INR936mn) with the margin improvement.

Glass-lined Equipment business to remain a mainstay of growth

The management is targeting to increase Glass-lined equipment capacity from 2,400 equivalent units (EUs) to 2800 EUs by the end of FY21 with the installation of two more natural gas furnace from Japan, which is expected to get installed by September 2020. As management expects a recovery in the pharmaceuticals sector due to the capex cycle is poised to witness better pace, getting ready with additional capacity will help the company to grab this opportunity. Moreover, GMM is also looking to set up a new unit dedicated to glass-lined lined equipment near Hyderabad Pharma city at the cost of INR500mn (funding through internal accruals) which would add 500 EUs to the overall capacity. As per management, It will take 10-12 months to commission Hyderabad plant. We modelled additional INR500mn revenue from the new Hyderabad facility in FY22e to overall GL revenue. Given the above factors, we expect GMM's GL revenue to grow at a CAGR of 21.1% over FY20- 22E, with similar overall revenue growth of 21% during the same period.

Stock Rating

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

Sector Outlook

Neutral

Stock

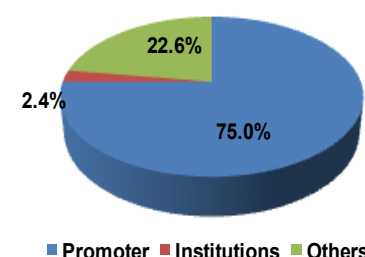
CMP (INR)	3,677
Target Price (INR)	2,639
BSE code	505255
NSE Symbol	GMPFPAUDLR
Bloomberg	GMM IN
Reuters	GMMP.BO

Key Data

Nifty	9,315
52WeekH/L(Rs)	4,090/1,160
O/s Shares (Mn)	14.6
Market Cap (Rs bn)	54
Face Value (Rs)	2

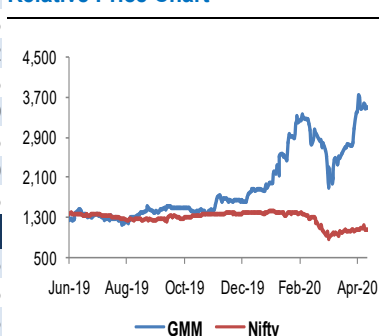
Average volume

3 months	54,390
6 months	45,958
1 year	27,903

Share Holding Pattern (%)

Key Financials (Consolidated)					
YE March (INR. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	4,110	5,026	5,911	6,883	8,661
Growth %	16%	22%	18%	16%	26%
EBIDTA	577	768	1,111	1,368	1,822
Growth%	21%	33%	45%	23%	33%
Net Profit	390	506	711	870	1,169
Growth %	24%	30%	41%	22%	34%
Diluted EPS	27	35	49	60	80
Growth %	24%	30%	41%	22%	34%
Profitability & Valuation					
EBIDTA (%)	14%	15%	19%	20%	21%
NPM (%)	9%	10%	12%	13%	13%
RoE (%)	18%	20%	23%	23%	24%
RoCE (%)	28%	31%	31%	29%	31%
P/E (x)	138	106	76	62	46
EV/EBITDA (x)	92	69	48	38	28
P/BV (x)	24	20	16	13	10

Source: Company, BP Equities Research

Relative Price Chart**Research Analyst**

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GMM Pfaudler Ltd

Result Update Q4FY20

GMM Pfaudler Ltd Q4FY20 Quarterly Result

YE March (INR. mn)	Q4 FY20	Q3 FY20	Q-o-Q change %	Q4 FY19	Y-o-Y change %
Net Sales	1,318	1,560	(15.5%)	1,391	(5.3%)
Other Operating Income	0	0		0	
Total Revenue	1,318	1,560	(15.5%)	1,391	(5.3%)
Less:					
Raw Material Cost	553	685	(19.2%)	659	(16.0%)
Operating & Manufacturing Expenses	231	266	(13.2%)	248	(6.8%)
Employee Cost	309	305	1.3%	286	7.8%
Total Expenditure	1,093	1,255	(12.9%)	1,193	(8.4%)
EBIDTA	225	304	(26.2%)	198	13.4%
Less: Depreciation	59	59	0.2%	25	138.9%
EBIT	166	246	(32.4%)	174	(4.4%)
Less: Interest	9.0	9.4	(4.1%)	3.3	169.2%
Add: Other income	7	34		24	
Profit before tax	164	271	(39.3%)	195	(15.6%)
Adjusted Profit before Tax	164	271	(39.3%)	195	(15.6%)
Less: Total Tax	48	60	(19.5%)	62	(21.7%)
Profit After Tax	116	211	(44.9%)	133	(12.8%)
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	116	211	(44.9%)	133	(12.8%)
Diluted EPS (Rs.)	7.9	14.4	(44.9%)	9.1	(12.8%)
Adjusted Diluted EPS	7.9	14.4	(44.9%)	9.1	(12.8%)
Diluted No of Share (mn)	14.6	14.6		14.6	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	17.1%	19.5%	(246)	14.2%	280
EBIT Margin %	12.6%	15.8%	(316)	12.5%	12
NPM %	8.8%	13.5%	(470)	9.6%	(76)
Effective Tax Rate %	29.4%	22.2%	722	31.7%	(227)

Revenue came below our estimates of INR 1,593mn mainly due to revenue loss of INR 300mn led by nationwide

Adj. PAT came below our estimate of INR 218mn, due to lower other income, Higher depreciation and finance cost.

The EBITDA margin, at 17.1% was 322bps below our estimate of 20.3% due to depressing margin performance by Non-GL business

Source: Company, BP Equities Research

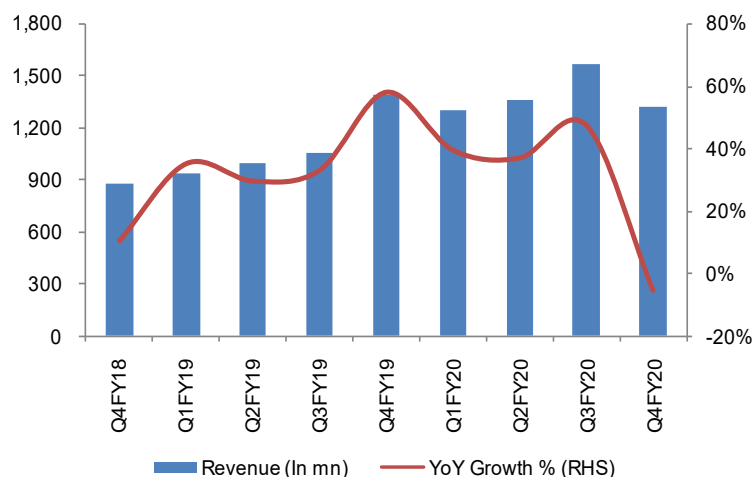
Valuation and Outlook

GMM has a leadership position in GL reactors (~60% Market share) with strong pricing power in the domestic market. The company is well-positioned to witness steady revenue and profitability growth over the next two 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. We estimate consolidated Revenue/EBITDA/PAT to clock 21%/28%/28% CAGR during FY20-22E. We believe with the strong brand name, sticky client base, and superior growth in non-GL deserves a premium valuation. **We had initiated a coverage report on GMM at INR 717 [click](#) (21/12/2017) which played out very well with strong operational performance plus re-rating in valuations multiple. With the stock now trading at P/E 46x(FY22E) multiples, we see risk-reward as less compelling from here as it is trading beyond its fundamental value. We suggest investors to avoid entering GMM at the current price as valuation seems stretched at this level. The thesis remains fully intact, with a rare combination of premium revenue growth and attractive margins. We give a SELL rating on the stock, with an upward revised price target of INR 2,639(prior: INR 2,201) by assigning P/E of 33x (in line with 5 yr avg P/E) on its FY22E earnings.**

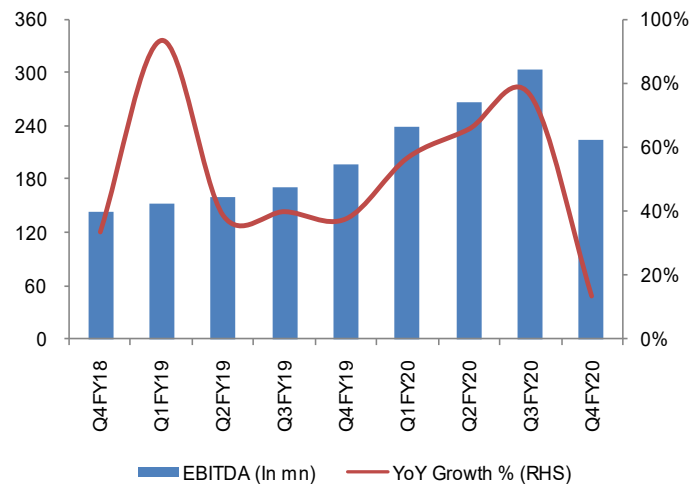
GMM Pfaudler Ltd

Result Update Q4FY20

Revenue declined by 5.3% YoY

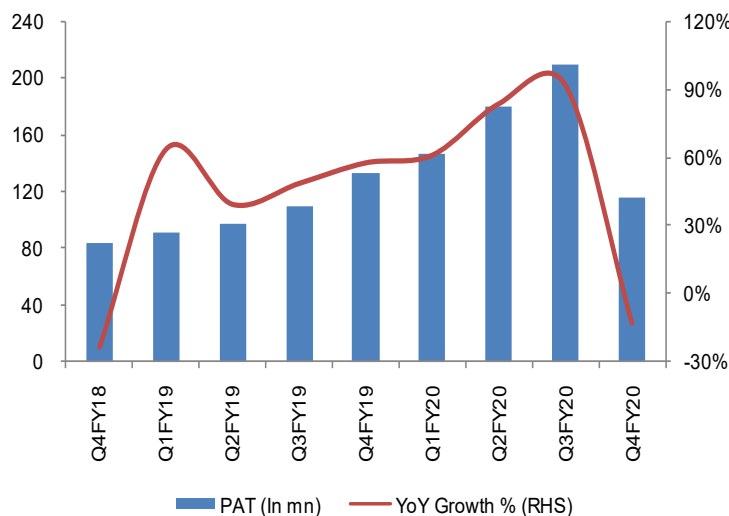


EBITDA grew by 13.4% YoY

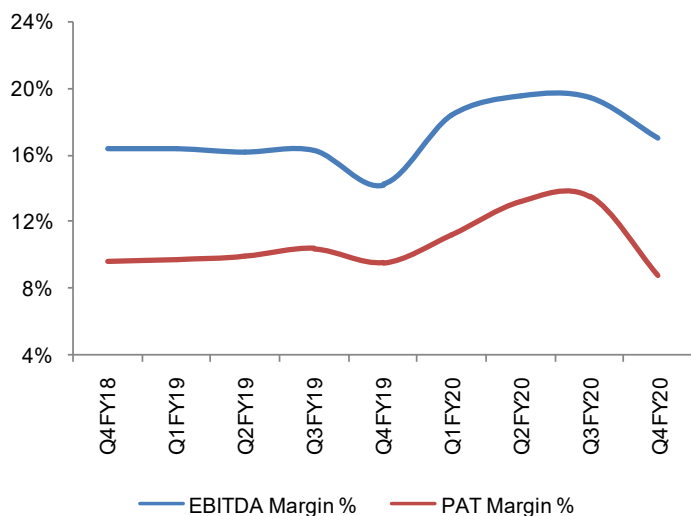


Source: Company, BP Equities Research

PAT showed de-growth of 12.8% YoY



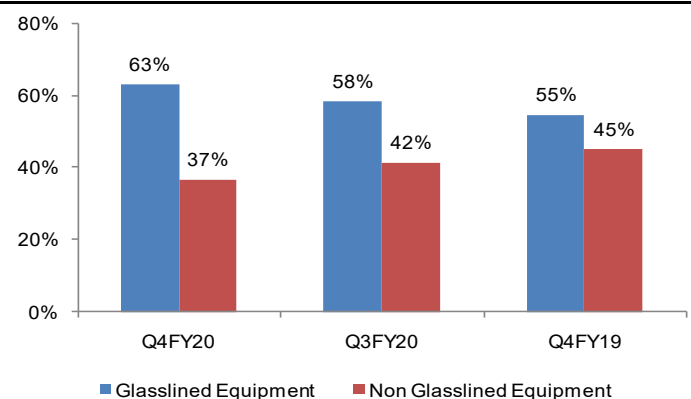
EBITDA/ PAT margin trend



Source: Company, BP Equities Research

GL business contribution increased during Q4FY20

Revenue Mix (INR. mn) (Consolidated)	Q4 FY20	Q3 FY20	Q-o-Q change %	Q4 FY19	Y-o-Y change %
Glasslined Equipments	833	911	-9%	763	9%
Non Glasslined Equipments	485	648	-25%	629	-23%





GMM Pfaudler Ltd

Result Update Q4FY20

Profit & Loss A/c (Consolidated)						
YE March (INR. mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue	3,530	4,057	5,026	5,911	6,883	8,661
Growth %	20.9%	14.9%	23.9%	17.6%	16.5%	25.8%
Total Revenue	3,530	4,057	5,026	5,911	6,883	8,661
Less:						
Raw Material Consumed	1,493	1,685	2,329	2,544	2,892	3,566
Employee Cost	663	635	726	880	1,026	1,265
Other Expenses	899	1,160	1,204	1,375	1,598	2,008
Total Operating Expenditure	3,055	3,480	4,259	4,799	5,515	6,839
EBITDA	475	577	768	1,111	1,368	1,822
Growth %	35.9%	21.5%	33.0%	44.8%	23.1%	33.2%
Less: Depreciation	82	98	110	211	244	298
EBIT	393	479	658	900	1,124	1,524
Growth %	46.3%	22.0%	37.3%	36.9%	24.9%	35.6%
Interest Paid	9	10	12	35	22	25
Non-operating Income	59	101	87	58	58	58
Extraordinary Income	0	0	0	0	0	0
Profit Before tax	443	569	733	923	1,159	1,556
Tax	129	180	227	212	289	388
Net Profit	314	390	506	711	870	1,169
Adjusted Profit	314	390	506	711	870	1,169
Reported Diluted EPS Rs	21.5	26.7	34.6	48.7	59.5	80.0
Growth %	55.9%	24.3%	29.8%	40.6%	22.4%	34.3%
Adjusted Diluted EPS Rs	21.5	26.7	34.6	48.7	59.5	80.0
Growth %	55.9%	24.3%	29.8%	40.6%	22.4%	34.3%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (Rs. Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
PAT	314	390	506	711	870	1,169
(Less)/Add: Extraordinary Income/Expense	0	0	0	0	0	0
Less: Non Operating Income	(59)	(101)	(87)	(58)	(58)	(58)
Add: Depreciation	82	98	110	211	244	298
Add: Interest Paid	9	10	12	35	22	25
Tax Adjustment	0	0	0	0	0	0
Operating Profit before Working Capital Changes	346	397	541	900	1,079	1,434
(Inc)/Dec in Current Assets	(1,049)	(231)	103	(29)	(122)	(224)
Inc/(Dec) in Current Liabilities	623	464	(172)	(226)	225	414
Changes in Inventory	(114)	(134)	(198)	(104)	(207)	(378)
Net Cash Generated From Operations	(194)	496	273	541	975	1,246
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	556	(191)	(146)	(909)	(300)	(500)
(Inc)/Dec in Capital Work In Progress	23	(8)	(22)	34	0	0
(Inc)/Dec in Investment (Strategic)	0	0	0	0	0	0
(Inc)/Dec in Investment (Others)	43	(1)	(38)	17	(3)	(4)
Add: Non Operating Income	59	101	87	58	58	58
(Inc)/Dec in Intangible Assets	(2)	(44)	44	(2)	0	0
Net Cash Flow from/(used in) Investing Activities	679	(143)	(75)	(803)	(246)	(446)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	64	63	29	274	0	0
Inc/(Dec) in Reserves & Surplus	15	8	(36)	102	0	0
Inc/(Dec) in Equity	0	0	0	0	0	0
Dividend Paid	(58)	(58)	(58)	(73)	(73)	(73)
Less: Interest Paid	(9)	(10)	(12)	(35)	(22)	(25)
Adjustments	(715)	(4)	(31)	0	0	0
Exceptional Item	0	0	0	0	0	0
Net Cash Flow from Financing Activities	(704)	(2)	(108)	267	(95)	(98)
Net Inc/Dec in cash equivalents	(220)	351	90	6	634	702
Opening Balance	536	316	668	758	764	1,397
Closing Balance Cash and Cash Equivalents	316	668	758	764	1,397	2,099

Source: Company, BP Equities Research



GMM Pfaudler Ltd

Result Update Q4FY20

Balance Sheet (Consolidated)						
YE March(INR. mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Liabilities						
Equity Capital	29	29	29	29	29	29
Reserves & Surplus	1,909	2,248	2,660	3,400	4,197	5,293
Equity	1,938	2,278	2,689	3,429	4,226	5,322
Net Worth	1,938	2,278	2,689	3,429	4,226	5,322
Minority Interest						
Net Deferred tax liability/(Asset)	108	171	200	361	361	361
Total Loans	0	0	0	112	112	112
Capital Employed	2,046	2,448	2,889	3,903	4,700	5,795
Assets						
Gross Block	694	885	1,031	1,940	2,240	2,740
Less: Depreciation	82	176	255	466	710	1,008
Net Block	612	708	776	1,474	1,530	1,732
Capital WIP	20	28	50	16	16	16
Investments	13	14	52	34	38	42
Others - A	9	9	5	5	5	5
Current Assets						
Inventories	822	956	1,155	1,258	1,465	1,844
Sundry Debtors	699	505	672	743	866	1,089
Cash and Bank Balance	316	668	758	764	1,397	2,099
Loans and Advances	447	503	658	593	593	593
Other Current Assets	124	446	46	184	184	184
Current Investments	451	497	472	357	357	357
Total Current Assets	2,860	3,576	3,761	3,899	4,862	6,166
Less: Current Liabilities & Provisions						
Sundry Creditors	546	608	639	642	737	914
Provisions	354	498	365	104	104	104
Other Current Liabilities	567	824	754	787	917	1,154
Total Current Liabilities & Provisions	1,467	1,930	1,758	1,532	1,758	2,171
Capital Applied	2,046	2,448	2,889	3,903	4,700	5,795

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (Rs. mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Key Operating Ratios						
EBITDA Margin (%)	13%	14%	15%	19%	20%	21%
Tax / PBT (%)	29%	32%	31%	23%	25%	25%
Net Profit Margin (%)	9%	10%	10%	12%	13%	13%
RoE (%)	17%	18%	20%	23%	23%	24%
RoCE (%)	25%	28%	31%	31%	29%	31%
Current Ratio (x)	1.9	1.9	2.1	2.5	2.8	2.8
Dividend Payout (%)	19%	15%	12%	10%	10%	10%
Book Value Per Share (Rs.)	133	156	184	235	289	364
Financial Leverage Ratios						
Debt/ Equity (x)	0	0	0	0	0	0
Interest Coverage (x)	53	56	65	32	59	70
Growth Indicators %						
Growth in Gross Block (%)	-44%	28%	17%	88%	15%	22%
Sales Growth (%)	21%	15%	24%	18%	16%	26%
EBITDA Growth (%)	36%	21%	33%	45%	23%	33%
Net Profit Growth (%)	56%	24%	30%	41%	22%	34%
Diluted EPS Growth (%)	56%	24%	30%	41%	22%	34%
Turnover Ratios						
Debtors Days	72	45	49	46	46	46
Creditors Days	65	64	55	49	49	49
Inventory Days	85	86	84	78	78	78

Source: Company, BP Equities Research



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