

Maintaining growth momentum; Under Review (from SELL)

GMM Pfaudler Ltd (GMM), for Q2FY21, reported a decent set of numbers. Revenue grew by 21.7% YoY to INR 1863mn (est INR1,780mn) driven by strong growth in propitiatory products (~59% YoY) and 11.5% growth in glass-lined business. Despite a 144bps decline in gross margin, EBITDA margin improved by 115bps from 20% in Q2FY20 to 21.2% in Q2FY21 mainly led by a sharp improvement in GL margins and flat other expenses compared to improving sales. The current order book stands at INR 3,500mn (~59% of FY20 revenue), of which 50% pertains to Glass-lined and 50% Non –Glass-lined (25% each of Heavy engineering and Proprietary products). Net profit grew by 29% to INR 269mn (est. INR250mn) on account of healthy operational performance. GMM's Swiss-based subsidiary Mavag AG posted strong revenue of INR321mn +89% YoY (est 224mn) with EBITDA of INR27mn -33% (est INR40mn), and the profit came at INR18mn (est 27mn). As per management, Mavag has an order book of CHF20mn which is the highest ever and booked out till Aug 2021, which will be out-sourced to India (mainly for fabrication work), resulting in margin improvement.

Update on Hyderabad (DDPSI) plant:

The company has commenced operations at the Hyderabad plant on 19th October 2020. This facility is spread across an area of 6 acres with an annual capacity of 400 EUs (can be scaled up to 450 EUs). The management expects this acquisition will help the company to further strengthen its presence in the region. Currently, GMM has 2400 EU capacity at Karamsad Gujarat.

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 the recent acquisition of DDPSI plant with 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 (India + Mavag Ag business) Revenue/EBITDA/PAT to clock 21%/28%/29% CAGR during FY20-22E. However, with the stock now trading at P/E 46.5x(FY22E) multiples, we see risk-reward as less compelling from here as it is trading beyond its fundamental value. The thesis remains fully intact, with a rare combination of premium revenue growth and attractive margins. We believe the fair value for GMM India business (India+Mavag) is INR 2,835 (35x FY22e earnings). We keep our rating under review until the consolidation of the combined entity takes place (Pfaudler Inc +GMM Pfaudler).

Stock Rating

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

Sector Outlook

Neutral

Stock

CMP (INR)	3,768
Fair Price (INR)	2,835
BSE code	505255
NSE Symbol	GMPFPAUDLR
Bloomberg	GMM IN
Reuters	GMPF.BO

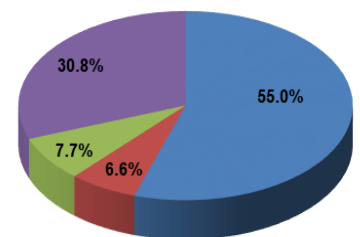
Key Data

Nifty	11,896
52WeekH/L(Inr)	6,900/1,353
O/s Shares (Mn)	14.6
Market Cap (Inr bn)	55
Face Value (Inr)	2

Average volume

3 months	1,08,674
6 months	79,670
1 year	58,850

Share Holding Pattern (%)

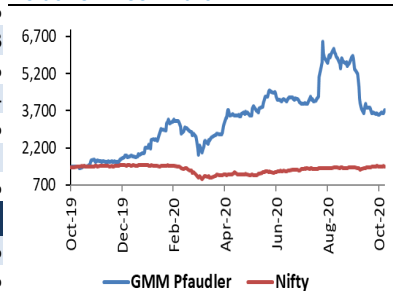


■ Promoter ■ FII ■ DII ■ Others

Key Financials (Consolidated)					
YE March (INR. mn)	FY18	FY19	FY20	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	1,377	1,833
Growth%	21%	33%	45%	24%	33%
Net Profit	390	506	711	852	1,184
Growth %	24%	30%	41%	20%	39%
Diluted EPS	27	35	49	58	81
Growth %	24%	30%	41%	20%	39%
Profitability & Valuation					
EBIDTA (%)	14.0%	15.3%	18.8%	20.0%	21.2%
NPM (%)	9.5%	10.1%	12.0%	12.4%	13.7%
RoE (%)	18.5%	20.4%	23.3%	22.3%	24.9%
RoCE (%)	27.7%	31.0%	30.7%	28.5%	32.5%
P/E (x)	141.3	108.9	77.4	64.6	46.5
EV/EBITDA (x)	94.3	70.8	49.0	39.3	28.9
P/BV (x)	24.2	20.5	16.1	13.1	10.4

Source: Company, BP Equities Research

Relative Price Chart



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GMM Pfaudler Ltd Q2FY21 Quarterly Result

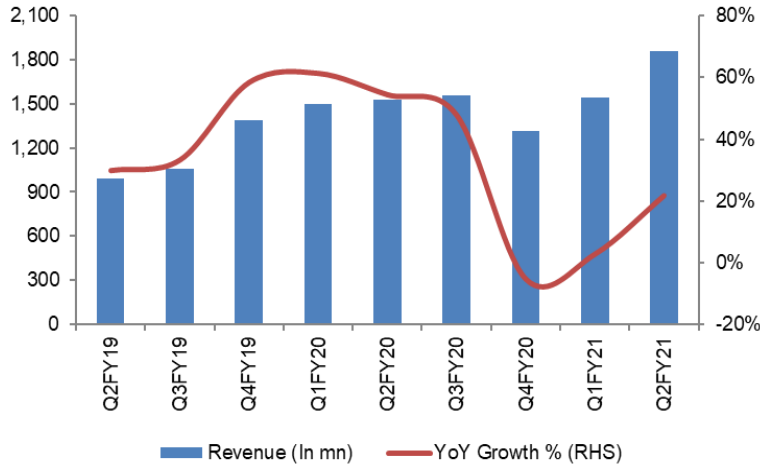
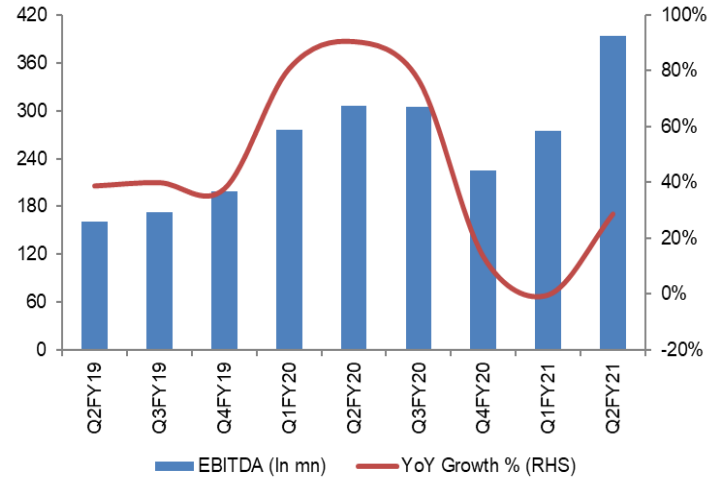
YE March (INR. mn)	Q2 FY21	Q1 FY21	Q-o-Q change %	Q2 FY20	Y-o-Y change %
Net Sales	1,863	1,544	20.6%	1,531	21.7%
Other Operating Income	0	0		0	
Total Revenue	1,863	1,544	20.6%	1,531	21.7%
Less:					
Raw Material Cost	809	741	9.1%	643	25.9%
Operating & Manufacturing Expenses	266	204	30.3%	264	0.8%
Employee Cost	393	324	21.3%	317	23.9%
Total Expenditure	1,468	1,269	15.7%	1,224	19.9%
EBIDTA	394	275	43.4%	306	28.7%
Less: Depreciation	61	60	2.6%	51	20.1%
EBIT	333	215	54.8%	255	30.4%
Less: Interest	17.7	11.7	51.6%	10.6	67.7%
Add: Other income	20	27		3	
Profit before tax	335	231	45.4%	248	35.4%
Adjusted Profit before Tax	335	231	45.4%	248	35.4%
Less: Total Tax	67	39	72.4%	40	68.1%
Profit After Tax	269	192	39.9%	208	29.2%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	269	192	39.9%	208	29.2%
Diluted EPS (Rs.)	18.4	13.1	39.9%	14.2	29.2%
Adjusted Diluted EPS	18.4	13.1	39.9%	14.2	29.2%
Diluted No of Share (mn)	14.6	14.6		14.6	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	21.2%	17.8%	337	20.0%	115
EBIT Margin %	17.9%	13.9%	395	16.7%	119
NPM %	14.4%	12.4%	199	13.6%	83
Effective Tax Rate %	19.9%	16.8%	313	16.1%	388

Source: Company, BP Equities Research

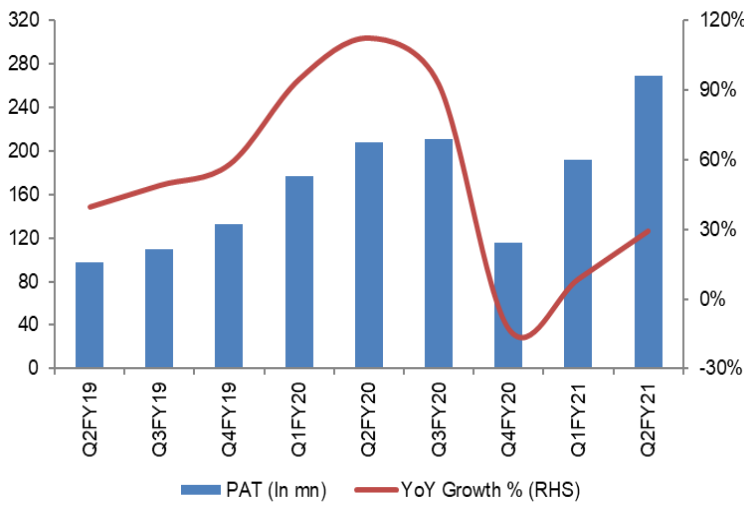
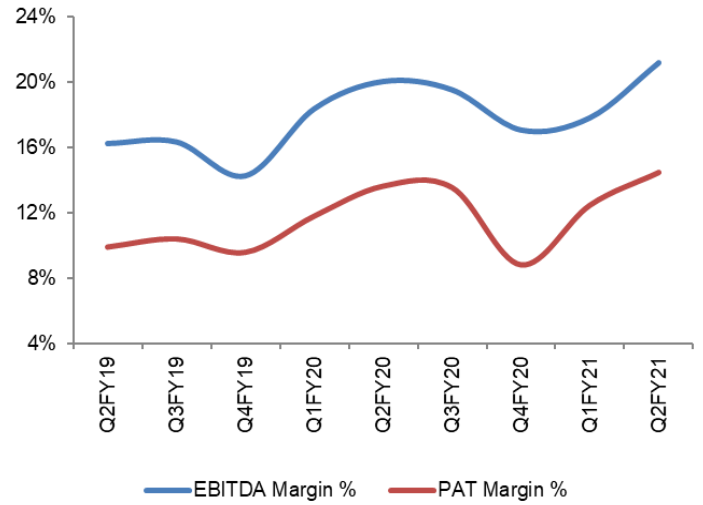
Revenue came above our estimates of INR 1780mn driven by strong growth in propitiatory products (~59% YoY) and 11.5% growth in glass-lined business

Adj. PAT came above our estimate of INR 250mn

The EBITDA margin, at 21.2% was 72bps above our estimate of 20.4% on account of healthy operational performance

Revenue grew by 21.7% YoY

EBITDA surged by 28.7%


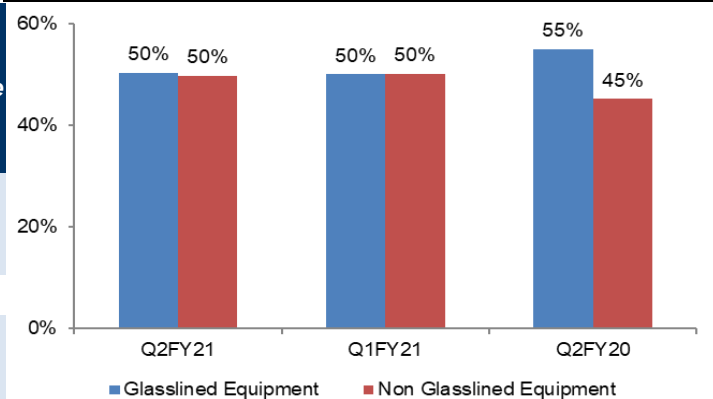
Source: Company, BP Equities Research

PAT showed growth of 29.2% YoY

EBITDA/ PAT margin trend


Source: Company, BP Equities Research

Both GL and Non GL business contributed equally during Q2FY21

Revenue Mix (INR. mn) (Consolidated)	Q2 FY21	Q1 FY21	Q-o-Q change %	Q2 FY20	Y-o-Y change %
Glasslined Equipments	936	772	21%	840	11%
Non Glasslined Equipments	926	772	20%	691	34%





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	1,589	1,998
Total Operating Expenditure	3,055	3,480	4,259	4,799	5,507	6,828
EBITDA	475	577	768	1,111	1,377	1,833
Growth %	35.9%	21.5%	33.0%	44.8%	23.9%	33.1%
Less: Depreciation	82	98	110	211	277	288
EBIT	393	479	658	900	1,099	1,544
Growth %	46.3%	22.0%	37.3%	36.9%	22.1%	40.5%
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	1,134	1,577
Tax	129	180	227	212	283	393
Net Profit	314	390	506	711	852	1,184
Adjusted Profit	314	390	506	711	852	1,184
Reported Diluted EPS Rs	21.5	26.7	34.6	48.7	58.3	81.0
Growth %	55.9%	24.3%	29.8%	40.6%	19.8%	39.0%
Adjusted Diluted EPS Rs	21.5	26.7	34.6	48.7	58.3	81.0
Growth %	55.9%	24.3%	29.8%	40.6%	19.8%	39.0%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (Rs. Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
PAT	314	390	506	711	852	1,184
(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	277	288
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	1,094	1,440
(Inc)/Dec in Current Assets	(1,049)	(231)	103	(29)	-122	-224
Inc/(Dec) in Current Liabilities	623	464	(172)	(226)	233	430
Changes in Inventory	(114)	(134)	(198)	(104)	-207	-378
Net Cash Generated From Operations	(194)	496	273	541	998	1,268
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	556	(191)	(146)	(909)	-600	-100
(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	-58	-63
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)	-600	-106
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	303	1,064
Opening Balance	536	316	668	758	764	1,067
Closing Balance Cash and Cash Equivalents	316	668	758	764	1,067	2,131

Source: Company, BP Equities Research



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	4,179	5,290
Equity	1,938	2,278	2,689	3,429	4,208	5,319
Net Worth	1,938	2,278	2,689	3,429	4,208	5,319
Minority Interest						
Net Deferred tax liability/(Asset)	108	171	200	361	896	896
Total Loans	0	0	0	112	112	112
Capital Employed	2,046	2,448	2,889	3,903	5,217	6,328
Assets						
Gross Block	694	885	1,031	1,940	2,512	2,612
Less: Depreciation	82	176	255	466	715	1,003
Net Block	612	708	776	1,474	1,797	1,608
Capital WIP	20	28	50	16	16	16
Investments	13	14	52	34	633	696
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	1,067	2,131
Loans and Advances	447	503	658	593	323	323
Other Current Assets	124	446	46	184	454	454
Current Investments	451	497	472	357	357	357
Total Current Assets	2,860	3,576	3,761	3,899	4,531	6,198
Less: Current Liabilities & Provisions						
Sundry Creditors	546	608	639	642	736	913
Provisions	354	498	365	104	48	48
Other Current Liabilities	567	824	754	787	981	1,235
Total Current Liabilities & Provisions	1,467	1,930	1,758	1,532	1,766	2,196
Capital Applied	2,046	2,448	2,889	3,903	5,217	6,328

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%	12%	14%
RoE (%)	17%	18%	20%	23%	22%	25%
RoCE (%)	25%	28%	31%	31%	28%	33%
Current Ratio (x)	1.9	1.9	2.1	2.5	2.6	2.8
Dividend Payout (%)	19%	15%	12%	10%	10%	10%
Book Value Per Share (Rs.)	133	156	184	235	288	364
Financial Leverage Ratios						
Debt/ Equity (x)	0	0	0	0	0	0
Interest Coverage (x)	53	56	65	32	62	73
Growth Indicators %						
Growth in Gross Block (%)	-44%	28%	17%	88%	31%	4%
Sales Growth (%)	21%	15%	24%	18%	16%	26%
EBITDA Growth (%)	36%	21%	33%	45%	24%	33%
Net Profit Growth (%)	56%	24%	30%	41%	20%	39%
Diluted EPS Growth (%)	56%	24%	30%	41%	20%	39%
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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