

Robust Performance in Glasslined segment : Maintain BUY

GMM Pfaudler Ltd (GMM), for Q3FY19, reported a strong set of numbers. Revenue grew at 33.2% YoY to Rs 1,056mn (est Rs 977mn). EBITDA showed growth of 39.9% YoY to Rs 172mn (est Rs157mn) with 78bps YoY improvement in margin from 15.5% in Q3FY18 to 16.3% in Q3FY19 due to higher export revenue from Glass lined segment (72% vs 61%) and lower operating expenses. Net profit surged by 48.8% to Rs 110mn (est. Rs 94mn) due to operationally strong performance and higher other income (Rs 21mn vs Rs 9mn). During the quarter, export share in revenue remain at 10%. Most of the export orders mainly lead by Pfaudler Inc(Parent) network.

Capacity Expansion in Glass lined Equipment business to tap increasing demand

GMM's GL sales volume in FY18 was ~1530 equivalent units with capacity utilization of 80%, registered 25% volume growth. GMM to undertake a capacity expansion plan at existing facility to increase capacity from 170 vessels per month to 200 vessels per month by FY20 and there after 230 per month by FY21. In 9MFY19 ,capacity utilization level was at 93% level given the strong order book (9-10 months), Management is targeting to achieve 1,850 equivalent units in by the end of FY19 (20-21% volume growth from FY18).Revenue contribution from pharmaceutical industry restricted to 30% during Q3FY19 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, management expects recovery in the pharmaceuticals sector as capex cycle is to poised to witness better pace. They are already getting enquiries from few companies from the Hyderabad region. Currently, The Company had 5 furnaces– 3 electric and 2 natural gas. During Feb 18 company installed an additional natural gas furnace, post the installation of which, use of the electric furnaces stopped. As a result, the company will save power cost, which was already visible during 9MFY19. The company is now planning to install one more natural gas furnace for increased capacity. Given the above factors, we expect GMM's GL revenue to grow at CAGR of 32.5% over FY18- 20E ,with overall revenue growth of 26.6% during the same period .

Non- Glass lined business: Additional Avenue of growth

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 inflow of the orders. The Non-GL business contributed 28% of Standalone revenue in Q3FY19. The Company is also bringing Mavag's high-end technology for filtration, drying and mixing applications to GMM's India business. We expect this to help in accelerating growth in GMM India's Non glass lined equipment segment. We observed that the shares of NGL business have been consistently increasing and reached 38% in FY18 compared to an average of 35% (Including Mavag's revenue). With health export opportunity in Non GL business lead by Pfaudler Inc (Parent) network, we expect gradual increase in export share from 10% to 15% going forward. We modeled 18% revenue growth in Non-GL (excl Mavag AG) over FY18-20E.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (Rs)	1,090
Target Price (Rs)	1,273
BSE code	505255
NSE Symbol	GMPFAUDLR
Bloomberg	GMM IN
Reuters	GMMP.BO

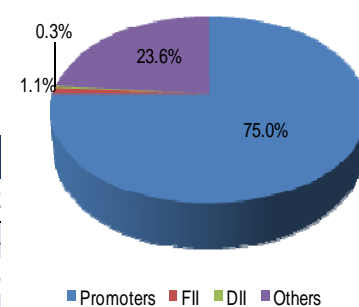
Key Data

Nifty	10,831
52WeekH/L(Rs)	1,289/636
O/s Shares (Mn)	14
Market Cap (Rs bn)	15
Face Value (Rs)	2

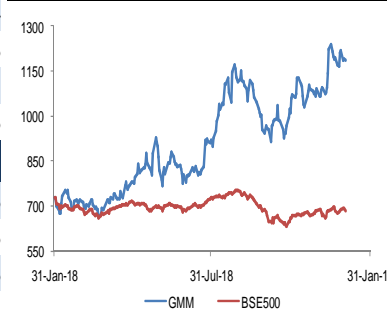
Average volume

3 months	4,770
6 months	6,660
1 year	6,740

Share Holding Pattern (%)



Relative Price Chart



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Key Financials

YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2,921	3,530	4,110	5,256	6,584
Growth %	-5%	21%	16%	28%	25%
EBIDTA	350	475	577	844	1,141
Growth%	1%	36%	21%	46%	35%
Net Profit	201	314	390	561	744
Growth %	7%	56%	24%	44%	33%
Diluted EPS	14	21	27	38	51
Growth %	7%	56%	24%	44%	33%

Profitability & Valuation

EBIDTA (%)	12%	13%	14%	16%	17%
NPM (%)	7%	9%	9%	11%	11%
RoE (%)	13%	17%	18%	22%	24%
RoCE (%)	19%	25%	28%	34%	37%
P/E (x)	79.2	50.8	40.9	28.4	21.4
EV/EBITDA (x)	44.0	32.9	26.5	17.4	12.3
P/BV (x)	9.5	8.2	7.0	5.7	4.6

Source: Company, BP Equities Research



GMM Pfaudler Ltd Q3FY19 Quarterly Result

YE March (Rs. mn)	Q3 FY19	Q2 FY19	Q-o-Q change %	Q3 FY18	Y-o-Y change %
Net Sales	1,056	992	6.5%	792	33.2%
Other Operating Income	0	0		0	
Total Revenue	1,056	992	6.5%	792	33.2%
Less:					
Raw Material Cost	512	482	6.2%	319	60.6%
Operating & Manufacturing Expenses	271	244	11.0%	264	2.7%
Employee Cost	101	105	(4.0%)	87	16.5%
Total Expenditure	884	831	6.3%	669	32.0%
EBIDTA	172	161	7.1%	123	39.9%
Less: Depreciation	28	26	5.2%	21	33.1%
EBIT	145	135	7.4%	102	41.3%
Less: Interest	3.2	3.4	(6.4%)	2.1	56.3%
Add: Other income	21	19		9	
Profit before tax	162	150	8.2%	109	48.9%
Adjusted Profit before Tax	162	150	8.2%	109	48.9%
Less: Total Tax	53	52	1.4%	35	49.1%
Profit After Tax	110	98	11.8%	74	48.8%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	110	98	11.8%	74	48.8%
Diluted EPS (Rs.)	7.5	6.7	11.8%	5.0	48.8%
Adjusted Diluted EPS	7.5	6.7	11.8%	5.0	48.8%
Diluted No of Share (mn)	14.6	14.6		14.6	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	16.3%	16.2%	9	15.5%	78
EBIT Margin %	13.7%	13.6%	13	12.9%	78
NPM %	10.4%	9.9%	50	9.3%	108
Effective Tax Rate %	32.4%	34.6%	(216)	32.4%	5

Revenue were higher than our estimates of Rs 905mn lead by robust growth in GL Segment

Adj. PAT came above our estimate of Rs 91mn, on the back of operationally strong performance

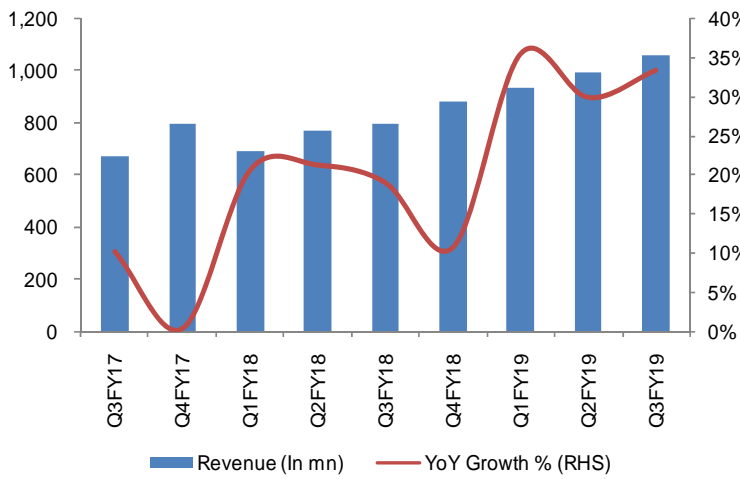
The EBITDA margin, at 16.3% was slightly above our estimate of 16.1% mainly due to high contribution from GL business (72% vs 61% (YoY)) and lower operational expenses.

Source: Company, BP Equities Research

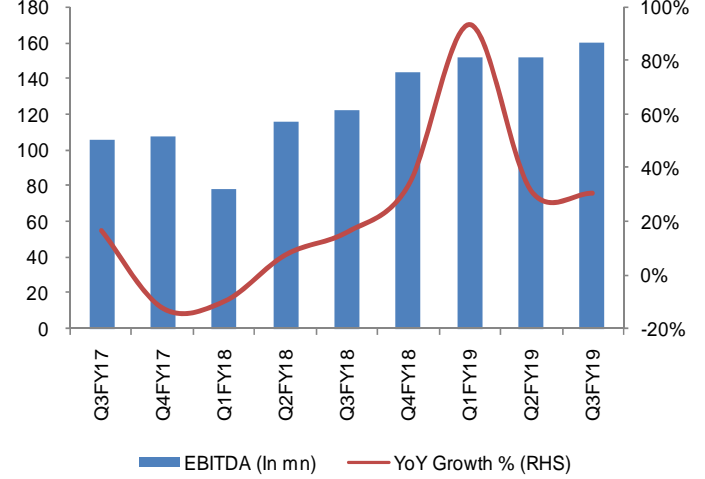
Valuation and Outlook :

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 for next 2-3 years on the back of growing domestic demand in domestic market. We believe GMM is well placed to capture the opportunity from increasing demand through brownfield 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 Revenue/EBITDA/PAT to clock 26.6%/40.6%/38.2% CAGR during FY18-20E. At the current market price (of Rs 1,090) the company is trading at 28.4x its FY19E EPS of Rs 38.4 and 21.4x its FY20E EPS of Rs 50.9. We believe with the strong brand name, sticky client base, superior growth in NGL and thus deserve a premium valuation. We maintain our 'BUY' rating on the stock by assigning 25x (0.65x to PEG) of its FY20E earnings with a upward revised target price of Rs 1,273.

Strong revenue growth of 33.2% YoY

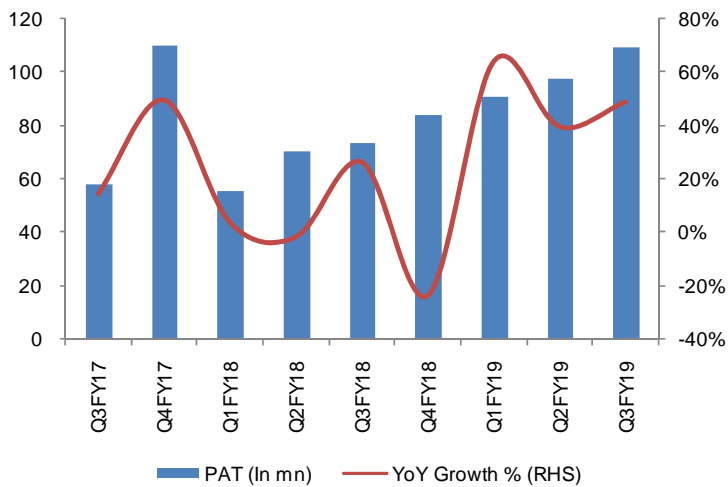


EBITDA surged by 39.9% YoY

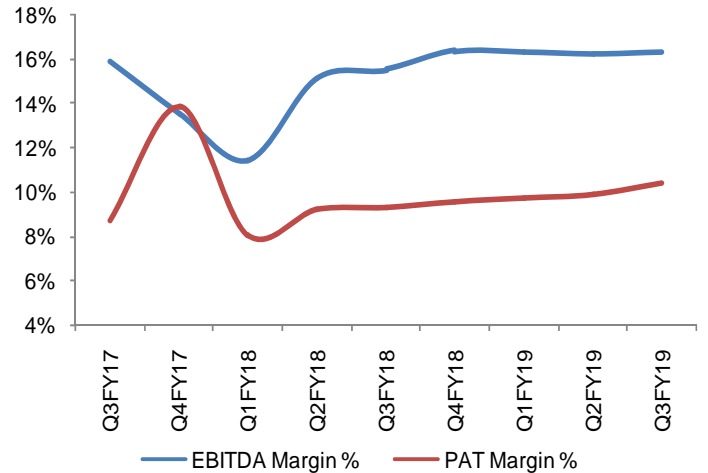


Source: Company, BP Equities Research

PAT showed growth of 48.8% YoY



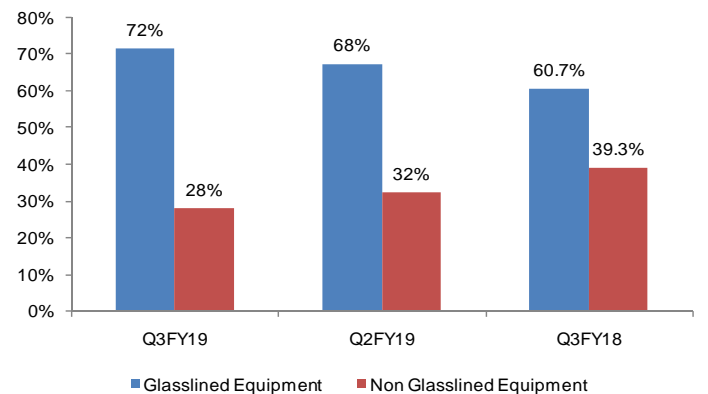
EBITDA/ PAT margin trend



Source: Company, BP Equities Research

GL business contribution increased during Q3FY19

Revenue Mix (Rs. mn)	Q3 FY 19	Q2 FY19	Q-o-Q change %	Q3 FY18	Y-o-Y change %
Glasslined Equipments	757	671	12.9%	481	57.4%
Non Glasslined Equipments	299	321	-7.0%	311	-4.1%





Profit & Loss A/c (Consolidated)						
YE March (Rs. mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue	3,076	2,921	3,530	4,057	5,256	6,584
Growth %	10.3%	-5.1%	20.9%	14.9%	29.6%	25.3%
Total Revenue	3,076	2,921	3,530	4,057	5,256	6,584
Less:						
Raw Material Consumed	1,339	1,207	1,493	1,685	2,157	2,639
Employee Cost	555	562	663	635	794	969
Other Expenses	835	803	899	1,160	1,462	1,835
Total Operating Expenditure	2,730	2,571	3,055	3,480	4,412	5,443
EBITDA	346	350	475	577	844	1,141
Growth %	4.3%	0.9%	35.9%	21.5%	46.2%	35.3%
Less: Depreciation	98	81	82	98	116	139
EBIT	248	268	393	479	727	1,002
Growth %	2.0%	8.2%	46.3%	22.0%	51.8%	37.7%
Interest Paid	5	7	9	10	8	11
Non-operating Income	39	36	59	101	101	101
Extraordinary Income	0	0	0	0	0	0
Profit Before tax	282	298	443	569	820	1,092
Tax	93	97	129	180	259	348
Net Profit	189	201	314	390	561	744
Adjusted Profit	189	201	314	390	561	744
Reported Diluted EPS Rs	12.9	13.8	21.5	26.7	38.4	50.9
Growth %	-1.0%	6.6%	55.9%	24.3%	44.0%	32.6%
Adjusted Diluted EPS Rs	12.9	13.8	21.5	26.7	38.4	50.9
Growth %	-1.0%	6.6%	55.9%	24.3%	44.0%	32.6%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (Rs. Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
PAT	188.7	201.2	313.6	389.7	561.1	743.9
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(38.9)	(36.4)	(59.2)	(100.6)	(100.6)	(100.6)
Add: Depreciation	98.3	81.2	82.3	97.9	116.2	139.3
Add: Interest Paid	5.2	6.9	9.0	10.3	8.4	10.5
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	253.2	252.8	345.7	397.3	585.1	793.2
(Inc)/Dec in Current Assets	42.9	(117.4)	(1,049.1)	(230.5)	(149.3)	(165.4)
Inc/(Dec) in Current Liabilities	(109.7)	43.4	622.9	463.6	554.2	502.1
Changes in Inventory	108.5	34.0	(113.9)	(133.9)	(282.7)	(313.1)
Net Cash Generated From Operations	294.9	212.9	(194.4)	496.4	707.3	816.7
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(16.7)	(124.3)	555.5	(190.8)	(120.0)	(200.0)
(Inc)/Dec in Capital Work In Progress	(31.8)	5.1	23.2	(7.7)	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)	(6.6)	0.7	42.9	(1.0)	(1.4)	(1.5)
Add: Non Operating Income	38.9	36.4	59.2	100.6	100.6	100.6
(Inc)/Dec in Intangible Assets	0.0	0.0	(2.1)	(44.3)	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(16.2)	(82.0)	678.7	(143.2)	(20.8)	(100.9)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	(7.7)	5.3	64.0	62.7	0.0	0.0
Inc/(Dec) in Reserves & Surplus	(30.1)	6.7	14.7	8.1	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(43.9)	(43.9)	(58.5)	(58.5)	(58.5)	(58.5)
Less: Interest Paid	(5.2)	(6.9)	(9.0)	(10.3)	(8.4)	(10.5)
Adjustments	(21.1)	(26.0)	(715.3)	(3.9)	0.0	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(108.0)	(64.8)	(704.0)	(1.8)	(66.9)	(69.0)
Net Inc/Dec in cash equivalents	170.8	66.0	(219.8)	351.4	619.6	646.8
Opening Balance	299.4	470.2	536.3	316.5	667.9	1,287.5
Closing Balance Cash and Cash Equivalents	470.2	536.3	316.5	667.9	1,287.5	1,934.3

Source: Company, BP Equities Research



Balance Sheet (Consolidated)

YE March(Rs. mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Liabilities						
Equity Capital	29	29	29	29	29	29
Reserves & Surplus	1,475	1,639	1,909	2,248	2,751	3,436
Equity	1,504	1,668	1,938	2,278	2,780	3,466
Net Worth	1,504	1,668	1,938	2,278	2,780	3,466
Minority Interest						
Net Deferred tax liability/(Asset)	39	44	108	171	171	171
Total Loans	0	0	0	0	0	0
Capital Employed	1,543	1,713	2,046	2,448	2,951	3,637
Assets						
Gross Block	1,125	1,249	694	885	1,005	1,205
Less: Depreciation	660	715	82	176	292	432
Net Block	465	534	612	708	712	773
Capital WIP	48	43	20	28	28	28
Investments	57	56	13	14	15	17
Others - A	7	7	9	9	9	9
Current Assets						
Inventories	743	709	822	956	1,239	1,552
Sundry Debtors	380	487	699	505	655	820
Cash and Bank Balance	470	536	316	668	1,288	1,934
Loans and Advances	32	26	447	503	503	503
Other Current Assets	32	29	124	446	446	446
Current Investments	110	130	451	497	497	497
Total Current Assets	1,767	1,917	2,860	3,576	4,627	5,752
Less: Current Liabilities & Provisions						
Sundry Creditors	357	307	546	608	919	1,151
Provisions	47	35	354	498	498	498
Other Current Liabilities	396	502	567	824	1,068	1,338
Total Current Liabilities & Provisions	800	844	1,467	1,930	2,484	2,987
Capital Applied	1,543	1,713	2,046	2,448	2,951	3,637

Source: Company, BP Equities Research

Key Ratios (Consolidated)

YE March (Rs. mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Key Operating Ratios						
EBITDA Margin (%)	11.3%	12.0%	13.5%	14.2%	16.1%	17.3%
Tax / PBT (%)	33.1%	32.5%	29.2%	31.6%	31.5%	31.9%
Net Profit Margin (%)	6.1%	6.9%	8.9%	9.6%	10.7%	11.3%
RoE (%)	13.0%	12.7%	17.4%	18.5%	22.2%	23.8%
RoCE (%)	18.8%	18.6%	25.4%	27.7%	34.1%	36.7%
Current Ratio (x)	2.2x	2.3x	1.9x	1.9x	1.9x	1.9x
Dividend Payout (%)	23.2%	21.8%	21.8%	21.8%	21.8%	21.8%
Book Value Per Share (Rs.)	102.9	114.2	132.6	155.8	190.2	237.1
Financial Leverage Ratios						
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	66.6x	50.8x	52.8x	56.0x	100.3x	108.3x
Growth Indicators %						
Growth in Gross Block (%)	1.5%	11.0%	(44.5%)	27.5%	13.6%	19.9%
Sales Growth (%)	10.3%	(5.1%)	20.9%	14.9%	29.6%	25.3%
EBITDA Growth (%)	4.3%	0.9%	35.9%	21.5%	46.2%	35.3%
Net Profit Growth (%)	(1.0%)	6.6%	55.9%	24.3%	44.0%	32.6%
Diluted EPS Growth (%)	(1.0%)	6.6%	55.9%	24.3%	44.0%	32.6%
Turnover Ratios						
Debtors Days	45	61	72	45	45	45
Creditors Days	42	38	65	64	64	64
Inventory Days	88	89	85	86	86	86

Source: Company, BP Equities Research

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