August 13, 2018

GMM Pfaudler Limited

Performance Update

Standalone (₹ cr)	Q1FY19	Q1FY18	% yoy	Q4FY18	% qoq
Net sales	93.2	76.4	35.4	87.9	6.1
EBITDA	15.3	10.7	42.2	14.4	6.0
EBITDA margin (%)	16.4%	11.4%		16.4%	
Adjusted PAT	9.1	5.6	63.9	8.4	7.9

For Q1FY2019, GMM Pfaudler (GMM) posted a growth of 35.4%/63.9% yoy growth in revenue/ PAT amid ~494 bps margin expansion. The company is seeing good traction from its user industries like agrochemicals, which would drive 15-20% revenue growth in next two years. In view of robust demand, it is expanding its capacities by 25% in FY2019.

Healthy order book: Q1's top-line rose by 35% led by robust execution in glass line and proprietary products segment. Its Q1FY2019 closing order backlog is the highest ever order book achieved. Pharma sector share has come down from historical 50% to 35%. Orders from Pharma City in Hyderabad has started pouring in which has further boosted the company's order book.

Margins were decent: Operating margin were robust at 16.4% due to better product mix and cost optimization. GMM is likely to sustain operating margin at ~16-17% level. Its subsidiary is also doing well and likely to maintain robust revenue run rate and margins for the year.

Outlook and Valuation: We have increased earnings estimates for improvement in margins and robust order book. We are expecting a CAGR of ~19%/26% in revenue/ earnings over FY18-20E. The stock has given 44% return since our initiation in April and is currently trading at 17x its FY2020 earnings which still looks attractive given its robust earnings growth trajectory. **Hence, we recommend BUY with a target price of ₹1200 (26x FY2020E EPS).**

Key Financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Net Sales	292.1	353.0	405.7	480.8	577.6
% chg	-5.1	20.9	14.9	18.5	20.1
Net Profit	19.9	33.3	42.7	56.1	67.4
% chg	6.4	67.0	28.3	31.6	20.0
EBITDA (%)	12.0	13.5	15.3	17.1	17.1
EPS (Rs)*	13.6	22.8	29.2	38.5	46.2
P/E (x)	59.0	35.3	27.5	20.9	17.4
P/BV (x)	7.0	6.0	5.1	4.2	3.5
RoE (%)	11.9	17.1	18.5	20.2	20.1
RoCE (%)	16.1	20.3	22.7	25.7	25.8
EV/EBITDA	31.7	23.0	17.4	12.8	10.3
EV/Sales	3.8	3.1	2.7	2.2	1.8

Source: Company, Angel Research

BUY

CMP	₹1024
Target Price	₹1200
Investment Period	12 Months

Stock Info	
Sector	Industrial Machinery
Market Cap (₹ cr)	1,497
Beta	0.7
52 Week High / Low	1057/510
Avg. Daily Volume	3,460
Face Value (₹)	2
BSE Sensex	37,869
Nifty	11,429
Reuters Code	GMMP.BO
Bloomberg Code	GMM.IN

Shareholding Pattern (%)	
Promoters	75.0
MF / Banks / Indian FIs	0.7
FII / NRIs / OCBs	0.4
Indian Public / Others	23.9

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Exhibit 1: Q1 results at a glance

Standalone results -₹ cr	Q1FY18	Q4FY18	Q1FY19	YoY %	QoQ %
Net Sales	**68.9**	**87.9**	**93.2**	**35.4%**	**6.1%**
Raw Material Consumed	31.7	40.6	47.7	50.6%	17.5%
Stock Adjustment	-1.1	-3.4	2.3	-315.0%	-169.5%
Employee Expenses	8.6	9.5	9.9	15.7%	3.9%
Other Expenses	21.8	26.7	18.0	-17.6%	-32.7%
Total Expenditure	**61.0**	**73.5**	**78.0**	**27.8%**	**6.1%**
Raw Material Consumed	46%	46%	51%		
Stock Adjustment	-2%	-4%	3%		
Employee Expenses	12%	11%	11%		
Other Expenses	32%	30%	19%		
PBIDT	**10.7**	**14.4**	**15.3**	**42.2%**	**6.0%**
Other Income	2.9	2.1	1.3	-54.1%	-36.4%
Interest	0.5	0.2	0.2	-61.8%	-27.7%
Depreciation	2.0	2.2	2.5	29.6%	13.4%
PBT	8.3	14.0	13.9	66.4%	-0.9%
Tax	2.8	5.6	4.8	71.5%	-14.2%
Profit After Tax	5.6	8.4	9.1	63.9%	7.9%
Ratios					
EBITDA margin %	11.4%	16.4%	16.4%		
PAT margin %	8.1%	9.6%	9.8%		
Tax rate %	33.4%	39.7%	34.4%		

Exhibit 2: Segmental performance

₹ cr	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	YoY	QoQ
Total Segment Revenue	**74.1**	**76.4**	**79.2**	**87.9**	**93.2**	**25.8%**	**6.1%**
Glass Lined Equipments	52.9	53.6	48.1	64.0	65.9	24.7%	3.0%
Heavy Engineering	9.4	9.2	8.5	9.9	10.4	10.4%	4.9%
Proprietary Products	11.8	13.6	22.6	13.9	16.9	42.8%	21.0%
Non GL segment	**21.2**	**22.8**	**31.1**	**23.9**	**27.3**	28.4%	14.3%
As a % of revenue							
Glass Lined Equipments	71%	70%	61%	73%	71%		
Heavy Engineering	13%	12%	11%	11%	11%		
Proprietary Products	16%	18%	29%	16%	18%		
Non GL segment	29%	30%	39%	27%	29%		
PBIT	**9.5**	**13.1**	**12.4**	**16.3**	**16.6**	**75.3%**	**1.5%**
Glass Lined Equipments	8.1	11.6	9.5	13.4	13.1	62.2%	-1.8%
Heavy Engineering	0.8	0.9	0.8	1.5	2.3	194.5%	52.3%
Proprietary Products	0.6	0.6	2.0	1.5	1.2	97.3%	-20.0%
Non-GL segment	**1.4**	**1.5**	**2.8**	**3.0**	**3.5**	152.6%	16.8%
PBIT margin %	**12.8%**	**17.2%**	**15.6%**	**18.6%**	**17.8%**		
Glass-Lined segment	15.3%	21.6%	19.8%	20.9%	19.9%		
Heavy Engineering	8.3%	9.9%	9.7%	15.2%	22.1%		
Proprietary Products	5.0%	4.5%	8.8%	10.4%	6.9%		

Source: Company

Risks to our estimates

- GMM's primary raw material is steel; any abrupt fluctuation in pricing will adversely impact its profitability.
- Business may get impacted owing to the inability to get break through with new clients or slowdown in capex by its clients.
- GMM has market exposure to foreign exchange rates mainly on account of exports, imports and investments in foreign subsidiary, and therefore, it is subjected to the exchange fluctuation risk.

Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Total operating income	292.1	353.0	405.7	480.8	577.6
% chg	-5.1	20.9	14.9	18.5	20.1
Total Expenditure	257.1	305.3	336.7	398.4	478.6
COGS	173.4	209.6	240.9	285.5	343.0
Selling and Administration Expenses	19.2	22.1	23.7	28.1	33.7
Personnel	56.2	66.1	63.5	75.3	90.4
Others Expenses	8.4	7.6	8.7	9.6	11.6
EBITDA	34.9	47.7	69.0	82.4	99.0
% chg	-2.8	36.6	44.5	19.5	20.1
(% of Net Sales)	12.0	13.5	17.0	17.1	17.1
Depreciation& Amortisation	8.1	8.2	9.8	10.8	12.7
EBIT	26.8	39.5	59.2	71.6	86.3
% chg	2.7	47.3	49.8	21.0	20.5
(% of Net Sales)	9.2	11.2	14.6	14.9	14.9
Interest & other Charges	0.7	0.9	1.0	1.0	1.0
Other Income	3.6	8.3	9.4	10.8	12.4
(% of Sales)	1.2	2.3	2.3	2.2	2.1
Extraordinary Items	-	-	-	-	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	29.8	46.9	67.5	81.4	97.7
% chg	5.6	57.4	44.1	20.5	20.0
Tax	9.7	13.6	18.0	25.2	30.3
PAT (reported)	**19.9**	**33.3**	**42.7**	**56.1**	**67.4**
% chg	6.4	67.0	28.3	31.6	20.0
(% of Net Sales)	6.8	9.4	10.5	11.7	11.7
Basic & Fully Diluted EPS (Rs)	13.6	22.8	29.2	38.5	46.2
% chg	6.4	67.0	28.3	31.6	20.0

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	2.9	2.9	2.9	2.9	2.9
Reserves& Surplus	163.9	191.9	227.9	275.3	332.1
Shareholders Funds	**166.8**	**194.8**	**230.8**	**278.2**	**335.0**
Minority Interest	-	-	-	-	-
Total Loans	-	-	-	-	-
Other Liab & Prov	4.4	11.1	11.6	12.1	12.8
Total Liabilities	**171.3**	**205.9**	**242.4**	**290.3**	**347.8**
APPLICATION OF FUNDS					
Net Block	53.4	61.2	66.4	70.6	72.9
Capital Work-in-Progress	4.3	2.0	2.0	2.0	2.0
Investments	13.7	44.6	64.6	84.6	94.6
Current Assets	**178.6**	**207.9**	**233.2**	**273.2**	**346.6**
Inventories	70.9	82.3	94.5	112.0	134.6
Sundry Debtors	48.7	69.9	80.3	95.2	114.4
Cash	53.6	31.7	30.6	33.1	58.2
Loans & Advances	5.5	24.1	27.7	32.8	39.4
Other Assets	-	-	-	-	-
Current liabilities	84.4	113.2	127.9	144.9	174.1
Net Current Assets	**94.2**	**94.7**	**105.3**	**128.2**	**172.5**
Other Non Current Asset	5.6	3.4	4.1	4.8	5.8
Total Assets	**171.3**	**205.9**	**242.4**	**290.3**	**347.8**

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	29.8	46.9	60.7	81.4	97.7
Depreciation	8.1	8.2	9.8	10.8	12.7
Change in Working Capital	(2.0)	(12.8)	(9.7)	(20.5)	(19.2)
Interest / Dividend (Net)	-	-	-	-	-
Direct taxes paid	(9.6)	(14.0)	(18.0)	(25.2)	(30.3)
Others	1.8	5.3	-	-	-
Cash Flow from Operations	**24.7**	**23.0**	**42.8**	**46.5**	**60.9**
(Inc.)/ Dec. in Fixed Assets	(13.9)	(14.4)	(15.0)	(15.0)	(15.0)
(Inc.)/ Dec. in Investments	0.3	0.1	-	-	-
Cash Flow from Investing	**(17.0)**	**(22.0)**	**(36.9)**	**(35.4)**	**(25.5)**
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	-	-	-	-	-
Others	6.0	6.3	6.7	8.8	10.5
Cash Flow from Financing	(6.0)	(6.3)	(6.7)	(8.8)	(10.5)
Inc./(Dec.) in Cash	1.7	(5.3)	(0.8)	2.3	24.9
Opening Cash balances	34.7	36.4	31.1	30.3	32.6
Closing Cash balances	36.4	31.1	30.3	32.6	57.5
Free cash Flow	10.8	8.6	27.8	31.5	45.9

Key Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Valuation Ratio (x)					
P/E (on FDEPS)	59.0	35.3	27.5	20.9	17.4
P/CEPS	31.6	20.7	16.3	12.7	10.6
P/BV	7.0	6.0	5.1	4.2	3.5
Dividend yield (%)	0.4	0.5	0.5	0.6	0.7
EV/Sales	3.8	3.1	2.7	2.2	1.8
EV/EBITDA	31.7	23.0	17.4	12.8	10.3
EV / Total Assets	6.5	5.3	4.5	3.6	2.9
Per Share Data (₹)					
EPS (Basic)	13.6	22.8	29.2	38.5	46.2
EPS (fully diluted)	13.6	22.8	29.2	38.5	46.2
Cash EPS	25.5	38.9	49.4	63.5	76.1
DPS	3.0	4.0	4.0	5.0	6.0
Book Value	114.3	133.4	158.1	190.5	229.5
Returns (%)					
ROCE	16.1	20.3	22.7	25.7	25.8
Angel ROIC (Pre-tax)	25.8	30.5	35.5	41.5	44.2
ROE	11.9	17.1	18.5	20.2	20.1
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.6	3.1	3.2	3.4	3.7
Inventory / Sales (days)	89	85	85	85	85
Receivables (days)	61	72	72	72	72
Payables (days)	101	115	115	110	110
WC cycle (ex-cash) (days)	48	42	42	47	47

Source: Company, Angel Research

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Disclosure of Interest Statement	GMM Pfaudler
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on Expected Returns: over 12 months investment period) *Buy (> 15%)* *Accumulate (5% to 15%)* *Neutral (-5 to 5%)* *Reduce (-5% to -15%)* *Sell (< -15%)*