

January 31, 2019

## GMM Pfaudler Limited

### Performance Update

Standalone (₹ cr)	Q3FY19	Q3FY18	% yoy	Q2FY19	% qoq
<b>Net sales</b>	<b>105.6</b>	<b>79.2</b>	<b>33%</b>	<b>99.2</b>	<b>6%</b>
EBITDA	16.7	12.3	35%	16.0	5%
EBITDA margin (%)	15.8%	15.5%		16.1%	
<b>Adjusted PAT</b>	<b>10.9</b>	<b>7.4</b>	<b>48%</b>	<b>9.7</b>	<b>7%</b>

For Q3FY2019, GMM Pfaudler (GMM) posted a yoy growth of 33%/48% in revenue/ PAT amid ~25 bps margin expansion. The company is seeing good traction from its user industries like agrochemicals and pharmaceuticals which are seeing robust capex owing to slowdown in China.

**Healthy order book:** Q3's top-line growth was led by robust execution in Glass line equipment segment. While pharma sector share has come down from historical 50% to 40%, the company is seeing good orders from the new Pharma City that is being set up in Hyderabad which has further boosted the company's order book. Specialty chemicals and agro chemicals forms ~60% of M9FY2019's revenue.

**Margins were decent:** Operating margin were robust at 15.8% 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 maintained earnings estimates for robust growth outlook from the user industries. We are expecting a CAGR of ~21%/28% in revenue/ earnings over FY18-20E. The stock has given 54% return since our initiation in April and is currently trading at 23x its FY2020 earnings which still looks attractive given its robust earnings growth trajectory. **Hence, we recommend**

**Accumulate with a target price of ₹1200 (25x FY2020E EPS).**

### Key Financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Net Sales</b>	292.1	353.0	405.7	502.8	591.6
% chg	-5.1	20.9	14.9	23.9	17.7
<b>Net Profit</b>	19.9	33.3	42.7	58.7	69.0
% chg	6.4	67.0	28.3	37.6	17.5
EBITDA (%)	12.0	13.5	15.3	17.1	17.1
<b>EPS (Rs)*</b>	13.6	22.8	29.2	40.2	47.3
P/E (x)	80.5	48.2	37.6	27.3	23.2
P/BV (x)	9.6	8.2	6.9	5.7	4.7
RoE (%)	11.9	17.1	18.5	21.0	20.4
RoCE (%)	16.1	20.3	22.7	26.9	26.2
EV/EBITDA	44.0	32.0	24.3	17.3	14.3
EV/Sales	5.3	4.3	3.7	3.0	2.5

Source: Company, Angel Research, closing price at the end of 31st January 2019

## Accumulate

CMP	₹1098
Target Price	₹1200

Investment Period	12 Months
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### Stock Info

Sector	Industrial Machinery
Market Cap (₹ cr)	1,608
Beta	0.8
52 Week High / Low	1200/663
Avg. Daily Volume	3,343
Face Value (₹)	2
BSE Sensex	36,257
Nifty	10,830
Reuters Code	GMMP.BO
Bloomberg Code	GMM.IN

### Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	1.0
FII / NRIs / OCBs	0.3
Indian Public / Others	23.7

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**Exhibit 1: Q3 results at a glance**

Standalone results – ₹ cr	Q3FY18	Q2FY19	Q3FY19	YoY %	QoQ %	M9FY19	M9FY18	YoY %
<b>Net Sales</b>	<b>79.2</b>	<b>99.2</b>	<b>105.6</b>	<b>33.3%</b>	6.4%	<b>298.0</b>	<b>224.5</b>	32.7%
Raw Material Consumed	37.9	49.7	59.8	57.8%	4.2%	<b>157.3</b>	<b>107.6</b>	46.2%
Stock Adjustment	-6.0	-1.6	-8.6	43.1%	-166.4%	<b>-7.8</b>	<b>-13.5</b>	-41.9%
Employee Expenses	8.7	10.5	10.1	16.5%	6.3%	<b>30.5</b>	<b>26.9</b>	13.3%
Other Expenses	26.4	24.5	27.7	4.8%	36.2%	<b>70.1</b>	<b>71.7</b>	-2.2%
<b>Total Expenditure</b>	<b>66.9</b>	<b>83.2</b>	<b>88.9</b>	<b>32.8%</b>	6.7%	<b>250.1</b>	<b>192.7</b>	29.7%
<b>EBITDA</b>	<b>12.3</b>	<b>16.0</b>	<b>16.7</b>	<b>35.4%</b>	<b>4.8%</b>	<b>47.9</b>	<b>31.8</b>	<b>50.8%</b>
Other Income	0.9	1.9	2.1	140.8%	42.1%	<b>5.3</b>	<b>5.0</b>	5.7%
Interest	0.2	0.3	0.3	53.3%	100.0%	<b>0.8</b>	<b>0.8</b>	4.8%
Depreciation	2.1	2.6	2.8	32.9%	3.4%	<b>7.9</b>	<b>6.1</b>	30.7%
PBT	10.9	14.9	15.7	43.8%	7.4%	<b>44.4</b>	<b>29.9</b>	48.5%
Tax	3.5	5.2	5.3	50.5%	8.7%	<b>15.3</b>	<b>10.0</b>	53.1%
<b>Reported PAT</b>	<b>7.4</b>	<b>9.7</b>	<b>10.9</b>	<b>47.7%</b>	<b>6.7%</b>	<b>29.7</b>	<b>20.0</b>	48.8%
<b>Ratios</b>								
EBITDA margin %	15.5%	16.1%	15.8%			16.1%	14.2%	
PAT margin %	9.3%	9.8%	10.3%			10.0%	8.9%	
Tax rate %	32.4%	34.8%	33.9%			34.4%	33.3%	

**Exhibit 2: Segmental performance**

₹ cr	Q3FY18	Q2FY19	Q3FY19	YoY %	QoQ %	M9FY19	M9FY18	YoY %
Revenue from Operations	79.2	99.2	106.6	34.5%	6.4%	299.0	229.8	30.1%
Glass Lined Equipments	48.1	67.1	76.7	59.5%	1.7%	209.7	154.6	35.7%
Heavy Engineering	8.5	13.7	9.9	15.5%	31.4%	33.9	27.2	24.9%
Proprietary Products	22.6	18.4	20.0	-11.5%	9.3%	55.3	48.0	15.1%
Non GL segment	31.1	32.1	29.9	-4.1%	17.7%	89.2	75.2	18.7%
<b>As a % of revenue</b>								
Glass Lined Equipments	61%	68%	72%			70%	67%	
Heavy Engineering	11%	14%	9%			11%	12%	
Proprietary Products	29%	19%	19%			18%	21%	
Non GL segment	39%	32%	28%			30%	33%	
<b>PBIT</b>	<b>12.4</b>	<b>16.6</b>	<b>17.6</b>	<b>26.2%</b>	<b>-0.2%</b>	<b>50.7</b>	<b>34.9</b>	<b>45.1%</b>
Glass Lined Equipments	9.5	12.0	13.9	3.8%	-8.3%	39.1	29.2	33.8%
Heavy Engineering	0.8	2.3	1.4	154.6%	0.9%	6.0	2.5	137.4%
Proprietary Products	2.0	2.2	2.3	261.3%	89.3%	5.6	3.2	75.9%
Non-GL segment	2.8	4.5	3.6	197.4%	30.6%	11.6	5.7	103.0%
<b>PBIT margin %</b>	<b>15.6%</b>	<b>16.7%</b>	<b>16.5%</b>			<b>17.0%</b>	<b>15.2%</b>	
Glass-Lined segment	19.8%	17.9%	18.2%			18.6%	18.9%	
Heavy Engineering	9.7%	16.9%	13.7%			17.6%	9.3%	
Proprietary Products	8.8%	12.0%	11.3%			10.2%	6.6%	
Non-GL segment	9.1%	14.1%	12.1%			13.0%	7.6%	

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
<b>Total operating income</b>	292.1	353.0	405.7	502.8	591.6
% chg	-5.1	20.9	14.9	23.9	17.7
<b>Total Expenditure</b>	257.1	305.3	336.7	416.6	490.2
COGS	173.4	209.6	240.9	298.5	351.3
Selling and Administration Expenses	19.2	22.1	23.7	29.3	34.5
Personnel	56.2	66.1	63.5	78.7	92.6
Others Expenses	8.4	7.6	8.7	10.1	11.8
<b>EBITDA</b>	34.9	47.7	69.0	86.2	101.4
% chg	-2.8	36.6	44.5	24.9	17.7
(% 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
<b>EBIT</b>	26.8	39.5	59.2	75.4	88.7
% chg	2.7	47.3	49.8	27.4	17.7
(% of Net Sales)	9.2	11.2	14.6	15.0	15.0
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	2.1	2.1
Extraordinary Items	-	-	-	-	-
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	29.8	46.9	67.5	85.1	100.1
% chg	5.6	57.4	44.1	26.1	17.5
Tax	9.7	13.6	18.0	26.4	31.0
<b>PAT (reported)</b>	<b>19.9</b>	<b>33.3</b>	<b>42.7</b>	<b>58.7</b>	<b>69.0</b>
% chg	6.4	67.0	28.3	37.6	17.5
(% of Net Sales)	6.8	9.4	10.5	11.7	11.7
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>13.6</b>	<b>22.8</b>	<b>29.2</b>	<b>40.2</b>	<b>47.3</b>
% chg	6.4	67.0	28.3	37.6	17.5

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	2.9	2.9	2.9	2.9	2.9
Reserves & Surplus	163.9	191.9	227.9	277.5	335.7
<b>Shareholders Funds</b>	<b>166.8</b>	<b>194.8</b>	<b>230.8</b>	<b>280.4</b>	<b>338.6</b>
Minority Interest	-	-	-	-	-
Total Loans	-	-	-	-	-
Other Liab & Prov	4.4	11.1	11.6	12.1	12.8
<b>Total Liabilities</b>	<b>171.3</b>	<b>205.9</b>	<b>242.4</b>	<b>292.5</b>	<b>351.4</b>
<b>APPLICATION OF FUNDS</b>					
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
<b>Current Assets</b>	<b>178.6</b>	<b>207.9</b>	<b>233.2</b>	<b>281.7</b>	<b>354.3</b>
Inventories	70.9	82.3	94.5	117.1	137.8
Sundry Debtors	48.7	69.9	80.3	99.5	117.1
Cash	53.6	31.7	30.6	30.7	58.9
Loans & Advances	5.5	24.1	27.7	34.3	40.4
Other Assets	-	-	-	-	-
Current liabilities	84.4	113.2	127.9	151.5	178.3
<b>Net Current Assets</b>	<b>94.2</b>	<b>94.7</b>	<b>105.3</b>	<b>130.2</b>	<b>176.0</b>
Other Non Current Asset	5.6	3.4	4.1	5.0	5.9
<b>Total Assets</b>	<b>171.3</b>	<b>205.9</b>	<b>242.4</b>	<b>292.5</b>	<b>351.4</b>

**Consolidated Cash flow Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	29.8	46.9	60.7	85.1	100.1
Depreciation	8.1	8.2	9.8	10.8	12.7
Change in Working Capital	(2.0)	(12.8)	(9.7)	(24.8)	(17.6)
Interest / Dividend (Net)	-	-	-	-	-
Direct taxes paid	(9.6)	(14.0)	(18.0)	(26.4)	(31.0)
Others	1.8	5.3	-	-	-
<b>Cash Flow from Operations</b>	<b>24.7</b>	<b>23.0</b>	<b>42.8</b>	<b>44.7</b>	<b>64.2</b>
(Inc.)/ Dec. in Fixed Assets	(13.9)	(14.4)	(15.0)	(15.0)	(15.0)
(Inc.)/ Dec. in Investments	0.3	0.1	-	-	-
<b>Cash Flow from Investing</b>	<b>(17.0)</b>	<b>(22.0)</b>	<b>(36.9)</b>	<b>(35.4)</b>	<b>(25.5)</b>
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	-	-	-	-	-
Others	6.0	6.3	6.7	9.2	10.8
<b>Cash Flow from Financing</b>	<b>(6.0)</b>	<b>(6.3)</b>	<b>(6.7)</b>	<b>(9.2)</b>	<b>(10.8)</b>
Inc./(Dec.) in Cash	1.7	(5.3)	(0.8)	0.1	27.9
<b>Opening Cash balances</b>	<b>34.7</b>	<b>36.4</b>	<b>31.1</b>	<b>30.3</b>	<b>30.4</b>
<b>Closing Cash balances</b>	<b>36.4</b>	<b>31.1</b>	<b>30.3</b>	<b>30.4</b>	<b>58.3</b>
Free cash Flow	10.8	8.6	27.8	29.7	49.2

**Key Ratios**

Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	80.5	48.2	37.6	27.3	23.2
P/CEPS	43.1	28.2	22.2	16.6	14.1
P/BV	9.6	8.2	6.9	5.7	4.7
Dividend yield (%)	0.3	0.4	0.4	0.5	0.6
EV/Sales	5.3	4.3	3.7	3.0	2.5
EV/EBITDA	44.0	32.0	24.3	17.3	14.3
EV / Total Assets	9.0	7.4	6.2	5.1	4.1
<b>Per Share Data (₹)</b>					
EPS (Basic)	13.6	22.8	29.2	40.2	47.3
EPS (fully diluted)	13.6	22.8	29.2	40.2	47.3
Cash EPS	25.5	38.9	49.4	66.1	77.8
DPS	3.0	4.0	4.0	5.2	6.1
Book Value	114.3	133.4	158.1	192.0	231.9
<b>Returns (%)</b>					
ROCE	16.1	20.3	22.7	26.9	26.2
Angel ROIC (Pre-tax)	25.8	30.5	35.5	42.5	44.8
ROE	11.9	17.1	18.5	21.0	20.4
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	2.6	3.1	3.2	3.6	3.8
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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<b>Disclosure of Interest Statement</b>	<b>GMM Pfaudler</b>
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

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