

May 18, 2018

GMM Pfaudler Limited

Performance Update

Standalone (₹ cr)	Q4FY18	Q4FY17	% yoy	Q3FY18	% qoq
Net sales	88	79	10.9	79	11
EBITDA	14	11	36.6	12	16.9
EBITDA margin (%)	16.4%	13.3%	308bps	15.5%	83.5bps
Adjusted PAT	8.4	7.4	14.1	7.4	14

For Q4FY2018, GMM Pfaudler (GMM) posted a growth of 11%/14% yoy growth in revenue/ PAT amid ~300 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.

Healthy order book: Q4's top-line rose by 11% led by robust execution. Its subsidiary- MAVAG also did quite well with 7% yoy growth in FY2018 revenue. Its FY2019 opening order backlog is much higher than that of FY2018. Pharma sector share has come down from historical 50% to 30% of revenue. Orders from Pharma City is likely to pick up in the next 6-9 months.

Margins were decent: Operating margin were robust at 16.4% due to better product mix and cost optimization. MAVAG has almost tripled its FY2018 profits to ₹14 cr owing to better absorption of fixed cost. MAVAG is likely to sustain operating margin at ~17% level.

Outlook and Valuation: We have fine tuned our earnings estimates in view of FY2018 results. We are expecting a CAGR of ~18%/20% in revenue/ earnings over FY18-20E. The stock has given 21% return since our initiation in April and is currently trading at 20x its FY2020 earnings which largely trails its earnings growth trajectory. **Hence, we recommend Accumulate with a target price of ₹920 (22x FY2020E EPS).**

Key Financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	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	51.7	62.0
% chg	6.4	67.0	28.3	21.1	20.0
EBITDA (%)	12.0	13.5	15.3	15.8	15.8
EPS (Rs)*	13.6	22.8	29.2	35.4	42.5
P/E (x)	63.4	38.0	29.6	24.4	20.4
P/BV (x)	7.6	6.5	5.5	4.6	3.9
RoE (%)	11.9	17.1	18.5	18.8	19.0
RoCE (%)	16.1	20.3	22.7	23.7	24.0
EV/EBITDA	34.2	24.9	18.8	15.1	12.3
EV/Sales	4.1	3.4	2.9	2.4	1.9

Source: Company, Angel Research

Accumulate

CMP	₹865
Target Price	₹920

Investment Period	12 Months
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Stock Info

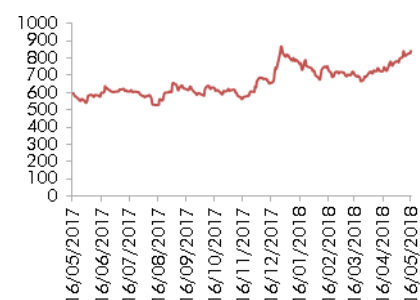
Sector	Industrial Machinery
Market Cap (₹ cr)	1,265
Beta	0.7
52 Week High / Low	884/504
Avg. Daily Volume	5,837
Face Value (₹)	2
BSE Sensex	33,597
Nifty	10,682
Reuters Code	GMMP.BO
Bloomberg Code	GMM.IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	0.4
FII / NRIs / OCBs	0.1
Indian Public / Others	24.5

Abs.(%)	3m	1yr	3yr
BSE 200	1.9	11.7	32.8
GMM Pfaudler	18.6	65.0	225.0

3-year price chart



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Exhibit 1: Q4 results at a glance

Standalone results -₹ cr	Q4FY18	Q4FY17	YoY %	Q3FY18	QoQ %
Net Sales	88	79	10.9%	79	10.9%
Raw Material Consumed	41	37	10.7%	38	7.2%
Stock Adjustment	-3	-1	332.2%	-6	-44.1%
Employee Expenses	10	9	6.6%	9	9.9%
Other Expenses	27	24	11.0%	26	1.3%
Total Expenditure	73	69	6.6%	67	9.8%
EBITDA	14	11	36.6%	12	16.9%
Other Income	2	1	76.6%	1	140.2%
Interest	0	0	-27.9%	0	13.3%
Depreciation	2	2	17.3%	2	7.7%
PBT	14	9	47.5%	11	28.3%
Tax	6	2	167.2%	4	57.4%
Profit After Tax	8	7	14.1%	7	14.4%
Ratios					
EBITDA margin	16.4%	13.3%		15.5%	
PATmargin %	9.6%	9.3%		9.3%	
Tax rate %	39.7%	21.9%		32.4%	

Source: Company

Exhibit 2: Segmental performance

	Standalone			Consolidated			Subsidiaries		
	FY18	FY17	YOY	FY18	FY17	YOY	FY18	FY17	YOY
Glass Lined Equipments	219	195	12%	219	195	12%			
Heavy Engineering	37	47	-21%	37	47	-21%			
Proprietary Products	62	49	26%	155	136	14%	93	87	7.6%
Non GL segment	99	96	3%	192	183	5%	93	87	7.6%
Total Segment Revenue	318	291	9%	411	378	9%	93	87	7.6%
As a % of revenue									
Glass Lined Equipments	69%	67%		53%	52%				
Heavy Engineering	12%	16%		9%	12%				
Proprietary Products	20%	17%		38%	36%				
Non GL segment	31%	33%		47%	48%				
Profit/Loss Before Interest and Tax									
	52	45	14%	68	52	31%	16	6	160%
Glass Lined Equipments	43	36	20%	43	36	20%			
Heavy Engineering	4	7	-40%	4	7	-40%			
Proprietary Products	5	3	49%	21	9	126%	16	6	167%
Non-GL segment	9	10	-12%	25	16	55%	16	6	167%
PBIT margin %									
	16.3%	15.6%		16.4%	13.6%		17.1%	7.1%	
Glass-Lined segment	19.6%	18.3%		19.6%	18.3%				
Heavy Engineering	10.9%	14.4%		10.9%	14.4%				
Proprietary Products	7.5%	6.4%		13.2%	6.7%		17.1%	6.9%	
Non-GL segment	8.8%	10.3%		12.8%	8.7%		17.1%	6.9%	

Source: Company

Outlook and Valuation

We have fine tuned our earnings estimates in view of FY2018 results. We are expecting a CAGR of ~18%/20% in revenue/ earnings over FY18-20E. The stock has given 21% return since our initiation in April and is currently trading at 20x its FY2020 earnings which largely trails the earnings growth trajectory. **Hence, we recommend Accumulate with a target price of ₹920 (22x FY2020E EPS).**

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	FY2018E	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	404.9	486.4
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	81.7	98.2
Others Expenses	8.4	7.6	8.7	9.6	11.6
EBITDA	34.9	47.7	69.0	75.9	91.2
% chg	-2.8	36.6	44.5	10.1	20.1
(% of Net Sales)	12.0	13.5	17.0	15.8	15.8
Depreciation & Amortisation	8.1	8.2	9.8	10.8	12.7
EBIT	26.8	39.5	59.2	65.1	78.5
% chg	2.7	47.3	49.8	10.1	20.5
(% of Net Sales)	9.2	11.2	14.6	13.5	13.6
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	74.9	89.9
% chg	5.6	57.4	44.1	10.9	20.0
Tax	9.7	13.6	18.0	23.2	27.9
PAT (reported)	19.9	33.3	42.7	51.7	62.0
% chg	6.4	67.0	28.3	21.1	20.0
(% of Net Sales)	6.8	9.4	10.5	10.8	10.7
Basic & Fully Diluted EPS (Rs)	13.6	22.8	29.2	35.4	42.5
% chg	6.4	67.0	28.3	21.1	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	271.5	323.8
Shareholders Funds	166.8	194.8	230.8	274.4	326.8
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	286.6	339.6
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	269.4	338.3
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	29.3	49.9
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	124.5	164.2
Other Non Current Asset	5.6	3.4	4.1	4.8	5.8
Total Assets	171.3	205.9	242.4	286.6	339.6

Consolidated Cashflow Statement

Y/E March (₹cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	29.8	46.9	60.7	74.9	89.9
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)	(23.2)	(27.9)
Others	1.8	5.3	-	-	-
Cash Flow from Operations	24.7	23.0	42.8	42.0	55.6
(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	8.1	9.7
Cash Flow from Financing	(6.0)	(6.3)	(6.7)	(8.1)	(9.7)
Inc./(Dec.) in Cash	1.7	(5.3)	(0.8)	(1.5)	20.4
Opening Cash balances	34.7	36.4	31.1	30.3	28.8
Closing Cash balances	36.4	31.1	30.3	28.8	49.2

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)					
P/E (on FDEPS)	63.4	38.0	29.6	24.4	20.4
P/CEPS	33.9	22.2	17.5	14.6	12.2
P/BV	7.6	6.5	5.5	4.6	3.9
Dividend yield (%)	0.3	0.5	0.5	0.5	0.6
EV/Sales	4.1	3.4	2.9	2.4	1.9
EV/EBITDA	34.2	24.9	18.8	15.1	12.3
EV / Total Assets	7.0	5.8	4.8	4.0	3.3
Per Share Data (Rs)					
EPS (Basic)	13.6	22.8	29.2	35.4	42.5
EPS (fully diluted)	13.6	22.8	29.2	35.4	42.5
Cash EPS	25.5	38.9	49.4	59.1	70.7
DPS	3.0	4.0	4.0	4.6	5.5
Book Value	114.3	133.4	158.1	188.0	223.8
Returns (%)					
ROCE	16.1	20.3	22.7	23.7	24.0
Angel ROIC (Pre-tax)	25.8	30.5	35.5	37.7	40.3
ROE	11.9	17.1	18.5	18.8	19.0
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. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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