

GMM Pfaudler Limited

CMP : ₹1456.95

Target price: ₹2250

HP* : Upto 3 years

Our Vriddhi Pick for the month of September is GMM Pfaudler Limited (GMMP). It is a leading supplier of process equipment to the pharmaceutical and chemical industries. It is the market leader in manufacturing glass lined equipment. Over the years, it has diversified its product portfolio to include mixing systems, filtration & drying equipment, engineered systems and heavy engineering equipment and has become a one-stop shop for the chemical process industry. The revenue mix for FY19 consisted of glass lined equipment - 68%, heavy engineering - 13%, mixing systems - 5%, engineered systems - 6% and filtration & dyeing - 8%.

Major business from glass lined equipment

The company earns bulk of its revenue from the glass-lined (GL) equipment business. GL shipment and orders grew by 33% from Rs 218.59 crore to Rs 285.01 crore and by 21% from Rs 241.27 crore to Rs 351.2 crore, respectively, in FY19. This business segment will continue to remain its largest and most important business vertical in the upcoming years. Recently, it adopted a new rationalised method of measuring production output in terms of Equivalent Units (EUs). In FY19, it manufactured 1860 EUs and has expanded capacity of its existing facility by 200 vessels per month in June and, thereafter, it plans to raise it to 240 per month by FY21. The company's management is targeting to achieve 2400 EUs by the end of FY20 and plans 20% volume growth in FY21.

GL equipment is anti-corrosive, which prevents materials from corrosion in extreme conditions or from harsh materials like acids, alkalis, water, and other chemicals. This is helpful in processes of operation from production of pharmaceuticals to specialty chemicals and polymers. GMMP has good quality GL equipment which last for 7-10 years. It has competitive edge considering high product quality and innovative technology. It enjoys market leadership and has high entry barriers in the industry.

Innovation and growth in HE business

In FY19, the company handled equipment newly commissioned with total weight of 770 MT. In terms of value, the break-up of the materials used was carbon steel (12%), stainless steel (55%), clad steel (26%) and exotic materials (7%). Also, the HE division manufactured the biggest equipment enabling it to be a part of the small and exclusive group of companies that can handle such large sizes.

Acquisition of IMSD of Sudarshan Chemical

In April 2019, GMMP acquired the Industrial Mixing Solutions Division (IMSD) of Sudarshan Chemical Industries Ltd., Pune. The acquisition of IMSD would enhance GMMP's industrial mixing business vertical by bringing in new products, technologies, customers and industry segments. Significant cost synergies are expected due to economies of scale, value

*HP : Holding Period

Company Details

Industry	Engineering - Industrial Equipments
Chairman	S Sivaram
Managing Director	Tarak A Patel
Company Secretary	Mittal Mehta
ISIN	INE541A01023
Bloomberg Code	GMM IN
BSE Code	505255

Key Market Indicators (Consolidated)

Latest Date	11-Sep-2019
Latest Price (Rs)	1456.95
Previous Close (Rs)	1452.65
1 Day Price Var%	-1.09
1 Year Price Var%	29.56
52 Week High (Rs)	1522.45
52 Week Low (Rs)	877.10
Beta	0.78
Face Value (Rs)	2.00
Industry PE	18.10
TTM Period	201903
TTM EPS(Rs)	34.60
TTM CEPS(Rs)	42.11
Price/TTM CEPS(x)	33.51
TTM PE (x)	40.79
Price/BV(x)	7.20
EV/TTM EBIDTA(x)	23.26
EV/TTM Sales(x)	3.95
Dividend Yield%	0.32
MCap/TTM Sales(x)	4.10
Latest Book Value (Rs)	196.08
Market Cap (Rs. In Crores)	2062.97
EV (Rs. In Crores)	1987.17
Latest no. of shares (In Crores)	1.46

Share Holding Pattern as on 201906

Promoter No of shares (In Crores)	1.10
Promoter %	75.00
FII No of Shares (In Crores)	0.01
FII %	0.37
Total No of Shares (In Crores)	1.46
Free Float %	25.00

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engineering and by leveraging the strengths of both the organisations. With this acquisition, GMMP would now have access to other markets, namely, minerals, metals, sugar, food, etc. and have deeper penetration in paint manufacturing industry. With this, the company's overall non-GL business would get traction in the upcoming quarters.

Order book giving revenue visibility

The company's order backlog at the beginning of FY20 was 50% higher than FY19. Considering its current order book, the management has expected revenue visibility over next 2-3 quarters. It is expecting good order inflow in Q2FY20 generating higher topline in FY20.

Growth in exports and performance of Mavag AG

GMMP has 100% Switzerland-based subsidiary Mavag AG acquired in 2008. The contribution by Mavag AG towards GMMP's FY19 revenue was 17%. It has emerged as a technology leader in Europe and has been able to increase its market share by adopting low cost sourcing initiative. It has also been working with Pfaudler USA to develop its market there. Also, the exports are expected to rise with the share of exports going up to more than 15% of the total revenue. In the upcoming years, the management plans to take the share of exports to 20%. Currently, the economy in Europe is witnessing slowdown and hence the management expects the business would grow in higher single digits in the short run. However, in the long run, with the company gaining market share in Europe and the US, the business would grow in double digits.

Dip in operating expenses due to NG furnace

In February 2018, the company installed an additional natural gas furnace, post the installation of which the use of the electric furnaces has stopped. Significant saving in power cost led to higher operating profits during FY19. The company would be installing one more natural gas furnace in September 2019 for increasing capacity, which would further lead to decline in power and fuel costs. The rise in steel prices, which is one of its key raw material, will be offset by the decline in power & fuel prices.

Financial performance

The company's standalone revenue for Q1FY20 came in at Rs. 150.26 crore as against Rs. 112.31 crore in the corresponding quarter last year, registering 33.8% yoy increase. The EBITDA for the quarter rose by 67.1% yoy to Rs. 27.57 crore as against Rs. 16.5 crore in the corresponding quarter last year, with a corresponding margin expansion of 366 bps. EBITDA margin for the quarter stood at 18.3%. The PAT for the quarter came in at Rs. 17.69 crore as against Rs. 11.45 crore in the corresponding quarter last year, an increase of 54.5% yoy.

The company's revenue and PAT has grown at CAGR of 25.5% each over FY17-19. It has healthy balance sheet and is generating good free cash flows and has been debt-free over the years. It funds its capex through internal accruals.

Valuation

GMM Pfaudler is trading at TTM P/E of 40.7x with TTM EPS of 34.60. For FY19, it has delivered ROE and ROCE of 20.3% and 29.9%, respectively. Till date, the stock has outperformed the benchmark index BSE Sensex. With



Glass lined equipment business will continue to remain its largest and most important vertical in upcoming years



Handled newly commissioned equipment under HE division



Acquisition of IMSD of Sudarshan Chemical will give access to other various industries

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	502.64	405.70	353.03	292.08	307.63
Total Income	511.30	415.11	358.95	295.72	311.52
Total Expenditure	425.89	343.64	305.52	257.11	272.99
PBITD	85.42	71.47	53.43	38.61	38.53
PAT	50.58	42.68	31.36	20.11	18.87
Dividend %	225.00	200.00	200.00	150.00	150.00
Adj. EPS(Rs)	34.61	29.20	21.45	13.76	12.91

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201906	201806	Y on Y Var%
Net Sales	150.27	112.31	33.80
Total Expenditure	122.68	95.82	28.04
PBITD (Excl OI)	27.59	16.49	67.28
PAT	17.69	11.45	54.50
PBITM% (Excl OI)	18.36	14.68	25.07
PBITM%	19.24	17.42	10.45
PATM%	11.77	10.20	15.39
Adj. EPS(Rs)	12.10	7.83	54.53

capacity expansion and leadership market position, we expect growth in the topline and net profit and hence the current high valuation is justified. Considering the strong balance sheet, capacity expansion, consistent growth rate, we expect potential upside of 54% with a target price of Rs 2250 over a period of three years. Considering the volatile market condition, we urge investors to buy on dips.

About the Company

GMM Pfaudler was established under the name Gujarat Machinery Manufacturers in 1962. Later, in 1987, it formed a Joint venture with Pfaudler Inc, the world leader in glass-lined equipment, wherein Pfaudler subscribed to 40% equity. Pfaudler further increased its stake to 51% in 1999 and, consequently, the name of the company was changed to GMM Pfaudler. The company's production facility is spread across 20-acre factory at Karamsad, Gujarat. It also has a Switzerland-based subsidiary by the name of Mavag, which was acquired in 2008.



**Subsidiary Mavag AG
exploring the US and
European markets**



**Installation of natural
gas furnace leading
to higher operating
profits**



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