Sector: Industrial Machinery | RESULT REVIEW Q1FY22 | Declared On: 12 Aug 2021

GMM Pfaudler Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs4309	Rs332	Rs5200	21%	BUY	63.0

**as on 18th Aug, 2021*

About the Company:

GMM Pfaudler Limited (GMM) is a leading supplier of engineered equipment and systems which have critical applications in the pharmaceutical and chemical market. The company pioneers in manufacturing Glass-lined steel equipment's which have applications in pharmaceutical, chemical, petrochemical, pesticide and food industries. The company is also involved in designing, manufacturing and marketing of glass-lined reactor vessels, storage tanks, valves and pipe & fittings. GMM is an ISO 9001:2008 company. The company has also been approved by Special Equipment Licensing Office (SELO) for the supply of pressure vessels to the Peoples Republic of China. GMM has its manufacturing plant located at Karamsad in Gujarat.

Results: Quick Glance

On a **standalone basis**, Net sales came in at Rs1714mn as compared to Rs1309mn in the same quarter last year, growth of 30.9%; Ebitda margins for the quarter under review stood at 25.52% as compared to 18.56% in the corresponding quarter last year; Net profit came in at Rs259mn as against Rs164mn in the same quarter last year while the EPS for the quarter under review stood at Rs17.68 as compared to Rs11.19 in the corresponding quarter last year.

On a **consolidated level,** Net sales came in at Rs5517mn as compared to Rs1544mn in the same quarter last year; Ebitda margins for the quarter under review stood at 6.51% as compared to 17.80% in the corresponding quarter last year; Net loss came in at Rs184mn as against profit of Rs192mn in the same quarter last year while the EPS for the quarter under review stood at Rs(-1.77) as compared to Rs13.13 in the corresponding quarter last year.

The Board of Directors have announced a first interim dividend of Rs1/ per share for FY22.

Other Highlights:

- In terms of the integration process, the company has now completely handed over the whole integration process to internal teams and is working with the local geographies and local offices to extend the operational excellence, the cross selling and the low-cost sourcing models, so as to increase market share and profitability.
- The **India business** has shown strong resilience with strong improvement in both revenue and profitability. The order intake across all verticals remained very strong, especially driven by heavy engineering (HE) where the company has made significant inroads into the oil and gas and petrochemicals segments. The company has received large order from L&T close to more than Rs1bn worth of heavy engineering business for the oil and gas and the petrochemical segment, and the Vatva facility which is acquired, the new order will be manufactured there.
- The **International business** is doing better than guided. On Pfaudler International business front, turnaround is seen in German and Chinese facilities. For Germany, the facility there has gone from loss making to positive or close to USD1mn of Ebitda. China also has turned around and has made a good start this quarter and has turned profitable. Normag, Italy, UK, Benelux are also on track. The company is now in the process of adding some capacity in Brazil so that it can cater to the growing US market.
- The current order backlog at Mavag is close to about 38 million Swiss Franc. Mavag has received an order for 8 million Swiss Franc during the quarter, which is the largest single order in Mavag's history, taking their backlog to about 38.5 million Swiss Francs.
- At the end of Q1FY22, the group level order backlog stood at Rs17bn. On the domestic front, the order intake has improved significantly and is up by about 120%. So, the order intake during this quarter was close to Rs2900mn. The current backlog compared to previous year same time has increased by 60% at Rs5bn.
- Most of the Pfaudler facilities are booked and it is looking at adding capex in certain areas to free up some capacity.
- On a standalone basis 91% of the revenue came from Technologies business, 3% from Systems and 5% from Services. The standalone business has done close to 25%+ margins and they are sustainable as per the Management. India will continue to grow at a similar rate for the next few years. The newly acquired factory will help free up some capacity in Karamsad. GMM is looking at adding two new furnaces, one in Karamsad (operational Q1FY23E) and one in Hyderabad (operational Q4FY22E). On the international front, the group is looking at adding a new furnace in Brazil that is about USD400,000.
- Gross debt stands at USD73mn with USD30mn cash in hand, so the net debt turns out to be at USD43mn on a global basis. For Pfaudler and Mavag combined it is Rs1780mn. The company has a debt-equity ratio as well as the Net debt/Ebitda on a consolidated basis at one. With regard to the PPA, Rs460mn goes off on the COGS side for the next quarter onwards.
- The company maintains its positive future outlook and believes that the chemical and pharmaceutical market in the geographies of Europe and in the US, especially will continue to invest and will see a lot of growth coming from there.

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Financials (Consolidated):

Performance (Q1FY22)					
Q1FY22 Result (Rs mn)	**June-21**	**June-20**	**y-o-y**	**Mar-21**	**q-o-q**
Total Revenue	5517	1544	-	4586	20.3%
EBITDA	359	275	30.7%	298	20.7%
Other Income	12.0	27	(56.0%)	160.8	(92.6%)
Interest	141	12	-	55	159.0%
Depreciation	387	60	547.0%	276	40.2%
Exceptional item	-	-	-	335	-
Tax	28	39	(29.0%)	(149)	-
Net Profit	**(184)**	**192**	-	**(57)**	-

Outlook and Recommendations:

The India business has depicted the much desired resilience, coupled with the faster than expected comeback in the International business led by Germany and China. The other geographies have also supported the growth to quite an extend. There is a good order backlog now in the US which needs Brazil to ramp up, and hence the furnace being put up for the same. The order intake across the segments was strong both on the domestic as well as international front. This was the first quarter of Pfaudler International and thereby cannot be benchmarked but as execution will be the real focus and momentum keeps going into execution then there would be no second thoughts on sustainability of the margins achieved, rather could be improved further as well. We should expect better cash flows going forward as the non-cash expense of PPA would be added back coupled with the consistency maintained. Turning around of business has been niche for the company as was done in the case of Mavag which has grown 3-4 times from what it was when it was acquired in terms of revenues. Thereby, we strongly bet on the integration with the right strategy of leveraging on opportunities alongwith new product additions for profitability. The company is inching toward becoming a one stop solution for all the requirements related to the setting up of a state-of-the-art chemical plant while providing best quality products and equipment. We feel that streamlining is through and now GMM would enter the phase of execution as it is well placed with the order backlog and working on the capacities to meet the requirements. Overall, GMM is in the next leg of growth, with all eyes on the execution and benefits of the business rejig. We maintain our positive stance on the company with a target of Rs5200.

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