

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs1193	53.6	Accumulate	Rs1530	28%

*as on 10th Feb, 2025

About the Company:

GMM Pfaudler Ltd (GMMP) is a leader in the chemical process equipment's space and is one of the largest glass-lined equipment (GLE) manufacturers in the world. GMMP delivers corrosion-resistant technologies, systems, and services worldwide and is one of the preferred choices as an innovative and cost-effective solutions provider for the speciality chemical and pharmaceutical industries. It has 22 subsidiaries with an extensive sales and service network with a headcount of more than 1800 employees across 4 continents. GMMP is certified by international standards such as GRI, UNSDG, ISO 9001, ISO 14001 and ISO 45001.

Results: Quick Glance:

- On a consolidated level, the company has reported net sales of Rs8015mn as compared to Rs8560mn in the same quarter last year, drop of 6.4%
- The Ebitda margins for the quarter under review stood at 12.0% as compared to 13.3% in Q3FY24
- The company reported profit of Rs400mn as compared to Rs279mn in the same quarter last year
- The EPS for the quarter stood at Rs9.23 as compared to Rs6.42 in the corresponding period of last year
- For 9MFY25, the revenues came in at Rs23,921mn as compared to Rs27,058mn; drop of 11.6% while the PAT stood at Rs771mn as against Rs1454mn. The EPS came in at Rs17.78

Conference Call Highlights:

- For the quarter under review, the **GLE segment** remains stable, though its market size is not expected to see significant growth. With a ~50% market share in this segment, the Management emphasized that future growth will primarily come from **non-GLE businesses** and new verticals. The **pharmaceutical industry** has shown strong momentum. The Management has observed notable growth in South India's pharma sector, particularly in Hyderabad, where substantial new capacity has been added to support CDMO operations and export markets. As per the Management commentary, a full turnaround in the chemical and pharmaceutical industries can be expected in the next 4-6 month. While glass-lined products remain critical for both HE and services, the **chemicals business slowdown** has continued to impact the core GLE business. However, the recovery is anticipated with stabilizing volumes, pricing, and cost optimizations measures. As per the Management commentary, they believe GLE has started to recover, both from a volume and pricing standpoint. Diversification efforts have strengthened the order backlog, particularly in mixing and HE business. The **diversified revenue** mix for the quarter under review consisted of the Technologies business contributing ~56% of total revenue, followed by Services at ~31%, and Systems at ~13%. Similarly, the International business segment is led by Technologies at ~45%, followed by Services at ~38%, and Systems at ~17%
- In spite of the slowdown in the industry related to chemical and Pharma, the company has been able to maintain almost similar levels of revenue which has come from new areas like oil & gas, petrochemical etc. The **order intake** during the quarter under review remained steady at ~Rs7980mn. Additionally, GMMP has indicated that they have secured large system orders in the US valued at ~USD60-70mn. However, these projects have long execution timelines. The order intake for Q3FY25 for Technologies business on a consolidated basis consisted of ~58%, followed by Services at ~31%, and Systems at ~11%. The **order backlog** is up by ~7%, ~Rs17.4bn with a stable opportunity pipeline which remains across geographies
- The Management indicated that expanding the **services business** in India would remain a key priority. It contributes ~35-40% of international revenue, while India's share has remained in single digits as of now. To address this, the management has implemented organizational and systemic changes to enhance performance
- In the **Technology business**, the management is actively tracking developments in the biological space and engaging with customers, particularly in the domains related to peptides. Additionally, they have inaugurated a **test center** in Karamsad, which is similar to their facilities in Europe and North America
- HE business** has gained strong traction with breakthroughs in oil & gas and petrochemicals, while the **mixing segment** has expanded into metals and minerals. The company is witnessing positive traction from its strategic acquisitions of **Mixel** and **MixPro** for its **mixing business**, which has significantly strengthened its portfolio. For the **Filtration and drying businesses** (F&D), the strategy here has been to differentiate by focusing on more value-added products or more sophisticated products. Mixing business continues to contribute ~10-12% of the overall consolidated revenues

Conference Call Highlights (contd.):

- The outlook for **Edlon** continues to be positive and the segment is performing well in the semiconductor industry. Diversification strategies are yielding results, keeping order intake stable despite being slightly lower than previous levels. Going forward GMMP aims to accelerate growth in the exports market
- The company is indicating a shift towards cost-efficient manufacturing by consolidating operations in low-cost regions while maintaining service capabilities in high-cost markets. To mitigate this, the management is optimizing manufacturing costs through strategic initiatives, including the **Poland** strategy, which has already delivered high-quality production. During the quarter the company entered into an investment agreement to acquire 51% of its company in Poland. The facility in Poland is a test case for broader global restructuring, and its success is expected to drive further expansion. Streamlining UK operations is also expected to enhance efficiencies in Germany and Italy, with the international GLE business poised for improvement. Additionally, the company has closed its **Hyderabad facility** as part of its cost optimization strategy
- GMMP has made organizational changes and systematic changes within the business to improve the overall performance. The product mix continues to change for GMMP. The Management believes a lot of the growth is going to come from the non-glass-line businesses and the new verticals that GMM has been entering into. Some of these diversification strategies have already started bearing fruits
- The focus is to reduce manufacturing presence in high cost countries like the US and Western Europe. GMMP has also moved all production to the Gujarat facility, as the company had two facilities which were running at ~60% capacity utilisation, hence the decision was made to shift all production to one unit to fetch better absorption of fixed cost and make the cost structure more efficient

Financials:

Performance (Q3FY25)									
Q3FY25 Result (Rs mn)	Dec-24	Dec-23	y-o-y	Sept-24	q-o-q	9MFY25	9MFY24	y-o-y	FY25E
Total Revenue	8015	8560	(6.4%)	8054	(0.5%)	23921	27058	(11.6%)	31725
EBITDA	959	1139	(15.8%)	935	2.5%	2779	3861	(28.0%)	3807
Other Income	258	(77)	-	(7)	-	351	95	-	371
Interest	251	230	9.4%	265	(5.0%)	766	648	18.2%	1026
Depreciation	349	364	(4.3%)	360	(3.0%)	1060	1109	(4.4%)	1384
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	216	188	15.2%	151	43.6%	533	744	(28.4%)	530
Net Profit	400	279	43.3%	152	-	771	1454	(47.0%)	1238

Outlook and Recommendations:

The company continues to cater to the different requirements and specific needs for each industry segment in Pharma, Agrochem, HE or oil & gas. GMMP continues to navigate through a challenging macro environment, particularly in the GLE segment, which is currently stable but lacks significant growth potential. The pharmaceutical industry has been quite positive, both in India and internationally. The Management is anticipating some investment coming back in the agrochemical space. In addition to this, they are also seeing good traction in the speciality chemicals space which can lead to good investments and in turn later translate into good order intake for GMMP. Management continues to remain cautious and is expecting a turnaround in the chemical and pharma industries in a few more quarters. While GLE remains a cornerstone of the business, future growth is expected to be driven by non-GLE segments and new verticals. The company has been actively diversifying its portfolio and reducing reliance on cyclical business. In addition to this, the stable order intake of ~Rs7980mn during the quarter under review adds to the optimism. The strategy to reduce reliance/dependency on cyclical sectors and diversify is a crucial focus area for GMMP. This includes not only expanding the product portfolio but also entering new industry segments to try and restore double-digit growth. Additionally, significant efforts have been made to optimize the cost structure, with ongoing projects in India and internationally, including the rationalization of the manufacturing footprint. The Management has been diligently working on cost optimization measures which is a constant key focus area. The company has taken structural steps to enhance efficiencies, including closing the Hyderabad facility, streamlining UK operations, and ramping up lower-cost manufacturing in Poland.

Outlook and Recommendations (contd.):

GMMP is prioritizing operational stability while working on a long-term strategic roadmap. The Management remains committed to improving Ebitda margins, which currently stand at ~11-12%, through better cost control, pricing discipline, and product mix optimization. While the near-term outlook remains subdued, a healthier backlog, ongoing diversification, and cost-saving measures position the company well for a stronger recovery. Management remains cautiously optimistic about long-term growth, supported by structural improvements in operations and expansion of global reach with a well-balanced portfolio. The confidence to fetch better revenues stems from the fact of having a higher backlog as compared to the previous year, and expectation of deliveries execution of these orders in the upcoming quarters. The efforts to optimize productivity, enhance capacity utilization in India and international markets, and streamline the supply chain are expected to yield benefits in the medium term to long term where execution of the projects in hand will be the key to sustainable growth. The current year appears to be ending as a year of consolidation and we have cut our projections/ estimates while revising the target price to Rs1530 (strictly for long term investors only).

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