

GMM Pfaudler Ltd

Soon to recover

08 Nov 2024

GMM Pfaudler Ltd – Q2FY25 Result Update

Soon to recover

CMP
Rs 1379

3-yr target
price
Rs 2229

3-yr potential
return
62%

Rating
BUY

GMM Pfaudler (GMMPFAUDLR) reported stable set of earnings on a consolidated level as expected with revenues growing 3% sequentially and degrowing by 14% YOY to Rs 805 Cr. Subdued set of earnings were due to flat growth on the global Glasslining business and Industrial mixing business. The non glasslining businesses like Mavag, Edlon and heavy engineering and services business, helped the company to clock sequential growth in topline and to clock healthy order intake of Rs 762 Cr for Q2FY25. On the profitability level, due to cost cutting measures being introduced the company clocked better EBITDA margins at 11.6% vs 11.3% in Q1FY25 and as a result EBITDA grew by 4% QOQ to Rs 93 Cr.

- **Healthy order intake:** GMMPFAUDLR garnered healthy order intake on a consolidated level in H1FY25 at Rs 1644 Cr vs Rs 1396 Cr in H1FY24 led by non glasslining businesses and increased focus on services business especially on the domestic side. The company's order backlog stood at Rs 1773 Cr which gives a good visibility of growth for coming quarters.
- **Stable product mix:** The product mix for GMMPFAUDLR on a consolidated level continues to be stable for the company as 61% of revenues coming from technologies segment followed by 11% by systems and balance 28% by services business while on a standalone level 88% of revenues came from technologies segment, 4% came from systems segment and 8% came from services segment.
- **Diversification strategy:** GMMPFAUDLR continues to diversify from Pharma/Chemical industry due to sustained slowdown in the sector. The company is targeting other sectors like paints, industrials, FMCG to prevent itself from decline in revenues.

Financials Outlook:

- We expect GMMPFAUDLR Ltd to clock Revenue/EBITDA/PAT/EPS CAGR of 9/10/25/24% from FY24 to FY27E led by solid execution of a robust order book which stood at Rs 1773 Cr on a consolidated level.

Valuation and Recommendation:

- GMMPFAUDLR is a strategic bet in Capital goods Industry and is a proxy play in the growing Indian Capex story. AT CMP 1379 is trading at 18x FY27E EPS and 9x FY27E EV / EBITDA and we assign a 15x multiple on FY27E EV/EBITDA to arrive at a TP of Rs 2229 implying an upside of 62%

Risks/Challenges:

- Delay in recovery of Glass-lining Industry will result in downgrade in earnings for GMM PFAUDLR on a consolidated level; If the company is not able to grow its mixing business as projected then it will dent the company's earnings on a consolidated level; Failure in growing Non-Glass-lining businesses will lead to downgrade in earnings on a consolidated level.

Particulars (INR Cr)	Revenue	EBITDA %	PAT	EPS	ROE %	RoCE %	PE (x)	EV/ EBITDA (x)	Mcap/ Sales (x)
FY24	3,447	14%	178	40	17.9%	20.8%	35	14	1.8
FY25E	3,533	12%	170	38	14.6%	17.8%	36	15	1.8
FY26E	3,954	13%	241	54	18.4%	22.2%	26	12	1.6
FY27E	4,469	14%	343	76	22.5%	27.6%	18	9	1.4

08 Nov 2024

Industry

Industrial Products

Key Stock Data

Bloomberg	GMM IN
Shares o/s (cr)	4.5
Market Cap (Rs cr)	6203
52 wk High-Low	1768/1143
20D avg daily vol ('000)	471
Index	SMLCAP
F&O	N

Latest Shareholding (%)

	Sept 24	Jun 24	Mar 24
Promoters	25.18	25.18	25.18
Institutions	30.42	36.71	35.21
Public	44.4	38.11	39.61
Pledge	0	0	0

Stock Performance (%)

	1M	3M	12M
GMM Pfaudler	0.49	-1.61	-20.22
Nifty 500	-1.62	-0.19	32.69

RESEARCH ANALYST

Sagar Shah

sagar.s@sparkcapital.in

Source: Midas research, exchange fillings

Q2FY25: Result Summary

P&L(cr)	Q2FY24	Q1FY25	Q2FY25	YOY	QOQ	vs Midas Estimate	Var
Net Revenue	937	785	805	-14%	3%	848	-5%
RM	403	306	325			342	-5%
% of Revenues	43%	39%	40%			40%	0 bps
Gross Margin	57%	61%	60%			60%	0 bps
Employee Exp	220	223	219			230	-5%
Other Exp	173	167	167			182	-8%
Operating Expenses	393	390	386	-2%	-1%	412	-6%
% of Revenues	42%	50%	48%			49%	
EBITDA EX OI	141	89	94	-33%	6%	94	0%
EBITDA margin	15.0%	11.3%	11.7%			11.0%	600 Bps
Depreciation	33	32	33			38	
Other Income	9	10	-1			7	
EBIT	117	67	60	-49%	-10%	63	-4%
EBIT margin	12%	9%	7%			7%	0 Bps
Finance Costs	22	25	26			18	
PBT	95	42	34			45	
Exceptional Items	0	0	0			0	
Tax	26	18	17			13	
NPAT	69	24	17	-75%	-29%	31	-46%
MI	-1	-1	0			-1	
Adjusted PAT	70	25	17	-76%	-32%	32	
PAT margin	7%	3%	2%			4%	-200 Bps
Equity Share Capital	9.00	9.00	9.00			9.00	
No of Shares	4.5	4.5	4.5			4.5	
EPS	15.6	5.6	3.8	-76%	-32%	7.2	-47%

Source: Midas research, exchange fillings

Q2FY25 Conference Call – Key Takeaways

Business Outlook

- GMM Pfaudler had a strong order intake of Rs. 762 crores in Q2FY25 and the order backlog stood at Rs. 1773. H2FY25 is expected to be better than H1FY25 in terms of order intake with some large orders expected to be finalized in Q3FY25.
- Heavy engineering, mixing, Edlon and other non GLE have strong backlog of which revenues will be flow in H2FY25. The mixing and heavy engineering businesses are expected to show double digit growth going ahead. Edlon is also expected to do well as they are catering to semi-conductor industry and company has also undertaken capex for capacity expansion.
- The chemical and agro-chemical industry will take few more quarters to recover as the investments are dried up in the industry thus the glass-lined equipments (GLE) business has witnessed lower order intake from this industry. Management believes that it is the bottom of the cycle right now, but there is less clarity regarding the timing of the recovery.
- As far as pricing is concerned, they are stable as of now but are at 10 – 15% discount compared to previous years.
- Domestic market has shown signs of recovery especially in the pharma sector in the domestic market and management is upbeat about the CDMO business prospects in the Indian market.
- Company is focused on growing in the mixing business as it opens up petrochemicals, oil and gas, food and beverages which are experiencing strong traction.
- US and Chinese economies continue to be slow thus demand from these two regions particularly will take time to recover.
- Due to increased offerings of products to its customers, the company's wallet share has increased over the period of time.

Financial Outlook

- Management has guided for flat growth in revenues in FY25.
- H2FY25 is expected to have better revenue and margin compared to H1FY25. Company is currently working on internal cost optimization and have undertaken various actions domestically as well as internationally to reduce costs.
- Management is still working on their 3-year strategic plan which they will announce in early part of next year.

Midas Telescopic View

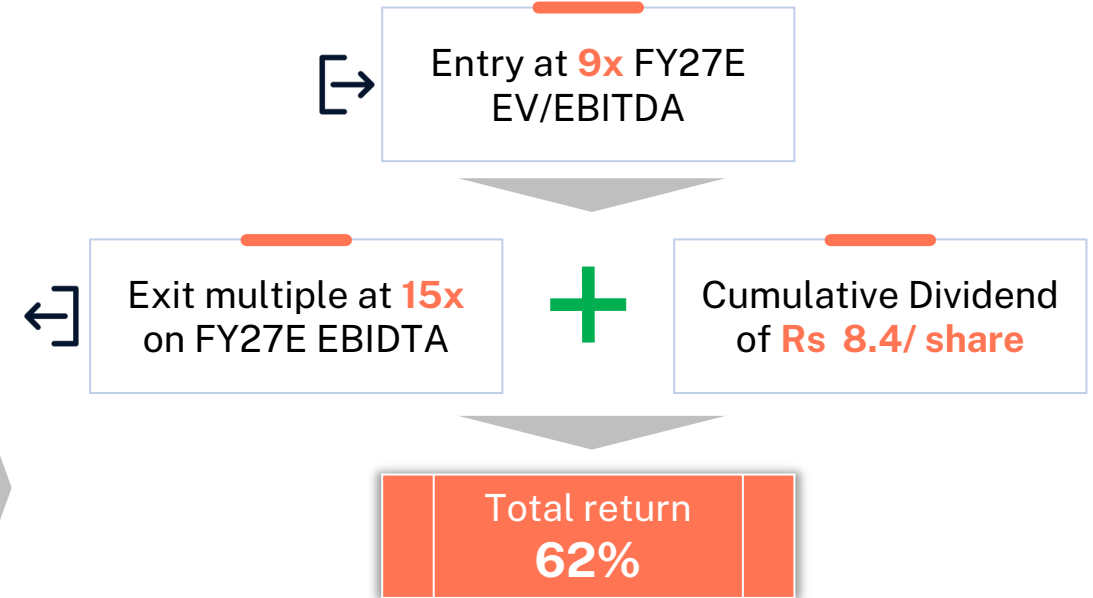
Over FY24 – FY27E, is expected to grow its Revenue / EBITDA by 9%/10% CAGR led by revival of Glass-lining business and robust outlook of Industrial mixing business.

Expect EPS to grow at a CAGR of 24% from FY24 to FY27E

Particulars	FY18-21	FY21-24	FY24-27E
Revenues CAGR	35%	51%	9%
Gross Margin (%)	56%	59%	60%
EBITDA CAGR	30%	51%	10%
EBITDA Margin (%)	16%	13%	11%
EPS CAGR*	8%	2%	24%
Fixed Asset Turnover (x)	4.77	4.75	6.35
Net Working Capital Days	142	147	103
Capital Employed (Rs. Cr)	425	1,294	1,832

Execution of Solid Order book is going to drive Return Ratios

Particulars	FY18-21	FY21-24	FY24-27E
RoE (%)	19%	19%	18%
RoCE (%)	24%	18%	22%



Sensitivity of 3yr TP

Sensitivity Analysis	EV	Market Cap	Target Price	Upside	PE
13	8,278	8,758	1,946	41%	26
15	9,551	10,032	2,229	62%	29
17	10,825	11,305	2,512	82%	33

Financial Summary

Particulars (INR Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit & Loss						
Revenue	2,540	3,178	3,447	3,533	3,954	4,469
Gross profit	1,527	1,896	2,068	2,120	2,372	2,682
EBITDA	284	432	477	428	513	637
Depreciation	133	119	147	142	147	152
EBIT	159	364	350	317	413	553
Other Income	7	52	20	31	47	68
Interest expense	24	66	95	81	75	70
Exceptional items	0	22	0	0	0	0
PBT	135	276	255	236	338	483
Reported PAT (after minority interest)	87	167	178	170	241	343
Adj PAT (Excl EI)	87	167	178	170	241	343
EPS (Rs.)	60	37	40	38	54	76
EPS (Rs.) (Excl EI)	60	37	40	38	54	76
Balance Sheet						
Net Worth	527	804	968	1,132	1,286	1,505
Total debt	505	797	712	652	573	500
Other liabilities and provisions	1,696	1,753	1,477	1,476	1,749	2,079
Total Network and liabilities	2,727	3,354	3,157	3,261	3,608	4,084
Gross Fixed assets	498	557	583	593	613	633
Net fixed assets	382	412	410	425	440	455
Capital work-in-progress	13	13	27	27	27	27
Intangible Assets	455	595	602	602	602	602
Investments	0	0	0	0	0	0
Cash and bank balances	328	371	344	347	485	694
Loans & advances and other assets	0	1	3	3	3	3
Net working capital	217	463	566	679	734	809
Total assets	2,599	3,354	3,157	3,261	3,607	4,084
Capital Employed	1,711	2,118	2,215	2,338	2,534	2,839
Invested Capital (CE - cash - CWIP)	1,370	1,734	1,844	1,964	2,022	2,118
Net debt	177	426	368	305	87	-194
Cash Flows						
Cash flows from Operations (Pre-tax)	166	111	190	212	311	349
Cash flows from Operations (post-tax)	237	185	284	283	412	494
Capex	132	288	86	81	99	109
Free cashflows	105	-103	198	202	313	385
Free cashflows (post interest costs)	81	-169	103	121	238	315
Cash flows from Investing	-116	-311	-32	-10	-20	-20
Cash flows from Financing	-56	130	-244	-272	-254	-266
Total cash & liquid investments	328	372	347	446	680	981

All figures in Rs Cr

	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)						
Revenue	154%	25%	8%	2%	12%	13%
EBITDA	104%	52%	10%	-10%	20%	24%
Adj PAT	18%	180%	-19%	-5%	43%	43%
Margin Ratios						
Gross	40%	40%	40%	40%	40%	40%
EBITDA	11%	14%	14%	12%	13%	14%
Adj PAT	3%	7%	5%	5%	6%	8%
Performance Ratios						
OCF/EBITDA	83%	43%	60%	66%	80%	78%
OCF/IC (%)	15%	9%	13%	12%	16%	17%
RoE (%)	15%	27%	18%	15%	18%	22%
RoCE (%)	15%	23%	21%	18%	22%	28%
Fixed asset turnover (x)	5.1	5.7	5.9	6.0	6.5	7.1
Total asset turnover (x)	0.98	0.95	1.09	1.08	1.10	1.09
Financial Stability Ratios						
Net Debt to Equity (x)	0.34	0.53	0.38	0.27	0.07	-0.13
Net Debt to EBITDA (x)	0.62	0.99	0.77	0.71	0.17	-0.30
Interest cover (x)	11.84	6.54	5.02	5.29	6.82	9.09
Working capital days	150	118	106	105	101	100
Valuation Metrics						
Fully Diluted Shares (Cr)	1	5	5	5	5	5
Market cap (INR Cr)	2,188	6,660	6,206	6,206	6,206	6,206
P/E (x)	25	40	35	36	26	18
P/OCF(x)	6.4	8.0	4.9	4.9	3.3	2.8
EV (Rs.Cr)	2,365	7,086	6,574	6,511	6,293	6,012
EV/ EBITDA (x)	8	16	14	15	12	9
EV/ OCF(x)	10.0	38.4	23.1	23.0	15.3	12.2
FCF Yield	7%	-7%	14%	15%	23%	28%
Price to BV (x)	4	8	6	5	5	4
Dividend pay-out (%)	8%	5%	5%	5%	5%	5%
Dividend yield (%)	0%	0%	0%	0%	0%	0%

Source: Midas research, exchange fillings

Disclaimer

Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon	REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
ACCUMULATE	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon	SELL	Stock expected to fall >10% over a 1-year horizon

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Our Offices



Chennai

No. 1, 3rd Floor,
First Crescent Park Road,
Gandhi Nagar, Adyar,
Chennai – 600 020



Mumbai

No. 302, 3rd Floor,
'Windsor House', CST Road,
Kalina, Santacruz (East),
Mumbai – 400 098

No. 1252, 5th Floor,
Building No. 12, Solitaire Corporate Park,
Andheri Kurla Road, Chakala, Andheri East,
Mumbai – 400 093



Delhi

No. 23, 1st Floor,
Community Centre,
Basant Lok, Vasant Vihar,
New Delhi – 110 057



Bengaluru

No. 2, 3rd Floor,
Prestige Emerald,
Madras Bank Road,
Bengaluru – 560 001



Hyderabad

No – 25 & 42, 3rd Floor, Lumbini Avenue,
Adjacent to Preston Prime Mall,
Main Road, Gachibowli,
Hyderabad – 500032



Ahmedabad

No. 409, 4th Floor, Venus Amadeus,
Near Jodhpur Cross Road,
Satellite,
Ahmedabad – 380 015



Pune

No. 7/352 1st Floor, Elbee House,
Boat Club Road,
Sangamvadi,
Pune – 411 001



Kolkata

No. 9A & 9B,
9th Floor,
No. 95A, Park Street,
Kolkata – 700 016