

GMM PFAUDLER LTD

INDUSTRIAL MACHINERY

Q3FY19: Rev. up 33% Y-o-Y, PAT up 49% Y-o-Y, strong growth GLE segment

GMM Pfaudler Ltd (GMM) in Q3FY19 posted revenues of Rs. 106 Cr. (up 33% Y-o-Y, up 6% Q-o-Q) due to the excellent growth shown by Glass Line Equipment (GLE) segment. PAT for the quarter stood at Rs. 11 Cr. (up 49% Y-o-Y, up 12% Q-o-Q) led by the robust revenue growth (on back of both volume and realization growth) and internal improvements in efficiency. In 9MFY19, revenue was up 30% Y-o-Y and PAT was up 50% Y-o-Y. With ~90% capacity utilization in the GLE segment, GMM has announced to further ramp up the capacity. The margins remained stable as the company was able to overcome the pressure of raw material prices (steel) due to its operating leverage benefits.

The revenue growth was led by the GLE segment (up 57% Y-o-Y, up 13% Q-o-Q) with ~72% of the revenues (against ~68% in Q2FY19). This growth was led by the availability of an expanded capacity and higher realizations. During the quarter, contribution of exports to the revenues remained at 10% which was led by the interactions between GMM and its parent Pfaudler. On the subsidiary side, Mavag is expected to continue on its growth path after its turnaround in FY17.

Valuation

GMM Pfaudler is well positioned in the industry owing to robust order backlog, high entry barriers and market leadership position in GLE business, strong brand name, and sticky clientele, growing Non-GLE business, parent and subsidiary support, strong balance sheet and thus deserves premium valuations. We have introduced FY21E numbers and expect revenues and PAT to grow at 23% and 26% respectively over FY18-FY21E. We value GMM Pfaudler at 22x FY21E and believe, the company possesses high growth prospects. We recommend **BUY** with a target price of Rs. 1276.

Key Highlights

- Further Capacity Expansion in Glass Line Equipment (GLE) business:** GMM Pfaudler is the market leader in manufacturing of glass line equipments (>50% market share). In Q3FY19, GLE business grew by 57% Y-o-Y and constituted ~72% of GMM's revenues. The company has current capacity of ~2000 equivalent units (EU)/year and had already announced to increase it to 2400 EU/year by FY20 via debottlenecking. It has now announced the purchase of a new gas furnace to further take the capacity to ~2800-3000 EU/year by FY21. The company witnessed good traction in agrochemicals and specialty chemicals, however continued to see a slowdown in pharmaceuticals. Investments in the Agrochemical and Specialty chemicals sectors (~60% of GMM's GLE revenues) have been the main drivers for growth with the companies in this space putting up capacities. The company has started to receive orders from the Pharma City project in Telangana which will help to pick up Pharma's share in the coming quarters, giving a boost to the order book. Given the above factors, we expect GMM's GL revenue to increase by 28% over FY18-21E.

FINANCIAL SUMMARY (Consolidated)

Y/E	Sales	EBITDA	PAT	EPS	Change	P/E	RoE	RoCE	EV/EBITDA	DPS
March	(Rs Cr)	(Rs. Cr)	(Rs Cr)	(Rs)	(YoY %)	(x)	(%)	(%)	(x)	(Rs)
FY18	406	62	43	29.2	-	-	20.0	27.4	-	1.9
FY19E	495	77	53	36.1	23.7	-	20.8	28.2	18.7	1.9
FY20E	611	99	68	46.4	28.4	23.2	21.8	29.7	15.3	1.9
FY21E	758	124	85	58.0	25.0	18.6	22.1	30.5	11.5	1.9

Source: Company and Axis Direct Research, CMP as on 6th Feb 2019

BUY

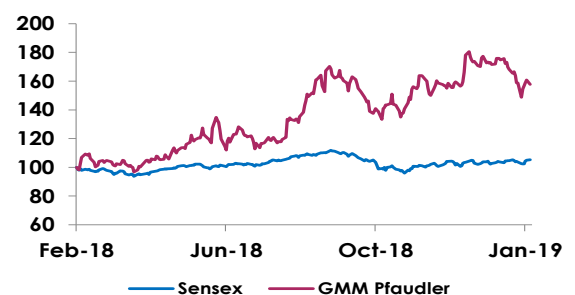
Target Price: Rs. 1276

CMP	: Rs. 1077
Potential Upside	: 18%
Relative to Sector	: Neutral

MARKET DATA

No. of Shares	: 1.46 Cr.
FV (Rs)	: 2
Market Cap	: Rs. 1572 Cr.
52-week High / Low	: Rs 1294/ Rs 575
Avg. Daily vol. (6mth)	: 4,478 shares
Bloomberg Code	: GMM IN
Reuters Code	: GMMP.BO
BSE Code	: 505255
NSE Code	: GMMPFADLR

PRICE PERFORMANCE

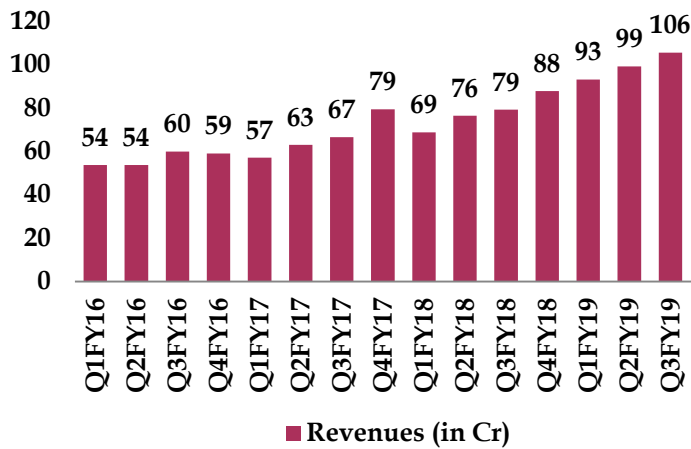


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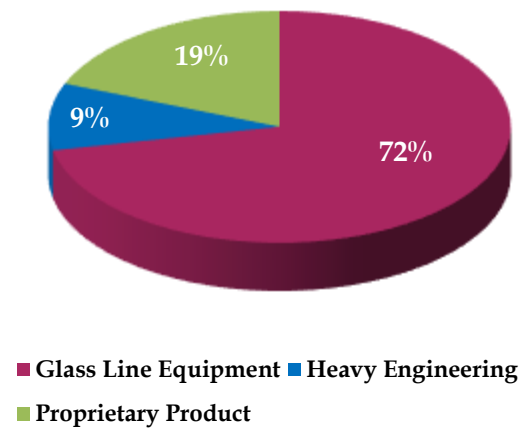
Key Highlights (Continued)

- **Healthy order book:** At the end of Q3FY19, the company's order book stood at around Rs. 330-350 cr (providing revenue visibility for next 3 quarters) and the order backlog was ~50% higher Y-o-Y. The management expects this strong order book to continue into Q4FY19 as many large projects/orders are due to be finalized in the next quarter which are diversified across all 3 segments.
- **Positive outlook for Non Glass Line Equipment business:** In Q3FY19, the Non GLE revenues remained flat (4% Y-o-Y, down 9% Q-o-Q). The Non-GLE business contributed 28% of the total revenues in Q3FY19 on a standalone basis. The Non-GLE segment is a huge untapped market and GMM differentiates itself from local fabricators in terms of brand name and engineering capabilities, thus creating a niche for itself in this segment. GMM is planning to build the required skill set in this segment for faster growth. It has recently bought a new rolling machine which will allow it to make larger weight machines adding to GMM's product mix. As GMM targets special jobs and exotic materials, we expect its margin profile to improve going forward. We expect the Non-GLE segment to grow at 20% CAGR over FY18-FY21E owing to opportunities in the application industries.
- **Focus on exports in both GLE and Non GLE:** Exports remained steady at ~10% of GMM's revenues in Q3FY19. The company is witnessing huge demand from the domestic market and hence, has not been able to cater to the export demand. This is a good sign for the company as in case of any slowdown in the domestic market, it will be able to leverage its relationship with Pfaudler to keep its revenue growth going. With Pfaudler rationalizing its manufacturing footprint in Europe and US, we expect sourcing to increase in the next 2-3 years. We expect export bearing fruits for GMM going forward as the parent Pfaudler has been using its relationship in Europe and US to bring orders to GMM.
- **Steady growth by subsidiary Mavag:** GMM's subsidiary Mavag operates in the proprietary products segment. Mavag uses GMM as a sourcing hub which has helped them improve their market share and grow their business in Europe and US. After declining revenues in FY15 and FY16, it reversed the trend in FY17 and has posted stellar revenue and profit growth in FY18 as well. Mavag posted revenues of around Rs 93.3 Cr in FY18, a growth of 7.6% YoY. On a consolidated basis, it constituted 23% of the company's total revenues. It posted EBIT of Rs 16 Cr, witnessing a growth of 167% YoY. The company has a healthy order backlog in this segment and we expect it to grow at 11% CAGR over FY18-FY21E.
- The company is continuously working on manufacturing & throughput improvement and plant transformation projects to improve output of the plant to manufacture more vessels. Subsequently, it is expected to touch capacity utilization in excess of 95% in the coming quarters, which along with the capacity expansion will add to the revenue growth. This along with cost reduction program would help in improving operating efficiency. Also, with the gas furnace already installed in FY18 and the new furnace to be bought in the coming quarters, all the incremental production is using gas furnaces which would aid in cost saving, thus adding to the profitability of the company. GMM's production is in line to produce 1800 units in FY19 (~1400 completed till Q3FY19) with a 25% volume growth Y-o-Y.

Highest ever quarterly revenue



Revenue Breakup



Source: Company, Axis Securities

Results Update

(Rs. cr)	Quarter ended (Standalone)					12 months ended (Consolidated)				
	Q3FY19	Q3FY18	% Change (YoY)	Q2FY19	% Change (QoQ)	FY18	FY19E	FY20E	FY21E	% CAGR (3 year)
Sales	106	79	33	99	6	406	495	611	758	23%
Other Op. Inc	0.0	0.0		0.0		0	0	0	0	
Total Revenue	106	79	33	99	6	406	495	611	758	23%
Expenditure										
Net Raw Material	51	32	61	48	6	169	204	251	311	
Employee expenses	10	9	16	11	(4)	36	44	54	68	
Labour charges	8	9	(9)	7	21	28	35	43	53	
Other Exp	19	18	9	18	7	112	135	165	203	
Total Expenditure	88	67	32	83	6	344	418	512	634	23%
EBIDTA	17	12	40	16	7	62	77	99	124	26%
Oth. Inc.	2.1	0.9	140	1.9		9.4	9.4	9.4	9.4	
Interest	0.3	0.2	56	0.3	(6)	1	1	1	1	
Depreciation	2.8	2.1	33	2.6	5	10	10	11	12	
PBT	16	11	49	15	8	61	75	96	121	26%
Tax	5.3	3.5	49	5.2	1	18	22	28	36	
PAT	11.0	7.4	49	9.8	12	43	53	68	85	26%
EPS (Rs.)	7.5	5.0		6.7		29.2	36.1	46.4	58.0	

Source: Company, Axis Direct Research.

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