

GMM Pfaudler Ltd.

Nifty	9,315
Sensex	31,605

Key Stock Data

CMP	₹3677
Market Cap (₹mn)	53,749
52W High/Low	₹4090/₹1150

Shareholding pattern Mar 2020

Promoters	75.0%
FII	0.4%
DII	2.0%
Public & Others	22.6%

(₹ mn)

Particulars	FY18	FY19	FY20
Net Sales	4,057	5,026	5,911
EBITDA	621	770	1,111
Net Profit	427	506	711
EPS (₹/ share)	29.2	34.6	48.7
RoNW (%)	18.7%	18.8%	20.7%
RoCE (%)	23.0%	24.5%	26.3%
P/E (x)	125.9	106.3	75.6

Source: Company Data, Way2Wealth Inst Equity

Key Result Highlights – Q4FY20

- GMM Pfaudler's top-line de-grew by 5.3% Y-o-Y to ₹1318mn primarily on account of shutdown led by Covid-19 pandemic; however management indicated it is seeing good traction across its user industries such as specialty chemicals, agrochemicals and pharmaceuticals.
- EBITDA in Q4FY20 stood at ₹225mn up ~13.4% Y-o-Y on the back of lower raw material costs and lower labour charges. Raw material costs and labour charges plunged 16% YoY and 11% YoY to ₹553mn and ₹80mn respectively in the mentioned period. Company's EBITDA margins were up at 17.1% from 14.2% in Q4FY19.
- Company's PAT plunged 12.9% Y-o-Y to ₹116mn in Q4FY20 on account of higher depreciation expense and lower other income while PAT margins stood around ~8.8% vs. 9.6% in the mentioned period.

Earnings Highlights

- **Covid-19 pandemic impacted the top-line performance** – GMM Pfaudler's top-line plunged 5.3% Y-o-Y in Q4FY20 to ₹1,318mn from ₹1,391mn primarily on an account of shutdown (company reported a deferral revenue loss of ₹300mn) due to Covid-19 pandemic. However, management indicated it is seeing good traction from user industries such as specialty chemicals, agrochemicals & pharmaceuticals. GLE segment recorded 9% YoY growth while non-Glass lined equipment segment registered de-growth of 60% YoY in Q4FY20. For the full year ending March 2020, top-line surged by ~18% YoY to ₹5911mn from ₹5,026mn in FY19.
- **Lower Operating Expense drove EBITDA** – Operating Profit for the quarter stood at ₹225mn up 13.4% YoY on the back of lower raw material and labour costs. Raw material costs and Labour costs plunged 16% & 11% YoY to ₹553mn and ₹80mn respectively in Q4FY20. Profit after Tax plunged 12.9% Y-o-Y to ₹116mn in Q4FY20 on account of higher depreciation expense and lower other income. Other income reduced by 70% YoY to ₹7mn and depreciation expense grew by 139% YoY to ₹59mn in the mentioned period. In FY20, despite subdued Q4FY20, company's top-line grew by ~18% on the back of robust performance across segments and EBITDA rose by 44% to ₹1111mn with EBITDA margins at highest level of 18.8%.
- **Capex and earnings outlook** – Management is confident of achieving 15% Y-o-Y growth in terms of topline and sustaining EBITDA margins at ~19% in FY21E. Also management indicated company is on track w.r.t strategic revenue guidance plan namely UDAAN, targeting ₹10,000mn by FY23E & ₹13,000mn by FY25E. Further management has envisaged capex of ₹100mn for FY21E and capex of ₹500mn (dedicated for GLE and add 500 EUs to company's existing capacity) for new unit spread over FY21E & FY22E and funded by internal accruals. With commissioning of new gas furnaces in H2FY20E, robust order-backlog of ₹3500mn, cost saving measures, increasing enquires from new customers, we believe company is on strong growth path and is likely to register higher numbers post FY21E.

Valuation & Recommendation

Q4FY20 numbers of GMM Pfaudler were impacted by shutdown led by Covid-19 pandemic, however its FY20 numbers stood higher on the back of robust order-backlog and cost control measures. We envisage GMM Pfaudler Ltd to report lower earnings in FY21E on account of drop in capacity utilization (subdued demand) due to uncertainty surrounding Covid-19 situation and lockdown restriction, however we believe company's earnings will improve post FY21E on account of commissioning of new gas furnaces in H2FY20E, strong order-backlog of ₹3500mn, higher performance of its subsidiary (Mavag), demand recovery across all its segments. **At CMP of ₹3677 GMM Pfaudler Ltd is trading at ~75.6x FY20 P/E & ~55x FY22E P/E (as per consensus estimates) however, currently, we have kept the stock under review for rating/ recommendation.**

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Quarterly Financials (Consolidated)

(₹ mn)					
Particulars	Q4FY20	Q4FY19	Y-o-Y(%)	Q3FY20	Q-o-Q(%)
Sales	1,318	1,391	-5.3%	1,560	-15.5%
Raw Material Expenses	553	659	-16.0%	685	-19.2%
Employee Cost	228.3	196	16.2%	218.3	4.5%
Labour Charges	80.3	90	-10.6%	86.3	-6.9%
Other operating expense	231.1	248	-6.8%	266.2	-13.2%
Total Expenditure	1,093	1,193	-8.4%	1,255	-12.9%
EBITDA	225	198	13.4%	304	-26.2%
EBITDA Margin (%)	17.1%	14.2%	280 bps	19.5%	-246 bps
Depreciation	59	25	139%	59	0.2%
EBIT	166	174	-4.4%	246	-32.4%
EBIT Margin (%)	12.6%	12.5%	11 bps	15.8%	-316 bps
Interest	9	3	169%	9	-4.1%
Other Income	7	24	-70.2%	34	-79%
PBT	164	195	-15.6%	271	-39.3%
Taxes	48	62	-21.6%	60	-19.5%
PAT	116	133	-12.9%	211	-44.9%
PAT Margins%	8.8%	9.6%	-76 bps	13.5%	-470 bps
EPS	7.9	9.1	-12.9%	14.4	-44.9%

Concall Highlights

- Management highlighted business was hit by shutdown led by Covid-19 pandemic and recorded a revenue loss of ₹300-400mn in Q4FY20. The loss came up as GMM couldn't ship the order to their Middle East client due to lockdown followed by higher fixed costs.
- Management guided 15% YoY growth in terms of topline and sustaining of ~19% EBITDA margins for FY21E. Also indicated that company is on track wrt strategic revenue guidance plan namely UDAAN, targeting ₹10,000mn by FY23E & ₹13,000mn by FY25E.
- It has order backlog of ~₹3,500mn in terms of all segments as on April 2020. Out of total order book, 90% pertains to new orders and 10% to replacement demand. Additionally Mavag also has strong order backlog of Swiss Franc 12 mn (₹940mn).
- Management indicated capex of ₹100mn for FY21E funded by internal accruals and new capex of ₹500mn spread over FY21E & FY22E. This capex of ₹500mn would be dedicated for GLE and add 500 EUs to company's existing capacity of 2400 EUs and generate ₹750-1,000mn in its 1st year of operation.
- Pharmaceuticals, agrochemicals/specialty chemicals and oil & gas segments constituted 35%, 55% and 10% respectively to overall revenue in Q4FY20.
- Company recently received orders from SRF, PI industries, Divis Labs, DCM Shriram, Meghmani Organics and Aarti Industries etc and expects increasing enquires and orders going ahead.
- Exports contribute 10-12% of total sales for Q4FY20.
- Factory has started functioning from April 6, 2020 onwards after 2 weeks of shutdown.
- As of March 2020, company was functioning at 90% capacity utilization and currently operates over 70% after restarting. Management guided all workers in its GMM Ahmedabad unit are local workers hence ramp-up of planned capex would not see any delay.
- Company currently runs with 1 electric furnace and 1 gas furnace and has planned 2 gas furnaces which would come up in August-September 2020, post which manufacturing capacity would increase to 2700-2800 EUs.

Financial Statements (Consolidated)

	(₹ mn)			
Income Statement	FY17	FY18	FY19	FY20
Net Sales	3530	4057	5026	5911
YoY Growth	20.9%	14.9%	23.9%	17.6%
EBITDA	475	621	770	1111
EBITDA Margin	13.5%	15.3%	15.3%	18.8%
Depreciation	82	98	110	211
EBIT	393	523	660	900
EBIT Margin	11.1%	12.9%	13.1%	15.2%
Interest	9	10	12	35
Other income	57	94	85	58
PBT	441	607	733	923
Tax	129	180	227	212
PAT	311	427	506	711
PAT Margin	8.8%	10.5%	10.1%	12.0%
EPS (₹)	21.3	29.2	34.6	48.7

	(₹ mn)			
Balance Sheet	FY17	FY18	FY19	FY20
Share capital	29.2	29.2	29.2	29.2
Reserves & Surplus	1,909	2,248	2,660	3,400
Net worth	1,938	2,278	2,689	3,429
Long term debt	-	-	-	177
Deferred Tax Liabilities	26.6	45.2	53.4	50.1
Long Term Provisions	81.7	125.7	154.5	134.3
Total Non-Current Liabilities	1,08.3	1,70.9	2,07.9	3,61.0
Short term debt	-	-	-	112
Creditors	546.1	609	639	642
Other Current Liabilities	571.4	800	778	843
Short Term Provisions	19.8	29.1	30.1	48
Total Current Liabilities	1,137.2	1,438	1,447	1,645
Total Liabilities	3,184	3,886	4,344	5,435
Net Block	497	627	653	1277
CWIP	19.9	27.6	49.5	15.9
Goodwill	114.7	121.3	123.4	198
Non-Current Investments	8.9	8.8	4.7	4.7
Long term Loans and Adv	9.2	-	-	-
Other Non-Current Assets	3.7	18.2	63.8	40.1
Total Non-Current Assets	653	803	894	1535
Investments	451	497	472	357
Inventories	822	956	1155	1258
Debtors	699	505	672	743
Cash & Bank Balances	316	668	758	764
Other Current Assets	46	454	313	608
Loans & Advances	196	3	80	170
Total Current Assets	2,531	3,083	3,449	3,899
Total Assets	3,184	3,886	4,344	5,435

(₹ mn)

Cash Flow Statement	FY17	FY18	FY19	FY20
EBT	441	607	733	923
Depreciation	82	98	110	211
Inc/Dec in working capital	494	641	808	1280
Others	-792	-668	-1380	-2147
CF from Operating activity	224.6	677.4	270.4	267
Inc/Dec in Fixed assets & CWIP	-143	-234	-139	-35.4
Other Investments	-71.5	-8.2	58.6	-462
CF from Investment activity	-214.5	-242.0	-80.6	-497.0
Debt Raised	0	0	0	-65
Dividend	-54	-70	-87	-79
Other Financing Activities	-9.0	-10.3	-11.7	98.1
CF from Financing activity	-62.6	-80.7	-98.3	-46.4
Inc/Dec in cash	-52	355	88.5	-276
Opening balance	363	311	666	757
Closing balance	311	666	757	478

Ratios	FY17	FY18	FY19	FY20
Margins				
EBITDA margin	13.5%	15.3%	15.3%	18.8%
EBIT Margins	11.1%	12.9%	13.1%	15.2%
PAT Margin	8.8%	10.5%	10.1%	12.0%

Profitability Ratios				
Return on Equity (ROE)	16.1%	18.7%	18.8%	20.7%
Return on Assets (ROA)	9.4%	10.5%	11.6%	13.1%
Return on Cap Employed (ROCE)	20.3%	23.0%	24.5%	26.3%

Valuation Ratios (x)				
P/E	172.7	125.9	106.3	75.6
EV/EBITDA	112.5	85.5	68.8	48.8
EV/Sales	15.1	13.1	10.5	9.0
EV/EBIT	136.0	101.5	80.3	59.4

Leverage Ratio (x)				
Current Ratio	2.2	2.1	2.4	2.4
Quick Ratio	1.5	1.5	1.6	1.6
D/E	0.0	0.0	0.0	0.0

Turnover ratios				
Days sales of inventories o/s	98	102	99	96
Days Sales of AR o/s	72	45	49	46
Accounts payable	65	65	55	49

Per share				
EPS (₹)	21.3	29.2	34.6	48.7
BV (₹)	132.6	155.8	184.0	234.6
CEPS (₹)	15.37	46.35	18.49	18.3
DPS (₹)	3.0	4.0	4.9	6.6

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Disclosure of Interest Statement in GMM Pfaudler Ltd. as on May 28, 2020

Name of the Security	GMM Pfaudler Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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