

GMM PFAUDLER LTD

INDUSTRIAL MACHINERY

Q4FY17: Profit up 90% Y-o-Y, consistent growth in both GLE and Non-GLE

GMM Pfaudler Ltd (GMM) in 4QFY17 posted revenues of Rs 79.5 Cr. (up 34% Y-o-Y, up 21% Q-o-Q) due to consistent growth in both Glass Line Equipments (GLE) and Non-GLE (Heavy Engineering and Proprietary products) segments. It posted PAT of Rs 11 Cr (up 90% Y-o-Y, up 89% Q-o-Q) due to operational leverage coming into play as well as high growth in other income (Rs 5.9 Cr. vs. Rs 0.8 Cr. Y-o-Y) due to redemption of some mutual funds and selling of investments.

The product mix tilted in favour of Non-GLE with revenue contribution increasing from 28% to 46% Y-o-Y. GMM's subsidiary Mavag, operating in Non-GLE segment, witnessed a turnaround in FY17 with strong performance, posting revenue growth of 38% Y-o-Y (Rs 87 Cr vs. Rs 63 Cr), PAT growth of 194% Y-o-Y (Rs 5 Cr vs. Rs 1.7 Cr).

GMM Pfaudler is well positioned in the industry owing to high entry barriers and market leadership position in GLE business, strong brand name, sticky clientele, growing Non-GLE business, parent and subsidiary support, strong balance sheet and thus deserves premium valuations. We value GMM Pfaudler at 22x FY19E given the growth prospects and maintain buy with a target price of Rs. 662(12% upside)

BUY

Target Price: Rs. 662

CMP	: Rs 593
Potential Upside	: 12%
Relative to Sector	: Positive

MARKET DATA

No. of Shares	: 1.46 Cr.
FV (Rs)	: 2
Market Cap	: Rs. 866 Cr.
52-week High / Low	: Rs 625/ Rs 286
Avg. Daily vol. (6mth)	: 8529 shares
Bloomberg Code	: GMM IN
Reuters Code	: GMM.P.O
BSE Code	: 505255
NSE Code	: -

Key Highlights

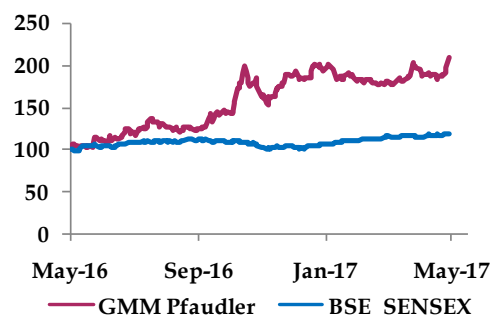
- Increasing market share in Glass Line Equipment business:** GMM Pfaudler is the market leader in manufacturing of glass line equipments (>50% market share). It manufactured 1430 Glass Line Equipments in FY17 vs. 1160 in FY16, thus registering a 23% volume growth. GLE finds application in pharmaceuticals, agrochemicals and specialty dyes, paints, etc. With over 350 firms planning to set up projects in the first phase of Pharmacy by 2018 and Government's focus to expand API manufacturing facilities in India, it opens up plethora of opportunities for GMM. The company has the capacities in place and is continuously working on throughput improvement and plant transformation projects to improve output of the plant to manufacture more vessels. We expect this segment to grow at 13% CAGR over FY17-FY19E owing to opportunities in the application industries.
- Increasing revenue contribution from Non Glass Line Equipment business:** GMM showed an exceptional performance in this segment (Mixing systems, engineered systems, heavy engineering, filtration & drying) with GLE : Non-GLE revenue mix shifting from 72 : 28 to 54 : 46 Y-o-Y due to high order execution and robust inflow of the orders. GMM targets jobs that require intensive engineering, one that needs a proven track record, thus creating a niche for itself in this segment. After declining revenues in the last 2 years, its subsidiary Mavag reversed the trend in FY17 by posting strong revenue and profit growth. The company has a healthy order backlog in this segment and we expect it to grow at 16.2% CAGR over FY17-FY19E.
- Parent's Pfaudler outsourcing to boost exports:** Exports contributed 10% of GMM's revenues in FY17. With Pfaudler rationalizing its manufacturing footprint in Europe and US as well as first export order for Pfaudler being shipped in Q3FY17, we expect sourcing to increase in the next 2-3 years, thus increasing revenue contribution from exports to 20%. This would lead to better margins for GMM.

FINANCIAL SUMMARY (Consolidated)

Y/E	Sales (Rs Cr)	EBITDA (Rs. Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
March									
FY16	292	35	20	13.8	6.6	-	13	19	-
FY17	353	48	33	22.8	65.4	-	18	25	-
FY18E	404	60	38	26.0	14.3	23.1	18	25	13.7
FY19E	461	68	44	30.1	15.8	19.9	19	26	11.8

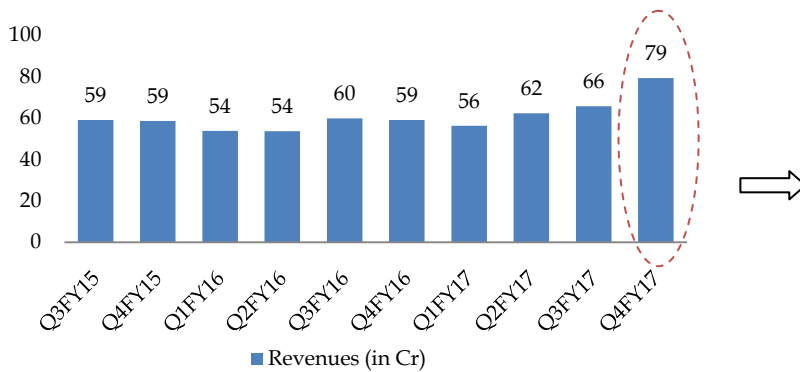
Source: Company and Axis Direct Research

PRICE PERFORMANCE

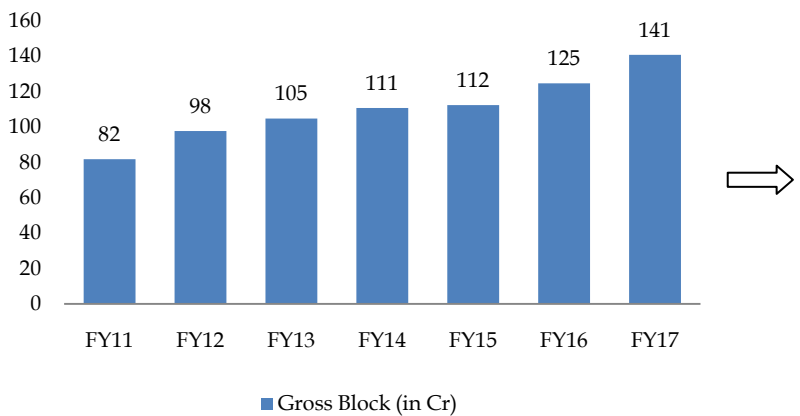


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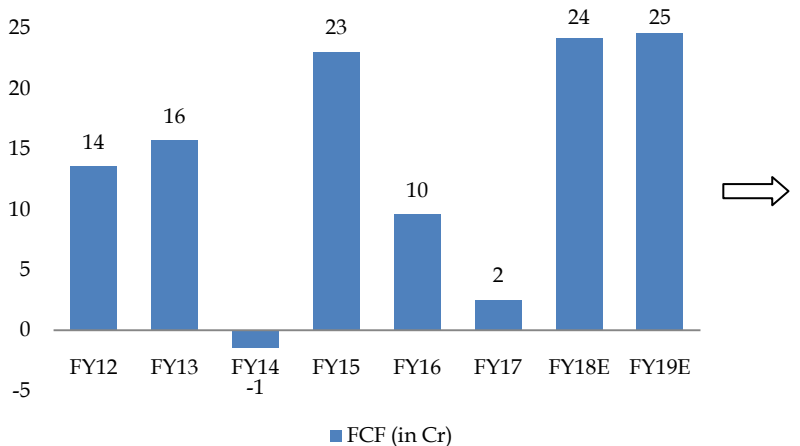
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Stellar performance in Q4FY17, expected to sustain going ahead...


Super-normal revenues were recorded by GMM Pfaudler in Q4FY17 with growth observed in both Glass Line and Non-Glass Line Equipments. With healthy order backlog, the company is expected to post similar or better performance in the coming quarters.



GMM Pfaudler has increased capacity in Glass Line Equipments by 30% in last 2 years reflecting in Gross Block which reached Rs 141 Cr in FY17. Going forward, GMM would require minor cap-ex in de-bottlenecking exercises, strategic cap-ex in cost reduction initiatives or maintenance cap-ex.



GMM being a debt-free company and self-sufficient in capacity for the next 2-3 years, will see the effects of operational leverage coming into play resulting into increased operating cash flows for the company. Free cash flow is expected to reach Rs 24 Cr in FY18E owing to increasing revenue, improved working capital and minimal cap-ex

Source: Company, Axis Direct Research.

Results Update (Consolidated)

(Rs. cr)	Quarter ended					12 months ended			
	Q4FY17	Q4FY16	% Change (YoY)	Q3FY17	% Change (QoQ)	FY17	FY18E	FY19E	2 yr CAGR
Sales	79	59	34	66	21	353	404	461	14%
Other Op. Inc	0.0	0.6		0.8		0	0	0	
Total Revenue	79	60	33	67	19	353	404	461	
Expenditure									
Net Raw Material	36	25	45	29	23	149	170	194	
Employee expenses	9	7	24	7	20	66	73	83	
Labour charges	8	5	53	7	14	0	0	0	
Other Exp	16	13	27	13	27	90	101	115	
Total Expenditure	69	50	38	56	23	305	344	392	13%
EBIDTA	11	10	8	11	2	48	60	68	19%
Oth. Inc.	5.9	0.8		0.6		8.2	3.2	4.6	
Interest	0.3	0.3	31	0.2	43	1	1	1	
Depreciation	1.9	1.7	13	1.9	0	8	9	10	
PBT	14	9	65	9	60	47	54	62	15%
Tax	3.4	3.0	15	3.2	7	14	16	18	
PAT	11.0	5.8	90	5.8	89	33	38	44	15%
EPS (Rs.)	4.3	4.0		4.3		22.8	26.0	30.1	

Source: Company, Axis Direct Research.

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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