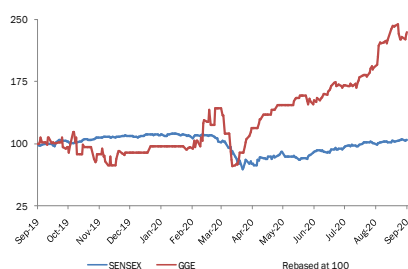


### RVMs and ad revenues will exponentially drive growth and profitability

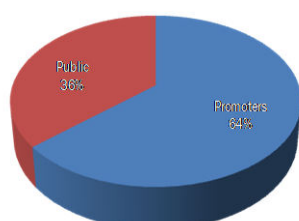
**BUY**

Sector	: Engineering
Target Price	: Rs 90
Current Market Price	: Rs 63
Market Cap	: Rs 65 crore
52-week High/Low	: Rs 71/17
Daily Avg Vol (12M)	: 29,375
Face Value	: Rs 10
Beta	: 0.53
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 540614
NSE Scrip Code	: N/A
Bloomberg Code	: GGENG IN
Reuters Code	: GGEN.BO
Nifty	: 11,535
BSE Sensex	: 39,086
Analyst	: Research Team

#### Price Performance



#### Shareholding Pattern



#### Initiating Coverage

##### Investment Summary

- At 90%, India recycles one of the highest percentages of PET waste in the world, which is more than many advanced economies such as Europe and Japan. Increasing adoption of products made from PET waste will drive demand for PET recycling solutions.
- Growing consumption of packaged food and beverages will ensure adequate PET waste supply for players in the recycling value chain. India is one of the top five global markets for packaged food and the second largest in Asia.
- Partnership with Panasonic and future collaboration opportunities will drive advertising revenue from RVM kiosks.
- Revival of industrial/commercial activities and capex will drive demand for air-conditioner components.
- Pent-up demand in the post-COVID period will drive demand for generators, led by commercial applications with a major contribution from the telecom sector.
- Launch of sanitization and personal protection products will support revenues in the wake of the COVID-19 pandemic.
- State-of-the-art manufacturing facility, marquee clients, and strong distribution in Western India are amongst GGE's key strengths.
- We expect GGE to deliver exponential topline growth in FY21 and FY22, enabled by strong traction from RVMs and advertising revenues, healthy volumes of legacy products, and contribution from personal protection products. The strong growth and increasing contribution from advertising will generate operating leverage, leading to margin expansion and solid gains in ROCE and ROE. Basis the robust earnings growth forecast, the GGE stock trades at an attractive forward P/E level of 10.6x FY22E EPS. Valuing at 15.0x FY22E EPS, our target price of Rs 90 informs a BUY rating with an upside potential of 42%.

#### Key Financial Metrics

Rs lakh	FY18A	FY19A	FY20A	FY21E	FY22E
Total revenue	2,243	8,222	1,650	3,328	4,783
Growth		266.6%	-79.9%	101.7%	43.7%
EBITDA	180	383	81	219	930
EBITDA margin	8.0%	4.7%	4.9%	6.6%	19.4%
PAT	102	226	9	73	618
PAT margin	4.5%	2.8%	0.5%	2.2%	12.9%
Diluted EPS (Rs)	1.74	3.66	0.09	0.71	6.00

Source: Company data; Khambatta Research

### Company Profile

G G Engineering Limited (GGE) was established in 2006 to cater to the rising demand of quality sheet metal and heavy steel products. The company's flagship products include smart Reverse Vending Machines (RVMs), sheet metal components for commercial air-conditioners, and industrial diesel generator sets.

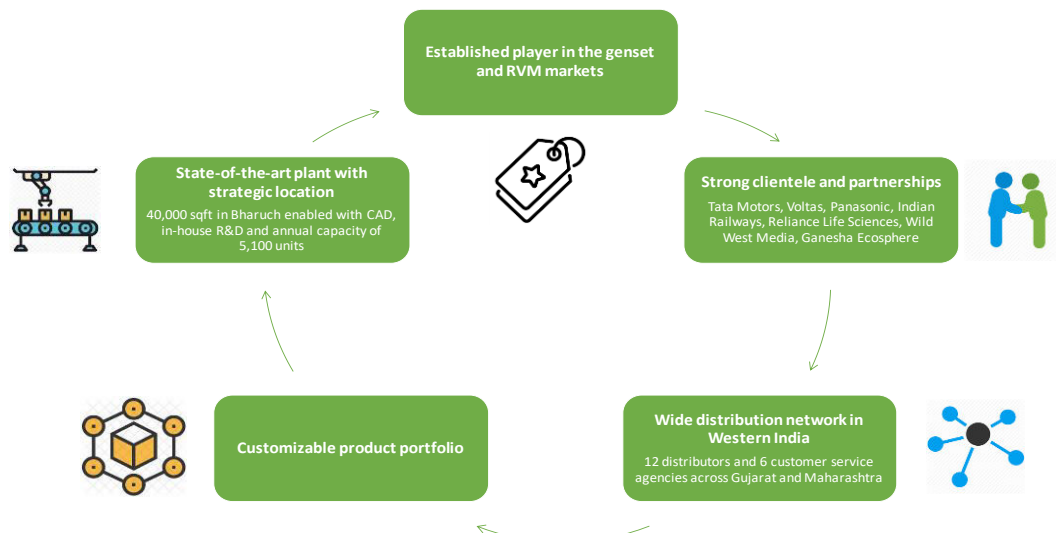
Inspired by the Swachh Bharat Abhiyan, GGE launched India's first fully-automated and smart RVMs for crushing/shredding PET bottles with the objective of enabling environment-friendly disposal of plastic waste. The company also manufactures sheet metal air conditioning components with powder coating for Tata Group's Voltas and is the only approved vendor for the OEM's Vadodara unit. Voltas outsources components for its commercial AC range at the Vadodara facility, where commercial-use ACs of 10 tons and higher sizes are manufactured, which are installed in malls, airports, corporate offices and other commercial facilities.

GGE further specializes in custom-built enclosure generator sets, driven by Tata Motors engines, for both stationary and mobile applications with its latest series of gensets equipped with engines applying quantum techniques to enhance durability and stability. The company also supplies industrial engines for various applications, marine engines, and spare parts for diesel genset to the local and International markets. Most recently, the company has launched pathogen-protection products in the wake of the COVID-19 pandemic for defence against the novel coronavirus and other deadly pathogens. This range of products includes sanitizing tunnels, touchless hand sanitizer stations, and mask vending machines.

GGE is led by promoter and Managing Director, Mr Vinod Beriwal, and promoter and Whole Time Director, Mr Kamal Beriwal.

**GGE launched India's first fully-automated and smart RVMs for crushing/shredding PET bottles**

### Core strengths of GGE



Source: Company data

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GGE is the only listed RVM manufacturer in India

### Peer Group

GGE's product portfolio in terms of range and diversity is not exactly comparable to any other listed company in India. It is the only listed company manufacturing RVMs in India. We have considered three listed peers for GGE, which operate in the engineering and electrical equipment spaces and some of their products are similar to GGE's offerings. The size and scale of operations of these peers are, however, much bigger than that of GGE.

**TD Power Systems:** The Bengaluru-headquartered company manufactures custom-built AC generators for various applications. Besides diesel gensets, TD Power offerings include generators powered by gas engine, gas turbine, steam turbine, hydro turbine and wind turbine.

**Kirloskar Electric Company:** Kirloskar Electric is a manufacturer of electrical and electronic equipment such as AC generators, diesel gensets, AC and DC motors, switchgears, transformers, AC and DC drives and UPS. The company caters to the power, sugar, steel, cement and energy industries as well as to the agriculture sector.

**Modison Metals:** Modison Metals manufactures custom-made electrical contacts and contact materials for the switchgear industry. The company is the only global manufacturer of electrical contact materials and finished contacts for low, medium, high and extra-high voltage switchgears. Modison also supplies products to the automotive, engineering, aerospace, marine, defence and railway sectors.

### Peer Comparison: Key Financials Metrics, FY20

Rs lakh	G G Engineering	TD Power Systems	Kirloskar Electric	Modison Metals
Revenue	1,650	51,489	31,441	21,926
EBITDA	81	3,321	(32)	2,692
EBITDA margin	4.9%	6.4%	-0.1%	12.3%
PAT	9	2,994	4,531	1,512
PAT margin	0.5%	5.8%	14.4%	6.9%
Diluted EPS (Rs)	0.09	9.67	6.18	4.66
ROCE	3.7%	9.0%	N/A	12.1%
ROE	0.6%	6.9%	N/A	10.6%

Source: Company data; Bloomberg; Khambatta Research

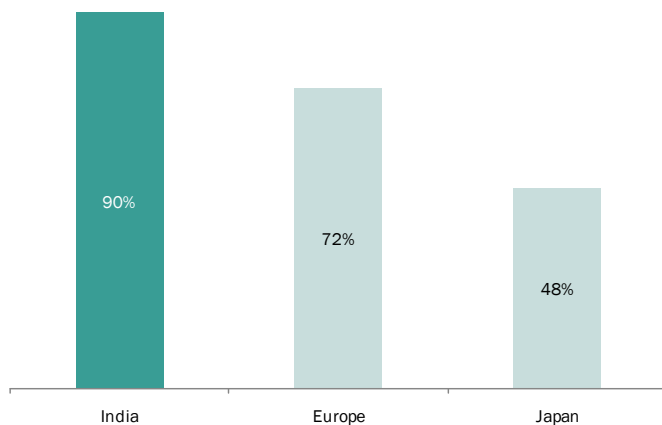
### Investment Thesis

**India's world-leading PET recycling and increasing adoption of products made from PET waste will drive demand for PET recycling solutions.** India recycles up to 90% of the PET waste it generates, which is higher than many developed economies. Europe recycles approximately 72% while Japan reprocesses 48% of its PET waste. The Indian PET bottle recycling industry is worth Rs 3,500 crore. Further, a majority of this recycling (65% of total PET waste generated) takes places in the organized sector while 15% are recycled in the informal sector. Out of the remaining 20%, 10% each account

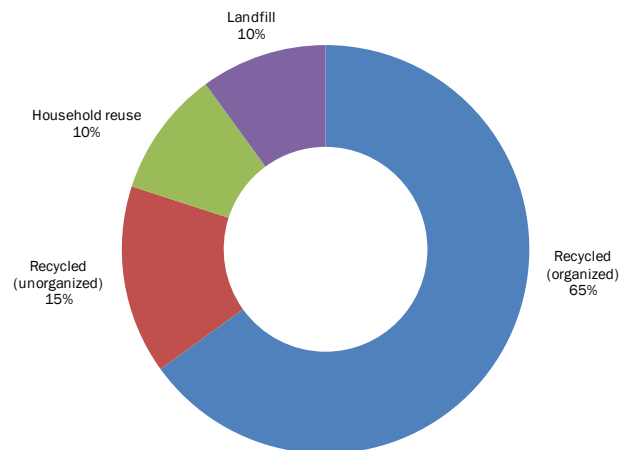
Indian's PET bottle recycling industry is worth Rs 3,500 crore

for household reuse and landfilling. Recycled PET is used for making bottles, containers, automotive parts such as door panels, bumpers, and headliners, construction materials, thermoformed packaging, and polyester fabric for use in apparels, furnishing/upholstery and other applications including technical textile applications in tyres, construction, industrial, medical and other areas. The global recycled PET market is projected to expand at a CAGR of 6.5% between 2019 and 2029 with China and India expected to be the leading contributors of this growth (source: [www.recycling-magazine.com](http://www.recycling-magazine.com)). The food & beverages, healthcare and fashion industries especially show a strong preference for recycled and sustainable packaging solutions. We believe GGE’s first-mover advantage holds it in good stead to significantly benefit from the expected growth of the PET recycling market.

**Percentage of PET waste recycled**



**Places PET waste end up in India**



Source: [www.recycling-magazine.com](http://www.recycling-magazine.com)

**India is the second largest packaged food market in Asia**

**Growing consumption of packaged food and beverages will ensure adequate PET waste supply for players in the recycling value chain.** PET is 100% recyclable and can be recovered by washing and melting or chemically breaking it down. Worldwide, the recycled PET market is benefiting from increasing consumption of packaged food and beverages with brisk growth witnessed in South, Southeast and East Asia. India is one of the top five global markets for packaged food and the second largest in Asia with sales volume of 34 million tonnes in 2017. Euromonitor International projects India’s packaged food sales volume to increase to 47 million tonnes by 2020, leading to India becoming the world’s third largest packaged food market after China and the US (source: [www.fnbnews.com](http://www.fnbnews.com)). A high proportion of working-age population, increasing urbanization and growing disposable income set a perfect stage for growth of packaged food and beverages in India, which, in turn, will generate large quantities of PET waste and benefit players in PET recycling value chain.

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**GGE has entered into a partnership with Western Railway to install RVMs in 16 stations in Mumbai division**

**Partnership with Panasonic and future collaboration opportunities will drive advertising revenue from RVM kiosks.** GGE has entered into a contract with Panasonic India for the latter's advertising solution SignEdge Display Network (SDN) which allows Panasonic to aggregate online content on any digital screen based on advertisers' interest or information relating to their target customers obtained through various online media/solutions. GGE has also received an order from Western Railway to install and operate 25 plastic bottle crushing machines (PBCMs) across 16 stations in Mumbai division. The installation work could not commence due to the lockdown imposed in the wake of the COVID-19 pandemic and continuing partial lockdowns. The installation is expected start soon with lockdown restrictions being progressively eased each month since June. The Western Railway contract awards advertising rights to GGE to display/broadcast advertisements at the RVM/PBCM kiosks where GGE can leverage its SDN partnership with Panasonic to monetize the kiosks. We expect advertising revenues to emerge as a key revenue stream with more such PBCM installation projects with advertising rights and powered by SDN to be executed going forward.

**The Indian HVAC market is forecast to expand at a CAGR of 16.0% to top US\$ 31 bn by 2030**

**Revival of industrial/commercial activities and capex will drive demand for air-conditioner components.** The Indian heating, ventilation, and air conditioning (HVAC) market is expected to grow by an annualized rate of 16.0% from US\$ 8,527 mn in 2019 to US\$ 31,599 mn by 2030 (*source: www.psmarketresearch.com*). The cooling category dominates the India HVAC market due to the subtropical climate that prevails in the country with hot and humid weather for a major part of the year. The commercial segment of the market commands the largest share in the Indian HVAC market, driven by large volume requirements in office complexes and shopping malls. While Northern India is the largest HVAC zonal market in the country, Western India is expected to lead the overall market in terms of growth going forward with the manufacturing sector seeing a revival of capital investments. Manufacturing facilities, especially in the automotive and pharma sectors which dominate the manufacturing hubs of Mumbai, Pune, Nagpur and Ahmedabad, generate high demand for HVAC systems for providing a comfortable working environment and meeting compliance requirements. The construction and infrastructure sectors including airports and metro railways will drive demand for cooling and ventilation solutions across zones.

**India's diesel genset market is projected to expand at a CAGR of 12.5%, crossing the US\$ 4 bn mark by 2024**

**Pent-up demand in the post-COVID period will drive demand for generators, led by commercial applications with a major contribution from the telecom sector.** The Indian diesel generator market is dominated by commercial applications, driven by high-volume adoption in malls and other retail outlets, restaurants, hospitals, telecom towers and other commercial facilities. In the industrial segment, the small & medium enterprises (SMEs) are a major user of diesel generators. Estimated at US\$ 1,106 mn in 2019, the Indian diesel genset market is projected to expand at a CAGR of 12.5%, crossing the US\$ 4 bn mark by 2024 (*source: www.psmarketresearch.com*). This growth can be attributed to brisk growth in genset adoption in the retail, hospitality and telecom sectors for meeting prime and auxiliary power requirements. The

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telecom sector is expected to be the leading contributor to the anticipated growth of the generator market, driven by the constant demand for prime and backup power from telecom towers. Demand from the telecom sector will be driven by expansions and upgrades of existing networks, the government's National Digital Communications Policy which is expected to attract investments to the tune of US\$ 100 bn and see the installation of 1 lakh new mobile towers, and 5G network installation and upgrade. The industrial segment too will contribute to the demand for gensets, led by the infrastructure, construction and manufacturing sectors.

**Launch of sanitization and personal protection products will support revenues in the wake of the COVID-19 pandemic.** GGE has launched sanitization and personal protection products to take advantage of the opportunity in the space which has emerged as a result of the COVID-19 pandemic. While this business segment has a stronger near-term potential with the COVID outbreak expected to come under reasonable control by 2021, increased awareness about disease-causing pathogens and the need for personal protection and sanitization of social spaces including offices and shopping malls will continue to generate demand for solutions in the medium term, albeit in lower volumes. While we do not anticipate that these products will become the company's flagship offerings, they are expected to cushion the impact of the economic slowdown on other product lines in the near term and will enable diversification of revenues in the medium term.

Sanitization and personal protection products will mitigate the impact of demand slowdown in the wake of the COVID-19 outbreak

**Present and past clients/partners**



Source: Company data

**State-of-the-art plant, marquee clients, and strong distribution in Western India are key positives.** GGE's state-of-the-art manufacturing facility with an area of 40,000 sqft is strategically located in the industrial hub of Bharuch in Gujarat. The plant enabled with CAD and in-house R&D facility has an annual capacity of 5,100 units and customization capabilities across product categories. The company has a wide distribution network in Western India



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Enabled with CAD and in-house R&D facility, GGE's plant has an annual capacity of 5,100 units

At current price the GGE stock trades at an attractive forward P/E of 10.6x FY22E EPS

with 12 distributors and 6 customer service agencies across Gujarat and Maharashtra. GGE's past and present clients/partners include some marquee names such as Tata Motors, Voltas, Panasonic, Indian Railways and Reliance Life Sciences as well as emerging companies such as Ganesh EcoSphere, Gem Enviro Management and Wild West Media.

### Valuation

At 15.0x FY22E EPS of Rs 6.00, we rate GGE a BUY with a target price of Rs 90 and an upside potential of 42%. We have modelled exponential topline growth in FY21 and FY22, enabled by strong traction from RVMs and advertising revenues, healthy volumes of legacy products, and contribution from personal protection products. We expect FY22 revenue growth to normalize but still remain robust. The strong revenue growth and increasing contribution from advertising will generate operating leverage, leading to margin expansion from the operating through the PAT levels. ROCE and ROE are expected to see solid gains as a result. We also expect solid cash flow generation to enable the company to reduce its debt, leading to further fall in debt-to-equity ratio. Basis the robust earnings growth forecast, the GGE stock trades at an attractive forward P/E level of 10.6x FY22E EPS. Valuing at 15.0x FY22E EPS of Rs 6.00, our target price of Rs 90 informs a BUY rating with an upside potential of 42%.

### Relative Valuation: Price-to-Earnings (FY16 to date)

	High	Low	Average	Current
G G Engineering	31.3	12.5	19.8	703.9
TD Power Systems	13.5	8.1	10.4	12.5
Kirloskar Electric Company	2.1	1.1	1.5	1.7
Modison Metals	36.2	4.6	13.8	7.9

Note: Multiples from FY16 onwards or since listing (excluding negative earnings periods); normalized to exclude upper-end outliers

Source: Bloomberg

### Profit & Loss Account

Rs lakh	FY18A	FY19A	FY20A	FY21E	FY22E
Total revenue	2,242.6	8,221.9	1,650.3	3,328.0	4,783.0
Growth		266.6%	-79.9%	101.7%	43.7%
Cost of production and operations	2,062.2	7,839.2	1,569.0	3,108.8	3,852.8
<b>EBITDA</b>	<b>180.4</b>	<b>382.7</b>	<b>81.2</b>	<b>219.2</b>	<b>930.2</b>
EBITDA margin	8.0%	4.7%	4.9%	6.6%	19.4%
Depreciation & amortization	9.9	19.2	21.3	67.7	71.4
PBIT	170.5	363.6	59.9	151.5	858.7
Interest expense	26.6	35.2	54.3	54.4	32.5
PBT	143.8	328.4	5.6	97.2	826.2
Tax expense	41.9	102.0	(3.5)	24.5	208.0
<b>PAT</b>	<b>101.9</b>	<b>226.3</b>	<b>9.0</b>	<b>72.7</b>	<b>618.3</b>
PAT margin	4.5%	2.8%	0.5%	2.2%	12.9%
<b>Diluted EPS (Rs)</b>	<b>1.74</b>	<b>3.66</b>	<b>0.09</b>	<b>0.71</b>	<b>6.00</b>

Source: Company data; Khambatta Research

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### Abridged Balance Sheet

Rs lakh	FY18A	FY19A	FY20A	FY21E	FY22E
Total shareholders' equity	766.2	1,318.6	1,483.6	1,556.3	2,174.6
Total debt	196.3	380.6	433.7	383.9	116.1
Trade payables	393.0	386.1	431.8	833.6	996.2
<b>Total equity &amp; liabilities</b>	<b>1,426.9</b>	<b>2,247.2</b>	<b>2,575.1</b>	<b>3,111.8</b>	<b>3,667.2</b>
Property, plant & equipment	308.9	333.1	1,207.6	1,214.9	1,218.5
Inventory	327.7	194.5	215.8	416.8	521.8
Trade receivables	678.9	942.8	398.7	683.8	982.8
Cash & cash equivalents	15.1	114.7	29.2	35.7	181.9
<b>Total assets</b>	<b>1,426.9</b>	<b>2,247.2</b>	<b>2,575.1</b>	<b>3,111.8</b>	<b>3,667.2</b>

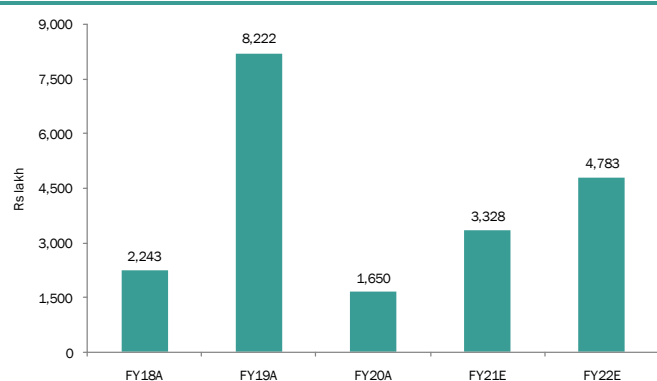
Source: Company data; Khambatta Research

### Ratio Analysis

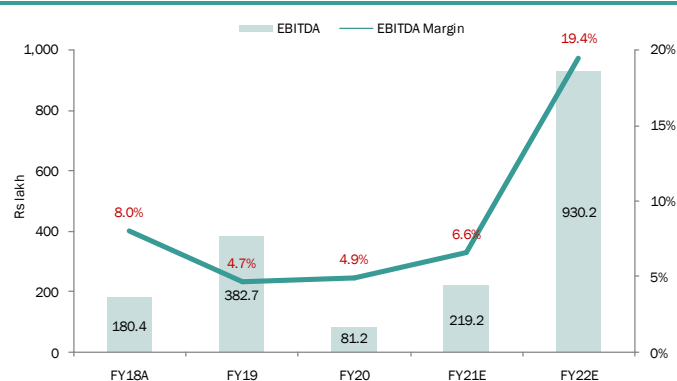
	FY18A	FY19A	FY20A	FY21E	FY22E
ROA	7.1%	10.1%	0.4%	2.3%	16.9%
ROCE	21.8%	25.2%	3.7%	8.8%	37.4%
ROE	13.3%	17.2%	0.6%	4.7%	28.4%
Debt-to-equity ratio	0.3x	0.3x	0.3x	0.2x	0.1x

Source: Company data; Khambatta Research

### Total revenue



### Operating profitability

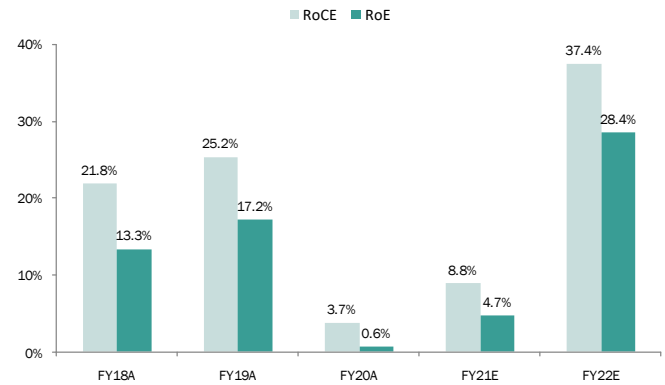
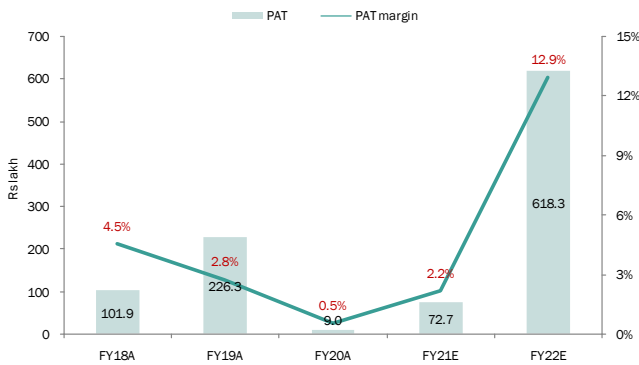


Source: Company data; Khambatta Research



### PAT & PAT margin

### Return ratios



Source: Company data; Khambatta Research

### Key Risks

- GGE's RVM business operates in a niche area where the company has entered recently. While it has the first-mover advantage, intensification of competition beyond our expectations or any disruption due to the advent of new technologies can adversely affect the company's performance.
- GGE depends on a relatively small number of customers for executing orders and sales with concentration of a few big clients. Loss of business from a key customer can severely dent the company's sales and profits.
- An extended economic downturn owing to / as a fallout of the COVID-19 pandemic may lead to underperformance of our forecasts. In such a situation, the advertising revenue stream may fail to take off in line with expectations.

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**Guide to Khambatta's research approach****Valuation methodologies**

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

**DCF:** The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

**ERE:** The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

**Relative valuation:** In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

*Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.*

**Stock ratings**

*Buy recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

*Hold recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

*Sell recommendations* are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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**G G Engineering Limited****03 September 2020**

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