



Farsight

## MORNING FARSIGHT

Tuesday, October 09, 2018

**GMM PFAUDLER**

**CMP:RS 910**

**TRGT:RS 1050**

**TIME HORIZON: 1 YEAR**

GMM Pfaudler, the largest manufacturer of Glass Line Equipments in India, having 53% market share (Industry size —Rs 400 cr) and having more than five decades of experience, is looking a good buy in current uncertain times, with company growing its PAT at over 35% for past 2 years, having debt free balance-sheet, undertaking significant capacity expansion, having more than 8 months of order book with Cash of more than 10% of current market cap. Starting with financial performance, company reported Consolidated PAT of Rs 42.7 cr in FY18 against Rs 31.1 cr in FY17, a growth of 37% YoY, on an income of Rs 420 cr (healthy PAT margin of 10.2%). FY18 consolidated EPS was at Rs 29.2 against Rs 21.3 in FY17. Company had achieved total sales of 1,400 Glass Equipment Vessels in FY17 and 1,500 Glass Equipment Vessels in FY18. For Q1FY19, GMM Pfaudler reported a strong set of numbers. Revenue grew at 35% YoY to Rs 93 cr, while EBITDA showed growth of 93% YoY to Rs 15.3 cr with 494 bps YoY increase in margin from 11.4% in Q1FY18 to 16.4% in Q1FY19, due to higher export revenue and lower power cost Net profit inclined by 63.9% to Rs 9.1 cr, leading to Standalone EPS of Rs 6.22 in Q1FY19, which was at Rs 19.41 in FY18. During the quarter, export accounted for 10% of revenue compared to the average contribution of 5%. Higher export orders mainly lead by Pfaudler Inc (Parent) network. Currently, it is operating at 80% utilization levels and undertaking de-bottlenecking, which will increase its capacity to 2,100 Glass Line Equipment Company is currently having more than 8 months of order book on hand and management has guided for sales of about 1,800 Glass Line Vessels in FY19, which is volume growth of over 29% in Glass Line Vessel Division itself. Company's other two divisions viz., Heavy Engineering and Proprietary Products (Mixing systems, engineered systems, filtration & drying) are also expected to achieve strong growth in the coming quarters, led by order execution and robust inflow of the orders These divisions will also get support from Mavag, which is wholly owned subsidiary based in Switzerland and contributes 25% to the consolidated revenue, It was acquired in 2008 (value undisclosed) and is a supplier of non-GL equipment, such as high engineered Filtration & Drying Equipment and Mixing systems to Pharma, Biotech and Fine Chemical industries. Mavag is now witnessing stable margins after volatile recent past and sits high on the management's agenda and we see this potentially happening through increased outsourcing from Mavag to GMM, (90% of manufacturing work outsourced to GMM from currently 45% and only 10% of finishing work to be done at Mavag AG). Management expects in FY19, recovery in the pharma sector as capex cycle get the better pace. Company is having debt free balance-sheet with Cash Equivalents of Rs 117 cr or Cash Per Share of Rs 80. Company has posted an EPS of Rs 29 for FY18 and on an estimated EPS of Rs 37 for FY19; stock is trading at PE of 24.6x, with RoE of over 22% and RoCE of 32%, which are indicative of robust business model. Share ruling at Rs 910 can move to Rs 1050 in 1 year.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

**Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.**