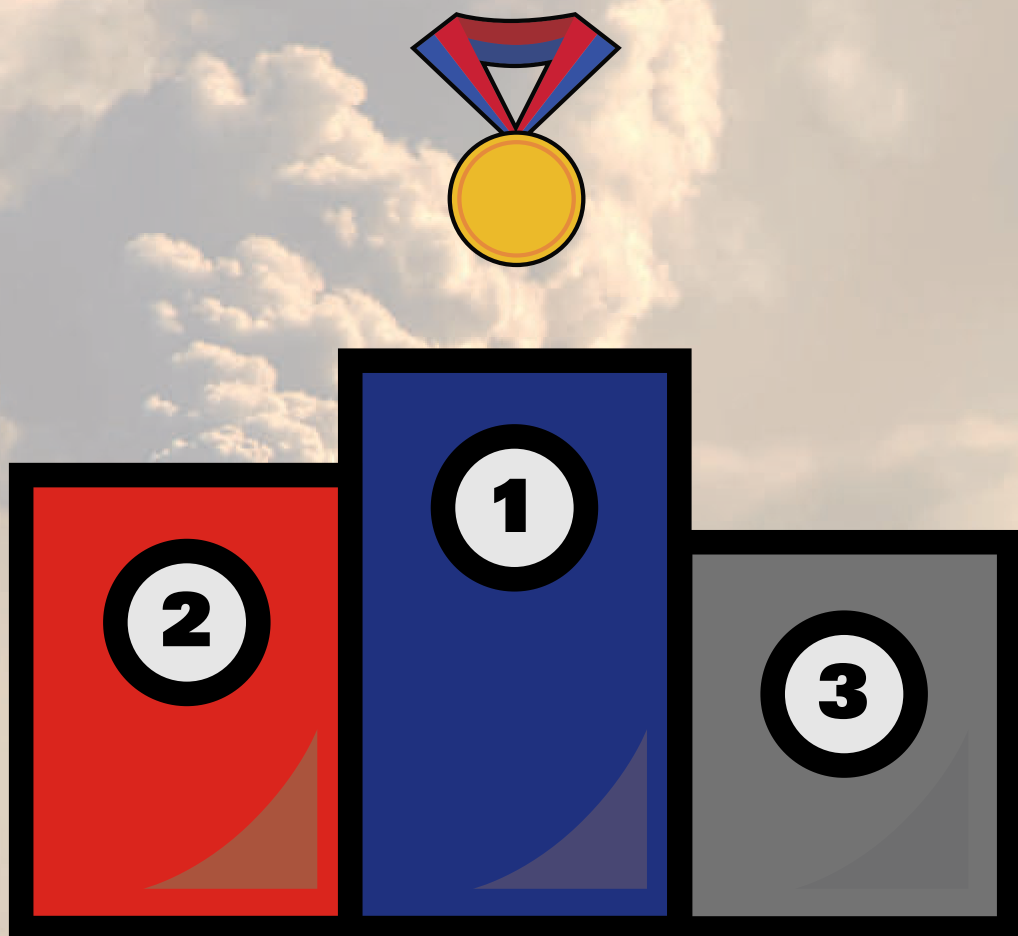
JM FINANCIAL

GMM PFAUDLER

THE UNDISPUTED CHAMPION



Ahead of competition with a dominant market share | **Expanding offerings to spruce up its non-GL portfolio** | **Initiate with HOLD & TP of INR 3,800 on expensive valuations**

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GMM Pfaudler Limited is a leading supplier of engineered equipment and systems for critical applications in the global chemical and pharmaceutical markets. GMM Pfaudler has over five decades of manufacturing experience and a market share of more than 50% in Glass Lined equipment. Over the years, GMM Pfaudler has diversified its product portfolio to include Mixing Systems, Filtration & Drying Equipment, Engineered Systems and Tailor Made Process Equipment.

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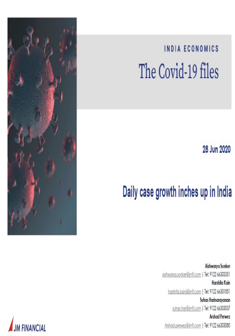
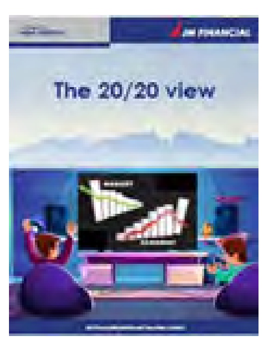
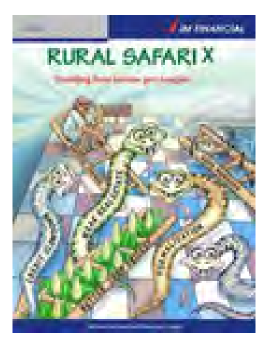


THE COVID-19 FILES



INDIA STRATEGY
THE 20/20 VIEW



RURAL SAFARI X

GMM Pfaudler

The Undisputed Champion

GMM Pfaudler (GMM) is a market leader with a dominant share of c.50%, in the niche segment of glass lined (GL) equipment, which is used in pharmaceuticals and chemicals industries (market size: c.INR 8bn). We believe GMM would be the prime beneficiary of structural tailwinds such as: a) The manufacturing shift from China to India in chemicals and pharma industries; b) technology leadership due to its parent company Pfaudler's support; c) market share gains led by top quality products as well as strong customer credentials; and d) the industry's oligopolistic nature. The company is also scaling up its non-GL business (40% of sales) through acquisitions in the mixing segment, expanding offerings from its parent's product portfolio, acting as a sub-contractor in heavy engineering and leveraging its India facilities to tap export opportunities.

We believe GMM deserves premium valuations over its MNC peers due to superior fundamentals such as dominant market share, faster growth and higher RoCE profile. GMM is the only capital goods company with strong end-user capex visibility. Its proven ability to grow over cycles and generate cash-flows also calls for a premium.

However, despite the above-mentioned positives, the stock currently trades at expensive valuations of 59x FY22E and 44x FY23E EPS. Therefore, we initiate with a HOLD rating and TP of INR 3,800 (40x FY23E EPS).

Structural growth tailwinds in place: The shift in manufacturing from China to India has led to an increase in the global share of Indian companies in the chemicals space; this has driven 20% sales CAGR for GMM over the past 4 years. We believe the Covid-19 outbreak, stricter pollution norms in China and Indian government support to intermediate industry (NIMZ status to Hyderabad Pharma City) are likely to accelerate this trend.

Significantly ahead of competition: GMM has strengthened its market share in GL equipment through superior product quality, technology leadership and strong client credentials. The absence of product substitutes and increasing size of equipment present a strong moat to the business.

Tapping non-GL opportunities: GMM is ramping up its non-GL portfolio (40% of sales) through acquisitions (Sudarshan Chemical's mixing division in FY20), expansion of product offerings from the parent's portfolio (acid recovery), identifying its niche as a sub-contractor in heavy engineering and tapping export opportunities through Pfaudler's global network (sales to Pfaudler increased 6x over the past 5 years).

Improving margins and robust balance sheet: Economies of scale (20% cap. addition CAGR), use of gas furnaces (lower power costs) and strong product quality (lower warranty costs) are aiding margin expansion (+700bps over FY15-20). With a lean working capital cycle, the company generates strong cash flows (OCF/EBIT at 69% and FCF/EBIT at 25%), despite doubling its capacity over FY17-20. We expect average RoEs and RoICs of 22% and 32%, respectively, over FY21-23.

Recommendation and Price Target	
Current Reco	HOLD
Current Price Target	3800
Upside/(Downside)	-7.3%

Key Data – GMM IN	
Current Market Price	INR4,100
Market cap (bn)	INR59.9/US$0.8
Free Float	24%
Shares in issue (mn)	14.6
Diluted share (mn)	14.6
3-mon avg daily val (mn)	INR200.4/US$2.7
52-week range	4,700/1,150
Sensex/Nifty	34,962/10,312
INR/US	75.6

Price Performance			
%	1M	6M	12M
Absolute	7.7	123.6	203.2
Relative*	-0.2	165.9	241.7

*To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	5,026	5,910	6,494	8,237	10,170
Sales growth (%)	23.9	17.6	9.9	26.8	23.5
EBITDA	770	1,111	1,202	1,603	2,038
EBITDA (%)	15.3	18.8	18.5	19.5	20.0
Adjusted net profit	484	711	728	1,036	1,390
Diluted EPS (INR)	33.2	48.6	49.8	70.9	95.1
Diluted EPS Growth (%)	14.6	46.6	2.4	42.4	34.1
ROIC (%)	58.6	45.7	32.3	40.8	49.9
ROE (%)	19.5	23.2	19.4	23.0	24.9
PE (x)	126.0	85.9	84.0	58.9	44.0
Price/Book Value (x)	22.7	17.8	15.1	12.3	9.8
EV/EBITDA (x)	77.7	54.0	49.7	36.8	28.4
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.2

Source: Company data, JM Financial. Note: Valuations as of 29/Jun/2020

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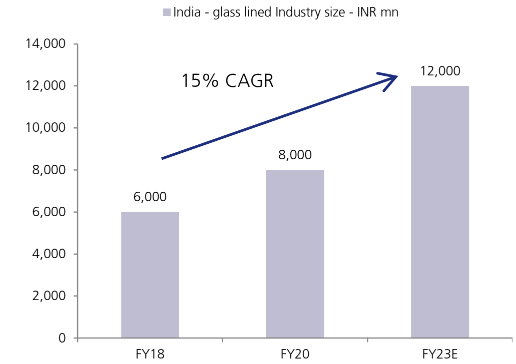
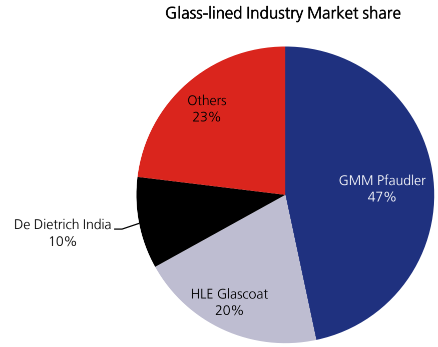
We acknowledge the support services of Harses Kampani in the preparation of this report.

Exhibit 1. Key charts

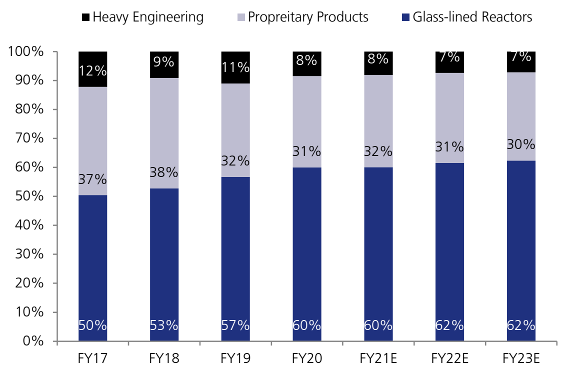
India's glass lined industry is geared to reach INR 12bn by FY23



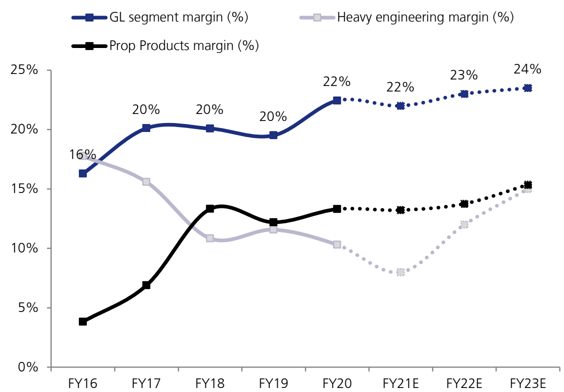
GMM Pfaudler is the market leader with c.50% share



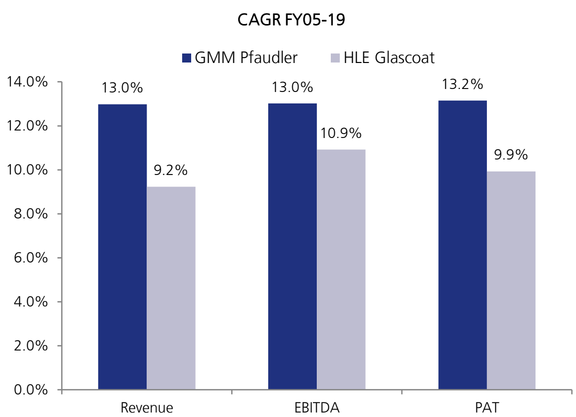
Glass-lined reactors contribute highest revenue share of 60%



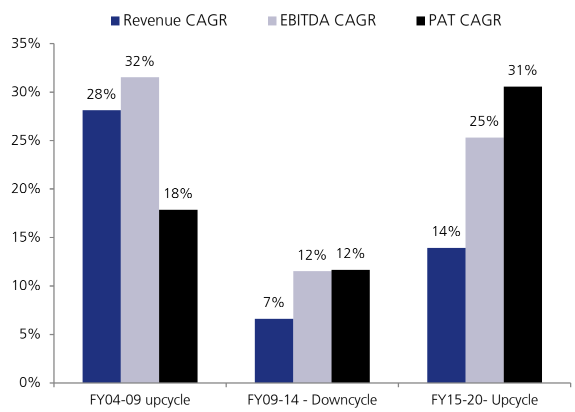
GL segment has the highest margins of 20%



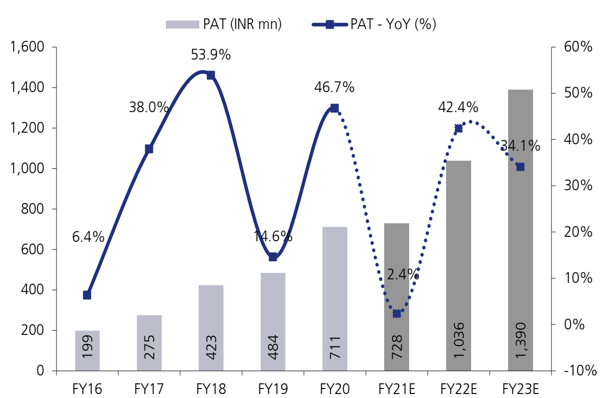
Stands far ahead of 2nd competitor HLE Glascoat (Swiss Glass coat)



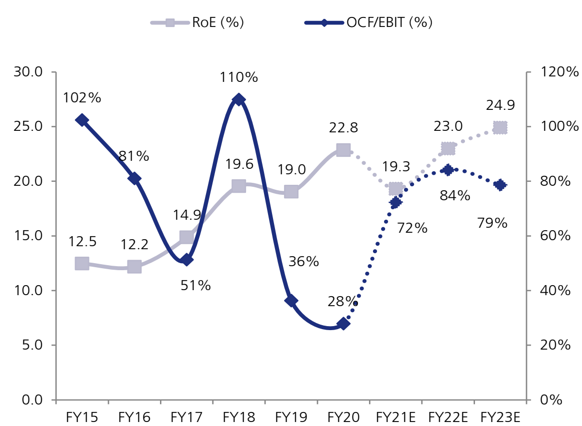
Maintains revenue growth and profitability over cycles



Profits are expected to report 25% CAGR over FY20-23E



RoEs remain strong and so does OCF/EBIT



Source: Company, JM Financial

Executive Summary

What is Glass-lined Equipment?

Glass-Lined Equipment is a corrosion resistant material used in varying processes of operation from production of pharmaceuticals to specialty chemicals, agro chemicals and polymers. It is a critical equipment used by these industries. The strong glass-lined equipment prevents materials exposed to harsh chemicals, such as acids, alkalis, water, and other chemicals, from corrosion and prevents failure within the pressure equipment. Thus, this type of equipment can keep a particularly long service life in an environment where service conditions are difficult and other equipment would quickly become unfit for service.

GL- Industry set to grow 50% in 3 years: Glass-lined industry is expected to grow from INR 8bn in FY20 to INR 12bn in FY23, led by robust growth in pharmaceuticals, speciality chemicals and agro-chemicals. 80-85% of revenues for the industry flow through from new capex while the remaining comes from replacement demand. Given that the life-cycle of the product is 7-10 years, the finite nature of glass-reactors helps maintain growth

Hearty growth outlook for Pharma: Indian Pharma market stood at USD 20bn, clocking 11.2% CAGR over the last 5 years and is expected to touch USD 30bn in by FY23 (10.7% CAGR) led by a variety of structural drivers. India is the world's largest supplier of generics, accounting for 20% of global exports. It supplies over 50% of global demand for various vaccines and 40% of the demand for generic products in the US. We expect Indian companies to capture incremental market share in regulated markets aided by portfolio rationalisation by larger players and strong pipeline.

India's share negligible in chemicals: Over the last 15 years, India has grown its share in the global chemicals from 2% to only 2.7% while China has grown it 4x from 9% to 36%. We believe that structural drivers, government impetus, decrease in corporate tax rate and acceleration of the PCPIR's is likely to aid large scale investments in chemicals in India. The inherent strength of Indian chemical manufacturing sector such as low operating overheads, better manufacturing and compliance standards, stringent environment policy, availability of feedstock, skilled manpower and stronger IP protection, among others, are good drivers to build India as a viable sourcing alternative for global players. According to Invest India, Indian chemical industry is expected to grow from USD 163bn in 2017 to USD 304bn in 2025 registering a CAGR of c.8%.

The shift from China to India: Over the last few years China has faced issues such as **a)** increased regulation by putting laws in place to curb pollution **b)** large explosions impacting livelihood and natural resources and **c)** Yangtze river, 1/3rd of China's drinking water supply, getting polluted with toxic chemicals. All these factors have led to increased penalties and thousands of factories being shut or relocated, thereby impacting the supply chain and leading to higher prices for end users. This will lead to search of alternatives for manufacturing and India is in a very sweet spot due to availability of cheap and skilled labour, low operating overheads and stronger IP protection. India's share in speciality chemicals is at 3% vs China's at 25%.

Exhibit 2. Key segments and assumptions

Segments	Revenue Share	Revenue CAGR FY20-23E	Average EBIT margins FY21-23E	Key Drivers
Glass-lined Equipment	60%	21.4%	23%	Strong up-coming capex in pharma and chemicals; market leader and planned capacity expansion to ensure growth. Scale, operating leverage and tights costs to drive margins higher
Heavy Engineering	8%	13.2%	12%	Focus is on niche orders and from large customers like L&T, Toyo etc. Strong export potential by leveraging Pfaudler's global network
Proprietary Products	31%	18.6%	14%	Ability to bundle allied products to existing customers. Opportunity in acid recovery. Shift from un-organised to organised players.
Total	**100%**	**19.8%**	**17%**	

Source: Company, JM Financial

Why GMM?

Market leader with a strong moat: GMM Pfaudler is a market leader with c.50% share in India's INR 8bn glass-lined (GL) equipment industry. It holds a strong capability of manufacturing top-quality reactors and has relationships with large MNC's and domestic manufacturers in the pharma and chemicals segment. Negligible warranty costs are an indicator of GMM's product quality and performance. We note that higher the capacity, the higher the chances of product failure. Given the critical nature of the product, customers would highly prefer GMM for the larger-capacity glass-lined reactors, allowing GMM to have a higher market share and command premium for larger sized products.

Stands way ahead of competition: The glass-lined (GL) equipment industry in India consists of 3 main players that control 75% of industry revenues. After GMM Pfaudler (c.50% market share), HLE Engineers (formerly known as Swiss Glass coat) is the 2nd largest. GMM stands far ahead compared with HLE. From having only 30% higher revenues than HLE in FY05, GMM has expanded and gained market share aggressively; its current revenues are almost 2.3x HLE's. GMM's capacity is 200EU's per month vs HLE's 55 EU's and this ensures seamless and timely delivery, which is crucial from a customer standpoint.

Backing on Pfaudler as parentage: Pfaudler Inc is the largest player in the international GL equipment with a 30% market share and revenues of USD 291 mn. Its main product line includes glass-lined reactors and storage vessels, competing principally with smaller European companies. It's technology base provides solid support for GMM to create world-class reliable products. Pfaudler posses its own technology known as Glasteel and offers a wide range of glasses catering to various industries.

Increasing wallet share through proprietary products: GMM aims to grow its non-glass lined equipment business through its proprietary products division which provides ancillary equipment such as mixing systems, engineered systems and filtration & drying equipment. Management aims to increase its wallet share by bundling allied products to its clients and eventually become a complete solutions provider. Revenues for the proprietary products segment posted a 16% CAGR over FY16-20 and currently form 31% of overall revenue.

Robust profit growth expected: GMM has reported sales CAGR of 14% during FY15-20 driven by strong growth in all three segments. For FY20 revenues grew 18% YoY while excluding Covid-19 impact of INR 300mn, revenue growth would have been 24% YoY. Over FY20-23, we forecast 21%, 19% and 13% CAGR in GL-equipment, proprietary products and heavy engineering sales respectively. Overall, we forecast revenues to report 19.8% CAGR over FY20-23E. We believe up-cycle in glass lined-equipment, higher share of premium products, operating leverage benefits and cost savings on freight and legal expenses should aid EBITDA margins to inch higher by 120bps touching 20% in FY23. We expect adjusted net profit CAGR of 25% during FY20-23E (vs. 31% CAGR during FY15-20).

Return ratio's and cash flows to remain strong: Over the last 5 years during the up-cycle, GMM has reported an average RoE of 18%, led by high asset turns of 2.5x and strong net margins hovering around c.9%. We expect RoEs to remain at 22% over the next 3 years led by maintaining average fixed asset turns of 3.1x and net margins of around 12.5%. OCF/EBIT remained healthy at an average of 68% over the last five years but due to a significant increase in capex, FCF/EBIT remained lower at an average of 30%. We expect average OCF/EBIT and FCF/EBIT to remain at 78% and 53%, respectively, during FY21-23.

Exhibit 3. Comparative Valuation

	CMP	Mcap	EV/E (x)		P/E (x)		EPS CAGR %	P/B (x)		RoE (%)		RoCE (%)
Company	INR	INR bn	FY21E	FY22E	FY21E	FY22E	FY20-22E	FY21E	FY22E	FY20	FY21E	FY20
GMM Pfaudler	4,094	60	49.0	36.3	82.3	57.8	20.7	14.8	12.1	22.8	19.3	23.3
Grindwell Norton*	498	55	20.3	17.9	27.5	24.4	4.8	4.3	4.1	16.0	13.5	24.5
Honeywell Automation*	31,096	275	38.6	33.9	52.6	43.5	13.4	10.6	8.4	25.0	21.6	38.4
Siemens*	1,116	398	23.9	20.9	33.8	29.6	22.8	3.8	3.5	10.1	12.0	23.2
ABB India	920	195	74.2	29.6	111.1	42.7	14.1	5.4	4.9	10.2	4.9	11.0
Cummins India	398	110	27.1	19.7	26.9	20.3	(6.8)	2.8	2.8	15.1	10.0	17.6
Thermax	749	89	26.5	19.8	42.0	30.9	(3.4)	2.8	2.7	7.0	6.9	7.2
Average - ex GMM (x)			35.1	23.6	49.0	31.9	7.5	4.9	4.4	13.9	11.5	20.3

Source: Company, JM Financial*BBG estimates

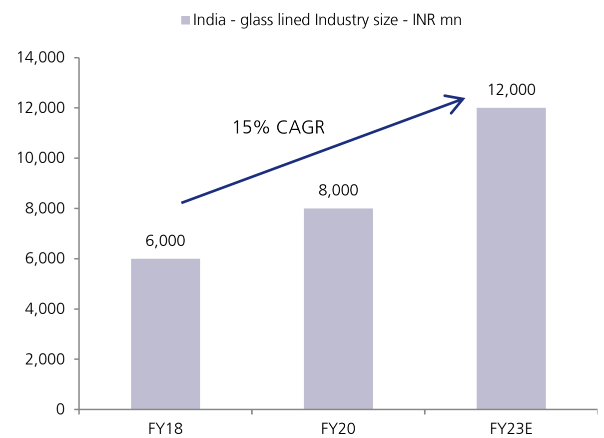
Investment Thesis

Leader in Glass-lined equipment

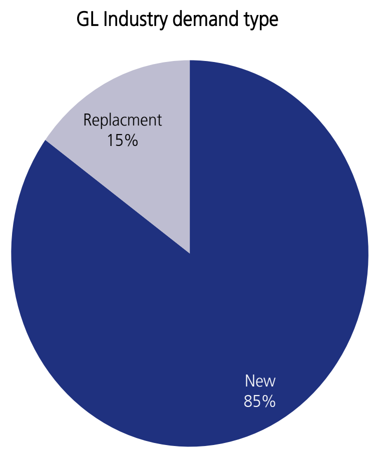
- GMM Pfaudler is a market leader with c.50% share in India's INR 8bn glass-lined (GL) equipment industry. The industry has posted a 12% CAGR over the last 5 years, led by robust growth in pharmaceuticals, speciality chemicals and agro-chemicals. GL equipment forms anywhere between 8-12% of overall process equipment capex for pharma and chemicals sectors. 80-85% of revenues for the industry flow through from new capex, while the remaining comes from replacement demand. Given that the life-cycle of the product is 7-10 years, the finite nature of glass-reactors helps maintain growth. Led by a strong outlook for end-user sectors, the GL industry is expected to report 15% CAGR from FY18 and touch INR 1.2bn by FY23E.

Exhibit 4. India's glass-lined industry - size and demand type

India glass lined industry is currently valued at INR 8bn



New demand constitutes 85% of industry



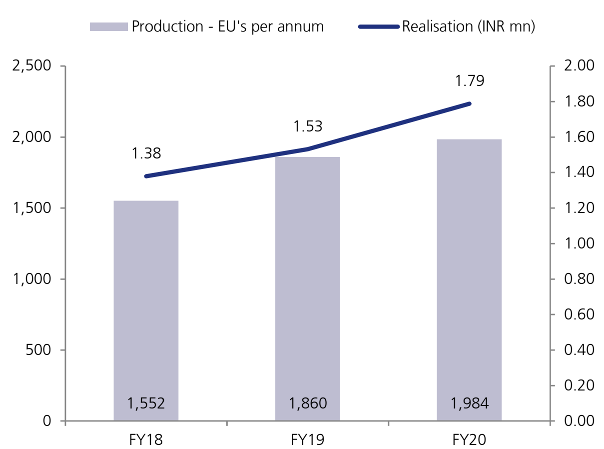
Source: Company, JM Financial

Possesses a strong moat

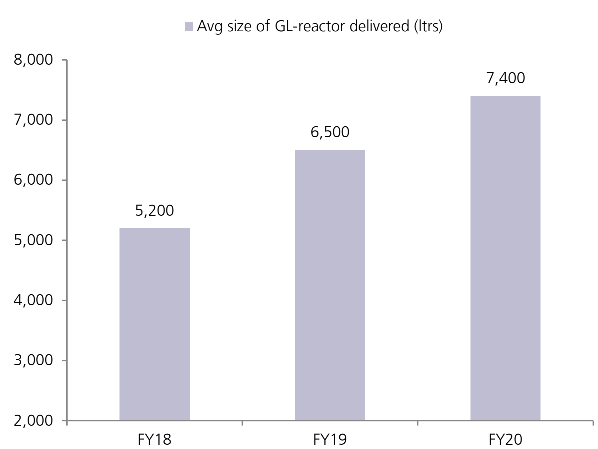
- Preferred choice in larger reactors: Glass-lined reactors vary in capacities - from 50ltrs up to 63,000ltrs - and the higher the capacity, the higher the chances of product failure. The chemicals segment (55% of GL-revenues for GMM) mainly requires larger sizes of >16,000ltrs while pharma requires 3,000-4,000 litres. Currently, 35% of the INR 8bn GL reactor industry comprises >16,000ltrs and above, which puts GMM in a sweet spot. In order to avoid product failures, we believe, customer preference would tilt towards GMM for the larger-capacity glass-lined reactors, thus allowing GMM to improve its market share and command premium for larger sized products. Over the last 5 years, GMM's average size of product delivered has moved from 3,000-4,000ltrs to 7,000-8,000ltrs.

Exhibit 5. Production, Realisations and average size of GL-reactors

Increasing production and realisations at a consistent pace



Average size of GL-reactor delivered is also increasing



Source: Company, JM Financial

- **Strong relationships with brand pull:** GMM derives 25% and 55% of its revenues from pharmaceuticals and chemicals sectors, respectively. The company has a strong and sticky domestic and MNC client base (Exhbit:6), which it has catered to since decades. GMM's manufacturing capacity is spread over 20acres at Karamsad, Gujarat. Aided by Pfaudlers' technology, GMM's product quality is top-notch and allows customers to manage production processes efficiently as reliable process equipment drastically lowers downtime. GMM has a strong brand pull in the industry, as highlighted in Exhibit 7, making marketing expenses miniscule. Negligible warranty costs are an indicator of GMM’s product quality and performance. We note that most sales are made directly to customers. Given the regulatory hurdles for approvals in the end-user industry and critical aspect of the reactor, clients prefer to pay a premium for the quality of products offered by GMM.

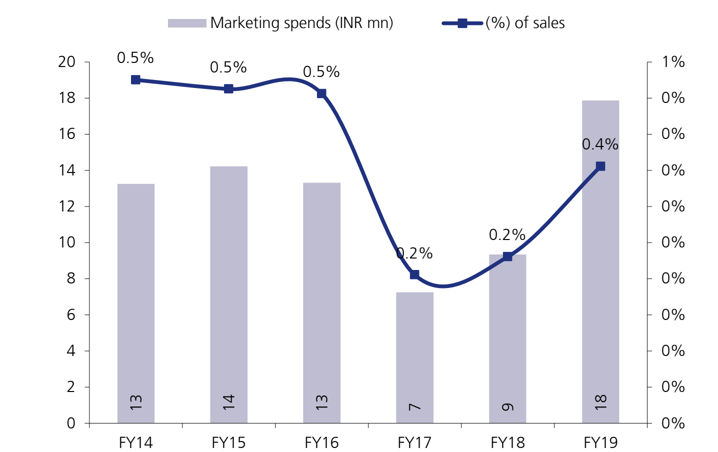
Exhibit 6. Strong client base

Pharmaceutical	Chemicals
SunPharma	Deccan Fine Chemicals
Cipla	PI Industries
Divi's Lab	UPL Ltd
Aurobindo Pharma	Aarti Industries
Dr Reddy's Labs	Hikal
MSN Labs	SRF

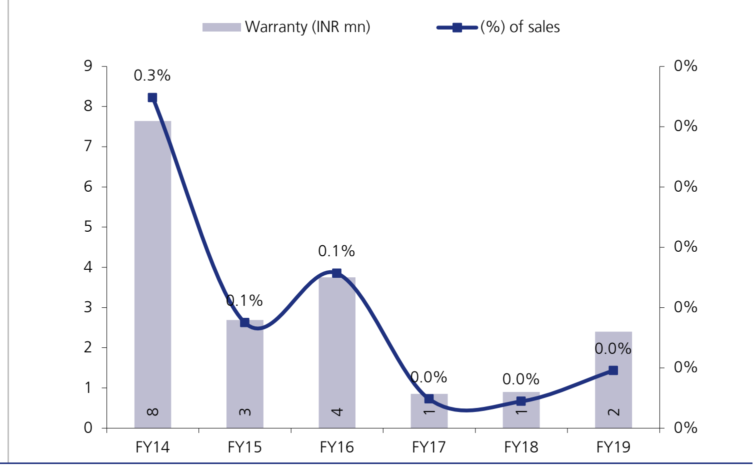
Source: Company, JM Financial

Exhibit 7. Strong brand-pull and lowest warranty expenses

Low marketing spends indicate strong brand pull among clients



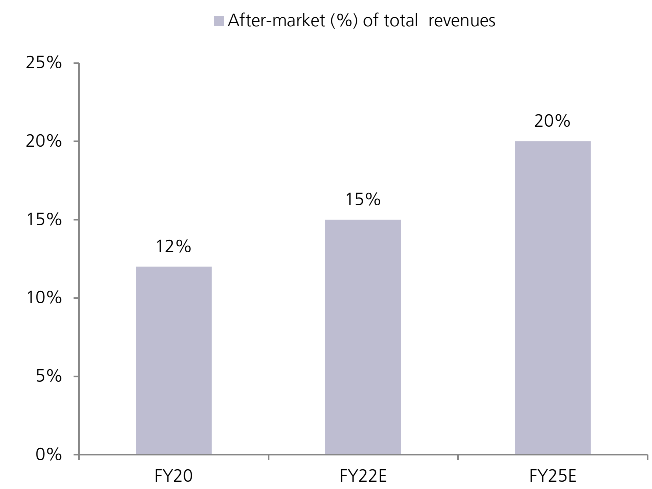
Negligible warranty costs highlight product quality



Source: Company, JM Financial

- **Sizing up after-market revenues:** GMM currently derives 12% of its revenues from the Indian aftermarket business, which it intends to increase to close to 20% in the next few years. It has opened new service centres in Vizag and Ankaleshwar, and plans to open 2 more in Vapi in Gujarat and Lote, Maharashtra thus stocking spare parts and providing better service to customers. We understand that the after-market segment generates operating margins of 30-50% and could aid an overall margin increase for GMM. Pfaudler Inc derives 45-50% of revenues from the after-market business as the installed base remains high globally. We are confident that GMM will be able to clock strong growth in the after-market segment, going forward.

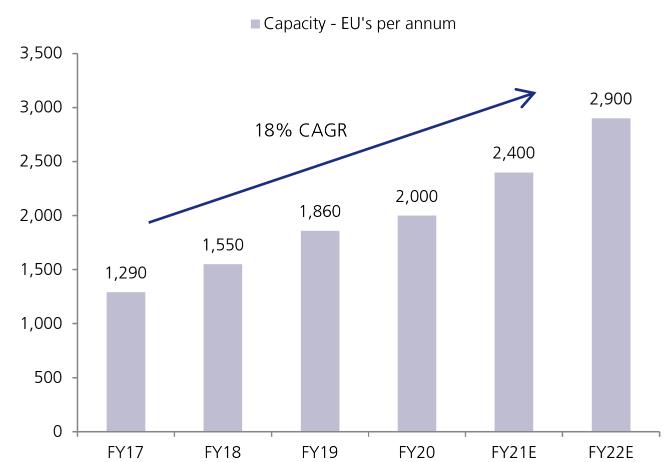
Exhibit 8. Increasing share of after-market revenues



Source: Company, JM Financial

- **Capacity addition displays momentum and creates diversification:** GMM has almost doubled its capacity from 1,290 EUs per year in FY17 to 2,400 EUs per year in FY21. It has managed to maintain high levels of utilisation at 80-85%. Being a market leader, customers indicate order inflows for the upcoming year; this helps GMM decide its capacity expansion plans. We are confident that the upcoming capacity addition signals robust future growth signs as management believes orders would flow through from the chemicals and pharmaceuticals sectors.

Exhibit 9. Manufacturing capacity – EUs per annum

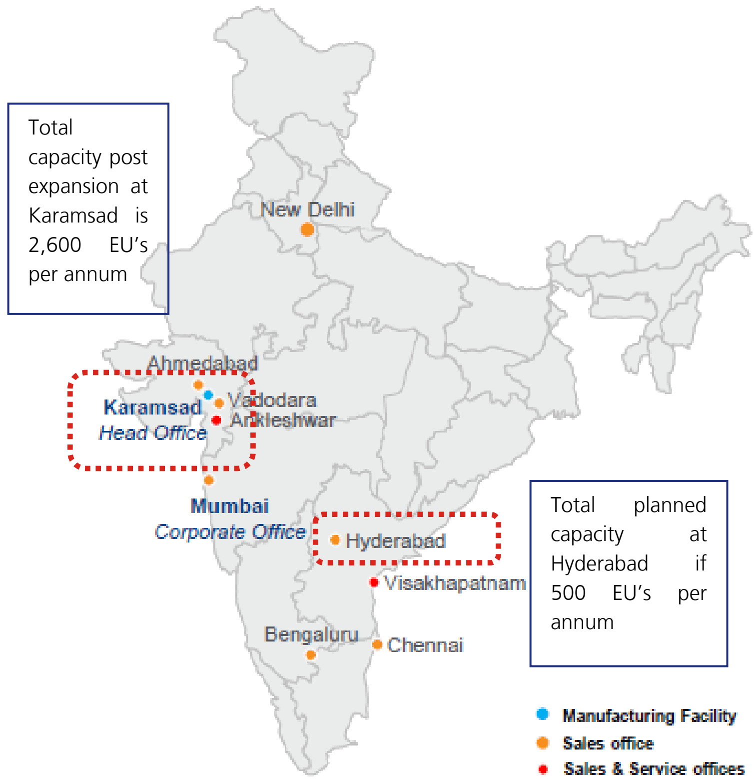


Source: Company, JM Financial

- GMM plans to increase capacity from 2,400 EUs per annum in FY21 to 2,900 EUs per annum in FY22. Of the planned addition of 500 EUs, 200 EUs are likely to come up at its existing plant at Karamsad, Gujarat where the company is adding 2 new gas furnaces. The remaining 300 EUs would be coming up at its Greenfield facility in Hyderabad, next to the Pharma city, which has been given the National Investment Manufacturing Zone (NIMZ) status. We believe this is a right strategy as it will help diversify its location from West to the East, thereby reducing transit times and freight costs while supplying to pharma clients in Hyderabad. It will also act as an early mover advantage as a structural shift in sourcing of APIs and other generic drugs from China to India will lead to set up of manufacturing plants in the Pharma city.

- Pharma city in Hyderabad: The government is planning 'Pharma City' in the 'Bulk drug capital of India', Hyderabad and around 19,000 acres of land is to be allocated for the same. The Telangana State Industrial Infrastructure Corporation (TSIIC) has already acquired about 8,500 acres for the 1st phase of the Pharma City project. The pharma city is expected to attract investments up to INR 650bn from pharma, biotech and related industries. Over 350 firms to set up projects, including about 120 big players. To speed up the project, the government has formed a SPV 'Hyderabad Pharma City Limited'. Currently land has already been acquired and roads are being constructed.

Exhibit 10. GMM's plant locations



Source: Company, JM Financial

- We forecast revenues for the GL segment at 21.4% CAGR over FY20-23 and build in EBIT margin assumptions of 22-23%.

Robust end-user capex

Total capex of INR 734bn is expected to come in over FY20-23 only from the top 12 pharma companys and 11 key chemicals clients

- Pharma capex: We analysed revenue, asset turns and capex trends of top 12 pharma companies (Exhibit 12). We derive that their annual capex grew from INR 52bn in FY09 to INR 131bn in FY19, clocking 10% CAGR. Of which, annual capex posted a 19% CAGR over FY10-16 and has then broadly remained stable at INR 110bn-130bn. For these 12 companies, we peg revenue CAGR over FY19-23 to be in line with the estimated pharma industry growth rate of 10.2%. Revenue is expected to grow from INR 1,512bn to INR 2,227bn in FY23. Assuming average asset turns of 1.2x, total capex of INR 600bn is expected during FY20-23, implying an annual run-rate of c.INR 150bn.
- Chemicals capex: We analysed revenue, asset turns and capex of key 11 clients in the chemicals segment (Exhibit 12) and note that capex grew from INR 10bn in FY09 to INR 40bn in FY19, clocking a 14% CAGR. Over FY15-19, chemical companies reported an 18% CAGR in capex. For these 11 companies, we peg revenue CAGR over FY19-23 to be in line with the estimated chemicals industry growth rate of c.10%. Revenue is expected to grow from INR 683bn to INR 1,000bn in FY23. Assuming average asset turns of 2.3x, total capex of INR 138bn is expected during FY20-23, implying an annual run-rate of almost INR 34bn, which is 22% higher than its last 5 year average.
- Overall, INR 734bn of cumulative capex over FY20-23 is expected by 12 pharma players and 11 chemical companies. It is interesting to note that despite the Covid-19 crisis, several large chemical manufacturers such as PI Industries, SRF, Meghmani Organics, DCM Shriram and Aarti industries among others are actively looking to place orders with GMM Pfaudler. Order booking maintained its traction in 1QFY21, as per management.

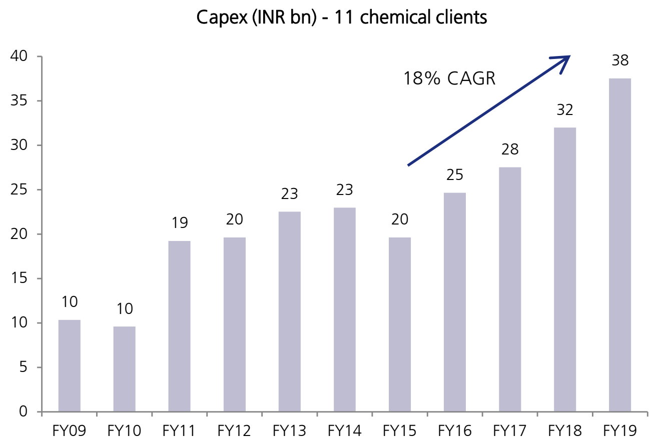
Exhibit 11. Reference of companies for calculating capex trends

Pharma Companies	Revenue - FY19 – INR bn	Chemical Companies	Revenue - FY19 - INR bn
Dr Reddy's Labs	154	Bayer Crop Science	27
Cadila Healthcare	132	Coromandel International	132
Cipla	164	GSFC	86
Sun Pharma	291	Rallis India	20
Ipca Labs	37	Clariant Chemicals	10
Jubilant Life Sciences	91	UPL Ltd	218
Lupin	167	PI Industries	28
Torrent Pharma	77	BASF India	60
Biocon	55	Ion Exchange India	12
Aurobindo Pharma	196	Aarti Industries	47
Divis Lab	49	Atul Ltd	43
Glenmark Pharma	99		
Total	1,512	Total	683

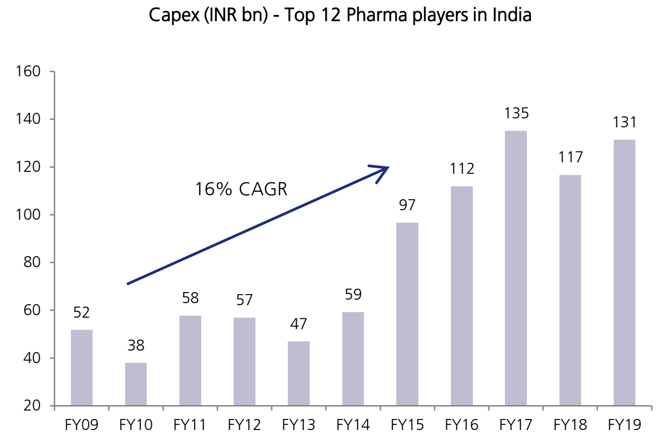
Source: Capitaline Databases

Exhibit 12. Capex by pharma and chemical manufacturers

Annual capex spends by GMM's key chemical clients

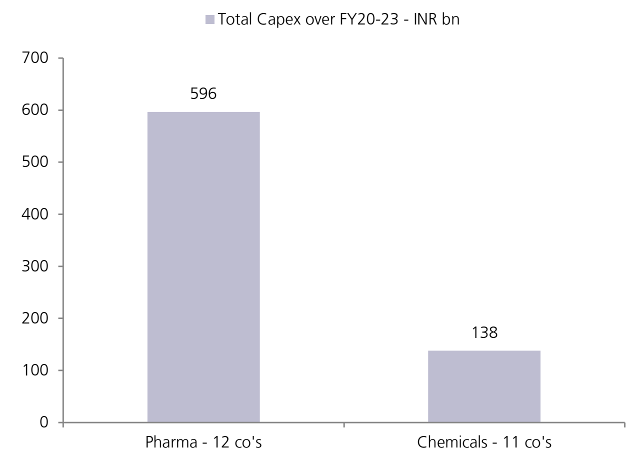


Annual capex spends by top 12 pharma players in India



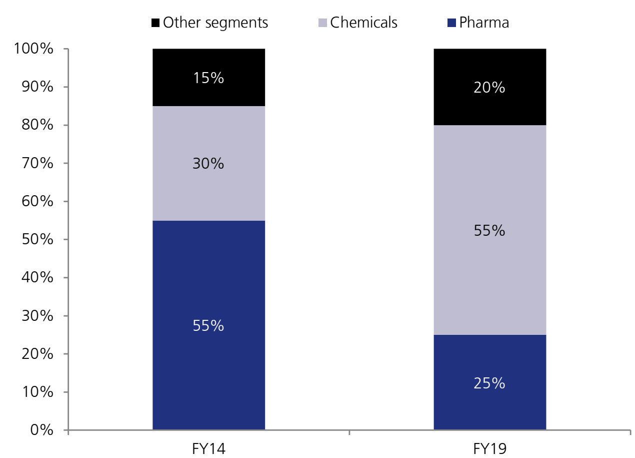
Source: Capitaline Databases, JM Financial

Exhibit 13. Total capex by pharma and chemical players over FY20-23 – 4 years



Source: Company, JM Financial

Exhibit 14. GL segment - revenue share across industries



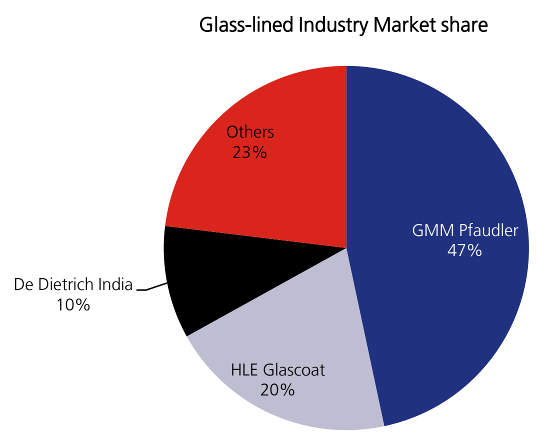
Source: Company, JM Financial

Stands way ahead of competition

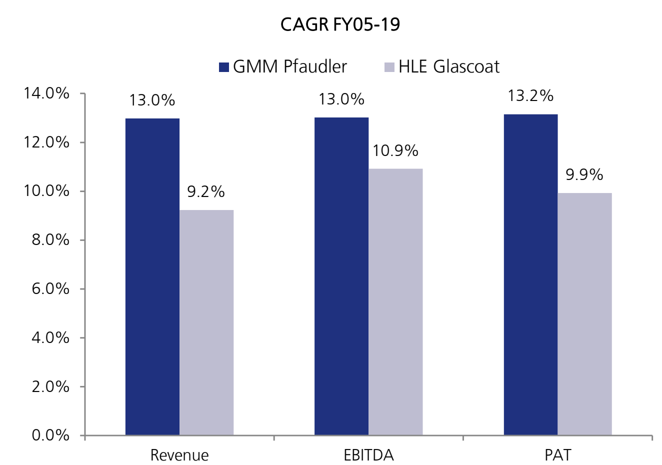
- The glass-lined (GL) equipment industry in India consists of 3 main players that control c.75% of industry revenues. After GMM Pfaudler (c.50% market share), HLE Glascoat (formerly known as Swiss Glass coat) is the 2nd largest player, with revenues of INR 1,525 mn and a capacity of c.55 EUs per month. GMM stands far ahead compared with HLE. From having only 30% higher revenues than HLE in FY05, GMM has expanded and gained market share aggressively; its current revenues are almost 2.3x HLE's in GL equipment. To illustrate its leadership over cycles, GMM has clocked higher revenue, EBITDA and profit CAGR by 380bps, 210bps and 320bps compared with HLE (Exhibit 15) over FY05-19. We have considered financials for HLE's comparison up to FY19 as operating business of HLE Engineers Pvt Ltd has been demerged and transferred to Swiss Glass-Coat equipment's and amalgamation of Yashashvi Agrochemical Pvt Ltd with HLE Engineers Pvt Ltd.
- De Dietrich, a large MNC based out of France, had acquired Nile's glass-lined equipment and pressure vessels division through its subsidiary De Dietrich Process Systems India Pvt Ltd in 2011. Over the last 9 years, its market share has fallen from 30% to 10% and it has continued to suffer losses. We understand that De Dietrich India is scaling down its operations, which will help drive market share gains for GMM. Smaller players include Sachin Industries and Standard Glass line industries.
- Despite product profiles across competitors being similar, GMM stands ahead of its competition. This is because of the following: **a)** its top-quality products, which help customers manage production efficiently with lower downtime; **b)** its warranty expenses are lower than 0.10% of net sales, displaying product superiority; **c)** its long-standing relationships of over 2 decades with customers (especially MNCs); **d)** its strong parentage and technology, since Pfaudler is the global market leader (30-35% market share) in the glass-line industry; and **d)** its significant dominance in the large reactors space (more than 20,000 litres). Players in the pharma and chemicals space have large orders and require timely delivery of products. GMM's capacity is 2.3x that of the number 2 player in the industry and its ability to execute orders seamlessly on time plays to its advantage.

Exhibit 15. Industry market share and comparison with HLE Glascoat

GMM Pfaudler controls c.50% of the industry size



GMM has consistently outpaced HLE Glascoat



Source: Company, JM Financial

Backing on parent Pfaudler's strength

- Pfaudler Inc's technology base provides solid support for GMM to create world-class reliable products. Pfaudler posses its own technology known as **Glasteel** and offers a wide range of glasses catering to various industries (Exhibit 16). Pfaudler has developed technologies for processes such as fluid mechanics, reaction kinetics, agitation/mixing, heat transfer, evaporation, separations, filtration, drying, purification and material engineering. In order to ensure integrity of corrosion-resistant equipment, Pfaudler has fabricated equipment from stainless steel, tantalium, zirconium, and offers fluropolymer technologies through its Edlon brand. Aftermarket services, control systems for its products and ancillary parts such as nozzles, gaskets and custom linings play a vital role in Pfaudler's offerings.
- GMM has proven capabilities of welding, spraying the glass and getting the right distortion. GMM stands on a great opportunity to back on Pfaudler's technology and can offer almost any futuristic glass-technology to its customer, enabling it to stay ahead of the competition. Currently, GMM pays royalty of 1% of glass-lined sales to Pfaudler Inc and this has remained stable over the last few years. We expect royalty payment to remain at 1% of glass-lined sales going forward.

Exhibit 16. Pfaudler's range of glasses

Type of glass	Functionality of the glass
WWG Glass	Material of choice for harsh HCl or sulfuric acid and other corrosive environments
Pharma Glass	Designed for FDA regulated pharmaceutical applications with high demands on chemical inertness. It is free of heavy metal ions and has high corrosion resistance in alkaline solutions
Poly Glass	Has anti-sticking properties. The extremely smooth glass surface reduces product residues sticking to the glass and speeds up cleaning cycles
Stainless Steel Glass	Designed to protect stainless steel reactors against chemical attack and suitable down to -90° for cryogenic pharmaceutical applications
808 Glass	A dark blue glass for harsh environments that also has anti-stick properties
pH Sensitive Glass	Mainly for pH measurement probes. Only available with Pfaudler
Abrasion Resistant Glass	Reduces erosion in abrasive powder applications, increases glass lining life and reduces maintenance costs, while maintaining high corrosion resistance in acidic and alkaline applications
Anti-Static Glass	Prevents static discharge in non-conductive organic solutions. The conductivity of the glass-lining allows a static discharge to be grounded to the steel vessel wall to reduce the risk of damage

Source: Industry

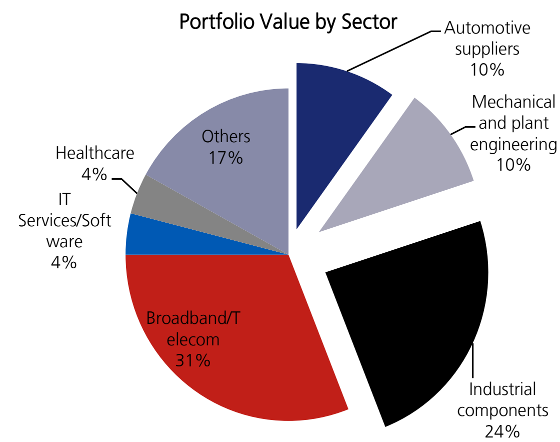
DBAG's ownership will drive Pfaudler's sourcing from GMM

- Pfaudler is the largest player in the international GL equipment industry with a c.30% market share and revenues of USD 291 mn. Its main product line includes glass-lined reactors and storage vessels, competing principally with smaller European companies. In Nov'14, German private equity player DBAG purchased 93% stake in the company through its PE fund (75.2%) and proprietary funds (17.8%).
- On analysing DBAG's list of investee companies, we see strategic rationale in its successful pursuit of Pfaudler Inc, given the portfolio consists of a large number of companies operating in the industrials and automotive segment (Exhibit 17). We also gauge DBAG's credentials by analysing some of its successful investments (Exhibit 18) by improving overall performance of its investee companies. We believe DBAG has world-class experience in expanding its investee business through **a)** expanding and optimising existing product portfolio through acquisitions, **b)** focus on increasing geographic diversity and **c)** increasing service revenue thereby reducing cyclicality and tight cost management.
- With respect to Pfaudler, DBAG has undertaken steps to optimise operations in the company's core area of GL-reactors. These include managing costs and changes at company's locations in order to grow the business profitably. DBAG has shut-down large plants in Germany and Italy and has built smaller modern plants in its key geographic

locations, thereby reducing costs. We believe DBAG will look towards GMM Pfaudler for an alternate means of low-cost sourcing, leading strong growth in export revenues for GMM.

- GMM's exports of glass-lined products have remained flat over the last 5 years (Exhibit 19) due to capacity constraints and focus on domestic consumption. During the same period, exports to Pfaudler group companies have grown more than 5x, mainly driven by non-glass lined products, giving confidence on sourcing opportunity. Currently, exports constitute 9% of revenues and we expect multi-fold growth over the next decade led by a significant increase in sourcing from the Pfaudler Group.

Exhibit 17. DBAG's portfolio composition by sectors



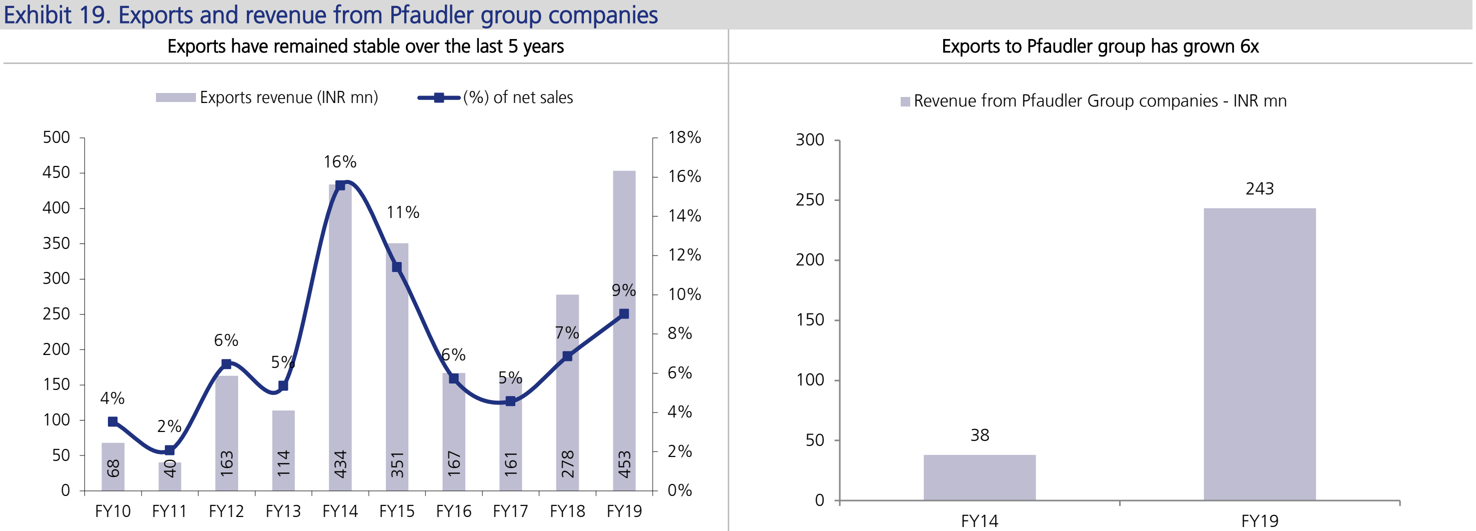
Source: DBAG Annual Report

Exhibit 18. Success stories of DBAG's investments

Name	Time Frame	Achievements
Brojete Automation	2012-2016	More than doubled revenues from EUR 83mn to EUR 195mn in 4 years; Service business quadrupled reaching 20% of revenues
Coperion	2007-2012	Hit by the 2009 financial crisis, orders dropped 90% but led by DBAGs strategy revenue increased from EUR 480 mn to EUR 532mn in 2012. Service business grew to 25% of revenues
Lewa	2005-2008	Ventured into international oil& gas markets and increase geographic diversity. Post DBAG, revenues grew 15% CAGR vs 3.5% in the past and EBITDA grew 30% annually
Novopress	2015-2019	Lowered dependence on domestic sales; grew revenues 80% over 2015-19
Inexio	2013-2019	Aided capital investment for Inexio eventually leading to 20% annual growth in sales and profits.

Source: DBAG Annual Report

Exhibit 19. Exports and revenue from Pfaudler group companies



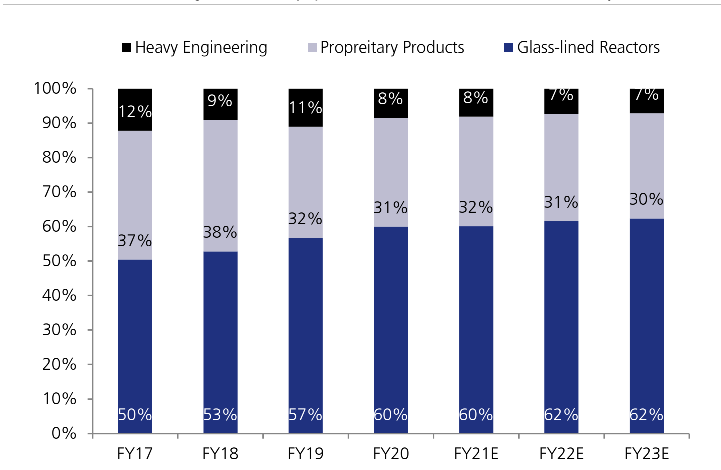
Source: Company, JM Financial

Increasing wallet share through proprietary products

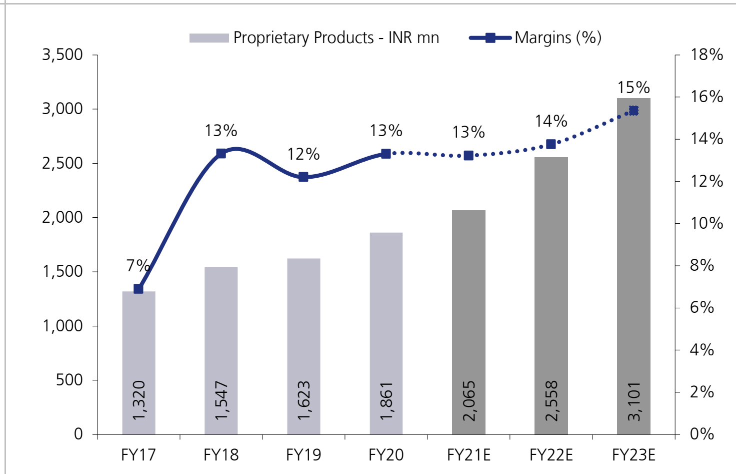
- GMM Pfaudler aims to grow its non-glass lined equipment business through its proprietary products division which provides ancillary equipment such as mixing systems, engineered systems and filtration & drying equipment. Management aims to increase its wallet share by bundling allied products to its clients and eventually become a complete solutions provider. Revenues for the proprietary products segment posted a 14.8% CAGR over FY16-20 and currently form 31% of overall revenue.
- **Mixing systems (5% of revenues):** This segment provides a wide range of agitators and mixers for solid-liquid gas mixing. GMM acquired the Industrial Mixing solutions division of Sudarshan Chemical Industries to focus on the industrials mixing business and venture into newer industries such as minerals, metals, sugar and food.
- **Filtration and drying (8% of revenues):** GMM provides funda filters, spherical dryers and vaccum paddle dryers, among others. It works closely with clients to make tailor-made products based on the type of output. It aims to reduce overall down-time and batch time. Filtration and drying currently generates revenues of INR 335mn.
- **Engineered systems (6% of revenues):** This segment focuses on engineered systems such as systems for evaporation, heating, cooling and acid recovery, among others. GMM works closely with small manufacturers to provide them with complete solutions. This sub-segment generates revenues of INR 250mn.
- GMM is pursuing an aggressive strategy to increase its non-GL business share. We believe this is a right strategy as it will open opportunities in various sectors and eventually become immune to the cyclicality of GL business. The proprietary products industry in India remains highly un-organised and is seeing a continuous shift to the organised players in order to avoid any regulatory hurdles at manufacturing units. Imports from China are not a risk due to higher costs and lower quality of the product.
- We forecast 19% revenue CAGR over the proprietary products business over the next 2 years, as we believe that GMM has the potential for increased cross-selling opportunity through leveraging its existing client relationships eventually becoming a one-stop shop for end-users.

Exhibit 20. Focus on non-glass lined business

Share of non-glass lined equipment stands at 40-42% over last 2 years



Revenue and margin profile of proprietary products



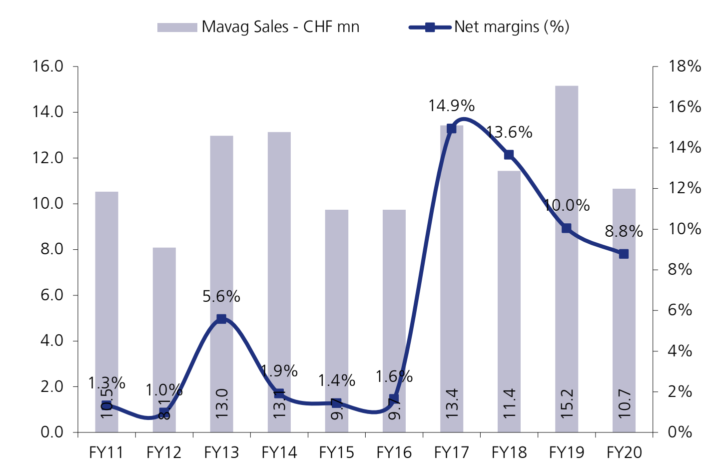
Source: Company, JM Financial

Mavag AG to maintain profitability

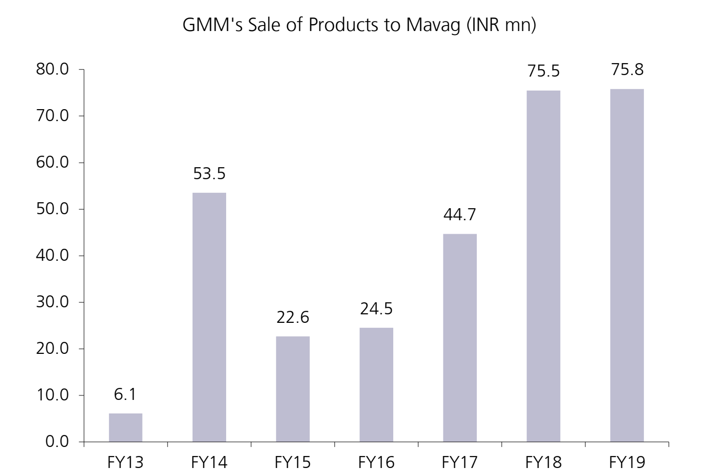
- GMM acquired Mavag AG, Switzerland in 2008 in order to make a foothold in the EU region and eventually bring technology to India. Mavag supplies non-GL/highly engineered equipment for critical filtration, drying and mixing applications to the pharmaceutical and biotech industries. In the past (FY11-15), its profitability has been negligible due to high manufacturing costs, employee expenses (40% of revenues) and slowdown in Europe. In order to bring back Mavag to higher profitability, GMM decided to increase sourcing for Mavag from its plant in India to increase gross margins. A hybrid model was adapted wherein the product is mainly made in India while finished/assembled in Switzerland, ensuring top-quality for clients. GMM increased its product sales to Mavag from INR 6mn in FY13 to INR 75mn in FY19 (Exhibit 21). Stringent cost control measures were implemented in the recent times has also benefitted.
- Management has been able to turnaround MAVAG from almost break-even profitability level during FY12-16 to CHF 1.5 mn in FY19 (net margins of 12-13%). Average RoEs have also improved from sub 5% to 15-20% currently. For FY20, revenues declined 30% YoY to CHF 10.7mn with net margins at 8.8%.
- Break-even for Mavag currently stands at CHF 10mn. At current revenues of CHF 11 mn, Mavag is operating at almost c.70-75% utilisations. De-bottlenecking can help increase revenues to CHF 25mn and eventually lead to higher profitability, but management maintains cautiously optimistic on Mavag and does not aim to invest further through capex. We forecast revenues of 10% CAGR for Mavag over FY20-23.

Exhibit 21. Mavag AG's revenue, margins and share of sourcing from GMM Pfaudler

Mavag's profitability has improved significantly over the last 4 years



GMM's share of sourcing to Mavag has also increased



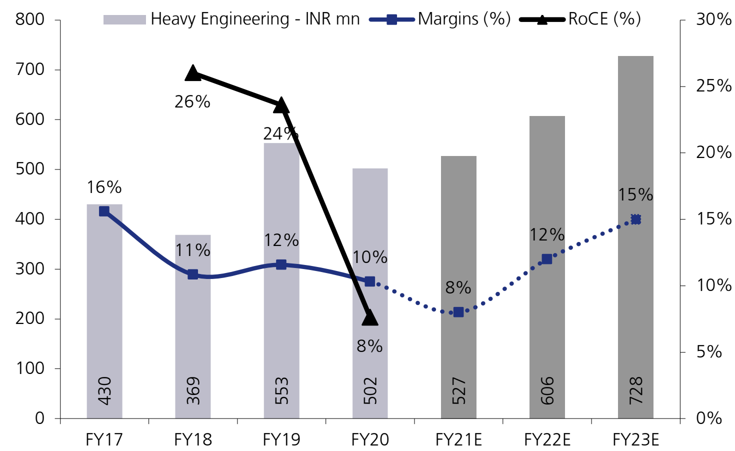
Source: Company, JM Financial

Heavy engineering – niche but with high RoCE

- GMM Pfaudler positions itself as a differentiated player in the heavy engineering segment by focusing only on specific product categories such as reactors, heat exchangers, pressure vessels and columns. It does not aim to compete with the large players such as L&T, Toyo Engineering and ISGEC; in fact it chooses to take orders from them. Management focuses on order sizes of INR 50mn-200mn and with larger clients with whom they can attain financial closure for the orders. Exports contribute 15-20% of revenues for this segment and offer a large opportunity going forward. GMM has delivered products to EU, USA and countries in South-east Asia and aims to leverage the Pfaudler network to win strong orders. Export orders are highly margin accretive.
- Despite being a commoditised business, GMM's strategy of selectively taking orders has helped maintain average margins of 13% over the last 5 years and average RoCE of 19% over the last 3 years. Management is focused on taking orders only above certain margin threshold of 12-14% which augurs well for longer-term profitable growth. Given its

strong engineering capabilities, multiple code accreditations, experienced team from large engineering companies and proven track record of manufacturing complex equipment, GMM is well positioned to grow this segment prudently. We forecast revenue CAGR of 13% over FY20-23 and margins of 12-15%.

Exhibit 22. Revenue, EBITDA Margins and RoCE (%)



Source: Company, JM Financial

Acid recovery – currently niche but opportunity can be large

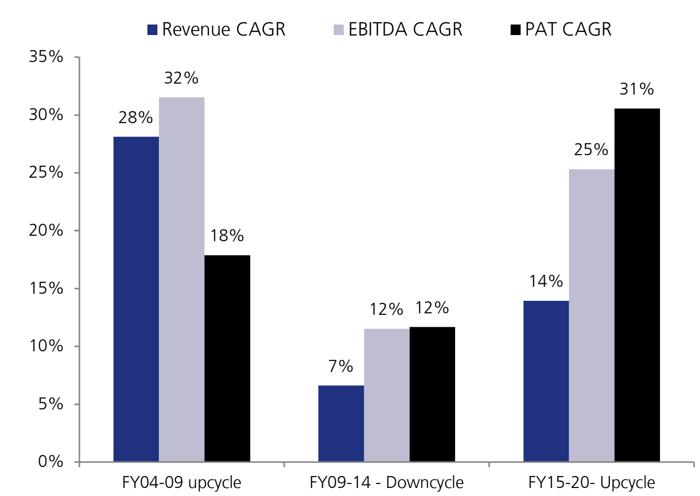
- Acids play an important role in the chemicals industry as they are used as catalysts in chemical syntheses. The chemicals industry produces thousands of tonnes of diluted inorganic waste acids containing inorganic and organic impurities. These acid waste streams are often simply neutralised prior to transfer to wastewater treatment facilities. However, stricter environmental regulations globally and rising operating costs in difficult economic times have led to recovery of the acid for further use. The current size of the acid recovery industry in India is INR 500mn and this is expected to double in 3 years.
- GMM Pfaudler offers acid concentration plants with process technology and complete range of engineering provided by Pfaudler Normag Systems, Germany. It caters to spent acids, nitric acids, sulphuric acid, hydrochloric acid, organic acids, NOx absorption and post-treatment of waste water. It offers multiple system designs, heat recovery systems, laboratory testing facilities, emission control systems and utility systems to clients. Management expects clients to aim a 80-90% recovery rate for acids.

Maintains profitable growth with cash flow over cycles

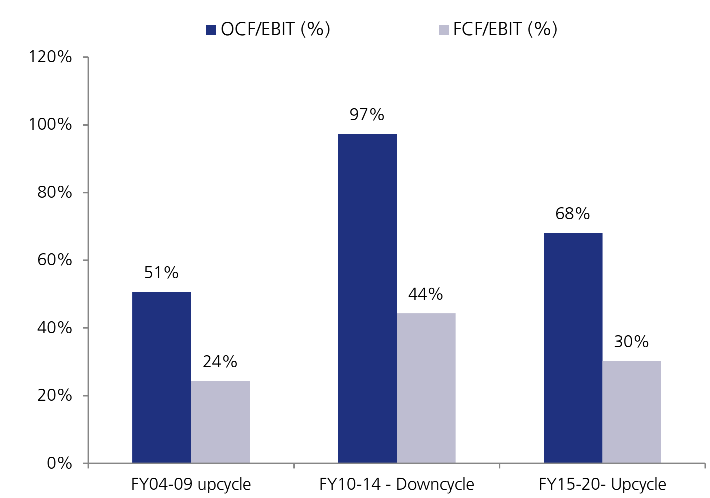
- We analysed 2 bull cycles and 1 bear-cycle over the last 15 years for GMM Pfaudler. During FY04-09, GMM reported sales CAGR of 28% with average EBITDA margins of 14%. NWC was on the higher side at 89 days hence OCF/EBIT and FCF/EBIT stood at 51% and 24%, respectively.
- After the global financial crisis (GFC) and capex cuts by manufacturers, FY09-14 saw sales CAGR of mere 6.6%. Margins on average dipped to an average of 9% led by limited operating benefits, higher commodity costs and acquisition of loss-making subsidiary Mavag. Although, the management team focused on higher cash-flows and improved NWC to 68 days vs. 89 days in the previous cycle. On average, OCF/EBIT and FCF/EBIT stood at 97% and 44% respectively. During the same period, management focused on building the heavy-engineering and proprietary products division in order to become immune to cyclicality from the glass-lined reactors.
- Coming to the on-going up-cycle which started in FY15, GMM has reported sales, EBITDA and profit CAGR of 14%, 25% and 31% respectively. Margins have inched up to around 15% in FY19 and 18.8% in FY20 led by operating leverage, tight cost management and turning around of Mavag AG. Management has grown the Heavy engineering division and proprietary products division by 29% and 16% CAGR, respectively. Non-glass lined business contributes almost 40% of revenues and 31% of profits. NWC was further improved to 49 days in FY19. OCF/EBIT stood at 68% while due to more than doubling glass-lined capacity, FCF/EBIT was lower at 30%.

Exhibit 23. Key indicators during 2 bull cycles and 1 bear cycle

Revenue, EBITDA and PAT CAGR across cycles



Cash flow generation across cycles



Source: Company, JM Financial

Company Background

- GMM Pfaudler Limited, established in 1963, is a leading supplier of glass-lined equipment and systems for critical applications in the global chemical and pharmaceutical markets. Led by the strong parentage of Pfaudler Inc, GMM is the leader with c.50% market share in the glass-lined reactors industry in India. It has three main segments **a)** Glass-lined Equipment – 60% of revenues **b)** Proprietary products - 32% of revenue and **c)** Heavy engineering - 8% of revenues. The company's production facility is spread across a 20-acre factory at Karamsad, Gujarat. It has a subsidiary Mavag, based out of Switzerland, which manufactures proprietary products.
- GMM has revenue of INR 5.9bn with EBITDA margins of 18.8% and net margins of 12%. Over the last decade it has posted revenue, EBITDA and PAT CAGR at 12%, 21% and 23%, respectively.

Exhibit 24. Key segments of GMM Pfaudler

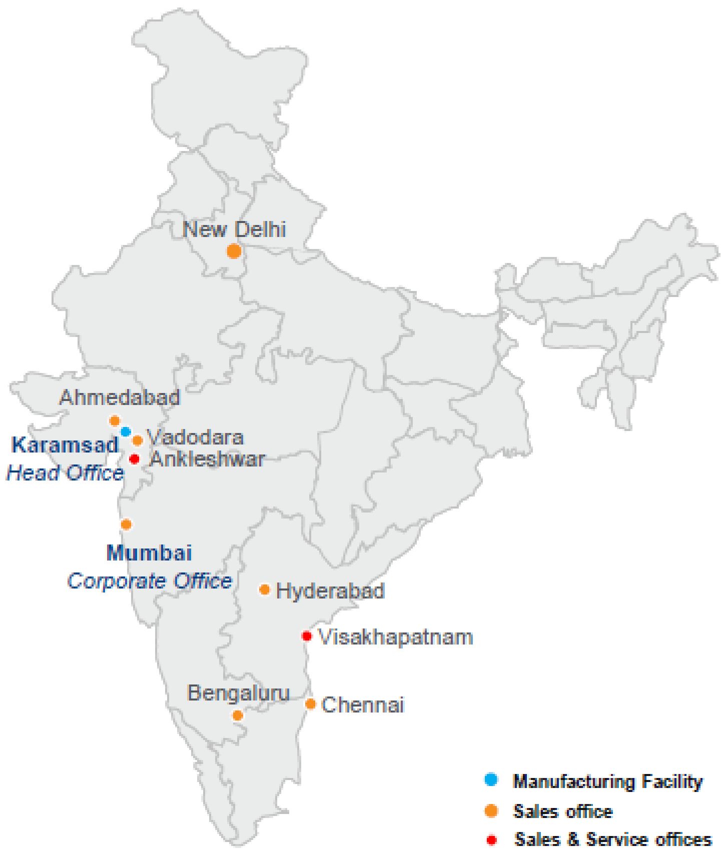
Segments	Revenue Share	Revenue CAGR (FY16-20)	EBIT Share	Avg EBIT Margins (%)	Avg RoCE (%)	Product Profile	End-Market
Glass-lined Equipment	60%	22%	73%	20%	83%	Reactors, Cryo-Lock Agitators, Conical Blenders, Vessels	Chemicals, Pharma
Heavy Engineering	8%	20%	5%	13%	19%	Agitated Reactors, Heat Exchangers, Pressure Vessels and Columns	Refineries, Natural Resources, Fertilizers
Proprietary Products	32%	15%	23%	10%	30%	Mixing Systems, Filtration and drying systems, Systems for Evaporation, drying, heating and cooling	Food, Fine Chemicals, Petrochemicals, Biotech, Paints, Paper, Pharma

Source: Company, JM Financial. Note: Avg RoCE is for FY18-20. Avg EBIT margins are from FY16-20.

Exhibit 25. Product Profile

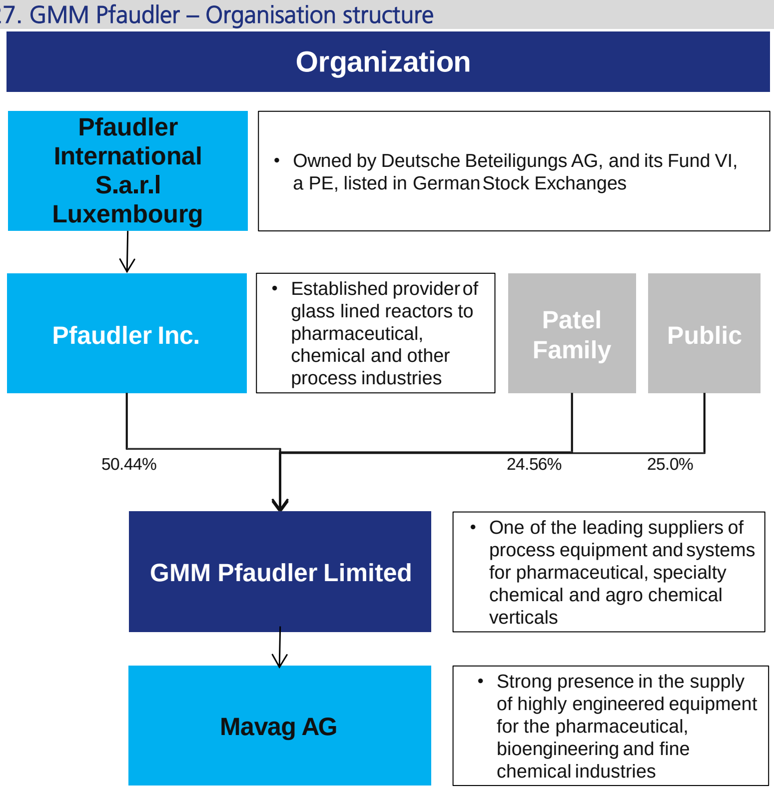
Source: Company

Exhibit 26. GMM's locations across India



Source: Company

Exhibit 27. GMM Pfaudler – Organisation structure



Source: Company

Exhibit 28. Historic Timeline

1963
- Started operations with manufacturing of glass lined equipment
- Listed on the Bombay Stock Exchange

1987
- Pfaudler Inc. acquires 40% stake in GMM to form Joint Venture

1999
- Pfaulder increase its equity stake to 51%

2008
- Acquires MAVAG AG, Switzerland (Revenue $15 mm) in Jan 2008

2012
- Became part of National Oilwell Varco ("NOV") group post NOV's acquisition of Pfaudler's parent Robbins & Myers

2014
- Became part of Deutsche Beteiligungs AG post acquisition of Pfaulder stake from National Oilwell Varco ("NOV")

2018
- Crossed market capitalization of ₹ 10 Billion, Consolidated revenue ₹4 Billion & Listed on NSE

2019
- Crossed Consolidated revenue ₹5 Billion. Acquired Industrial Mixing Solutions Division of Sudershan Chemical Industries Ltd in April 2019

Source: Company

Exhibit 29. Management Team

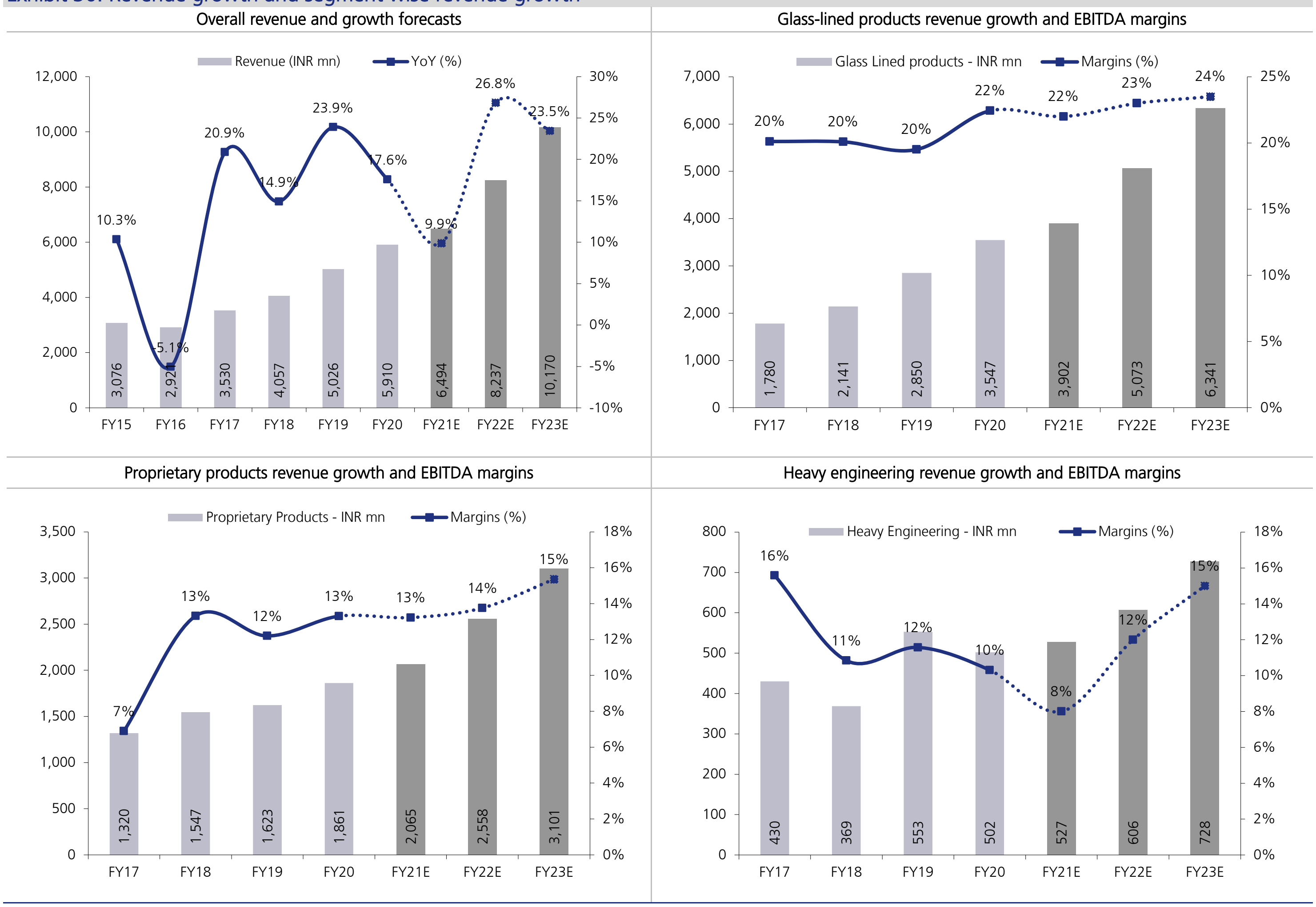
Management Team	Role	Experience (Years)	Qualifications
Mr. Tarak A. Patel	MD	19	Mr. Patel has a BA in Economics from the University of Rochester, USA and an MBA degree jointly conferred by Columbia Business School, London Business School and University of Hong Kong (HKU) Business School.
Mr. Ashok C. Pillai	COO	23	Mr. Pillai has a BE (Hons) in Electrical and Electronics from BITS, Pilani and also holds a Diploma in Management Studies from Mumbai University; . Prior to GMM, he has held positions in Sales & Marketing with Larsen & Toubro, GE India and Raychem.
Mr. Jugal Sahu	CFO	20	Mr. Sahu is a member of the ICAI, the Institute of Company Secretaries of India and has a degree from the Institute of Cost Accountants of India and Chartered Institute of Management Accounts, UK. Previously he has worked with Mideast Integrated Steels, Alcan International Network India (Rio Tinto Group), TEVA India, Boots Piramal Helathcare and United Phosphorus.
Mr. Anil Advani	Vice president - Alloy	30	Mr. Advani has a MS in Chemical Engineering from Georgia Tech in Atlanta, USA and a B.Tech in Chemical Engineering from University of Madras.
Mr. Chandulal Makadia	Vice president - Manufacturing	28	Mr. Makadia has a Specialized Diploma in Fabrication from BPTI Bhavnagar, India and Graduate in Manufacturing and Operational Management from Indian School of Business, Mohali, and has been trained in Welding Technology, Lean Manufacturing and Theory on Constraints.
Ms. Mittal Mehta	Company Secretary	9	Ms. Mehta is a qualified Company Secretary and a Fellow Member of the Institute of Company Secretaries of India (ICSI). In addition to her professional qualification as a Company Secretary, she also holds a bachelors' degree in Law.

Source: Company

Financials

- **Un-interrupted growth to continue:** GMM has reported sales CAGR of 14% during FY15-20, driven by strong growth in all three segments i.e. glass-lined equipment's (22% CAGR FY16-20), proprietary products (15% CAGR FY16-20) and heavy engineering (20% CAGR FY16-20) led by strong growth in end-user segments, dominant positioning and premium pricing. For FY20, revenues grew 18% YoY, while excluding Covid-19 impact of INR 300mn, revenue growth would have been 24% YoY.
- Over FY20-23, we forecast 21%, 19% and 13% CAGR in GL-equipment, proprietary products and heavy engineering sales respectively. Overall, we forecast revenues to report 19.8% CAGR over FY20-23E.

Exhibit 30. Revenue growth and segment wise revenue growth



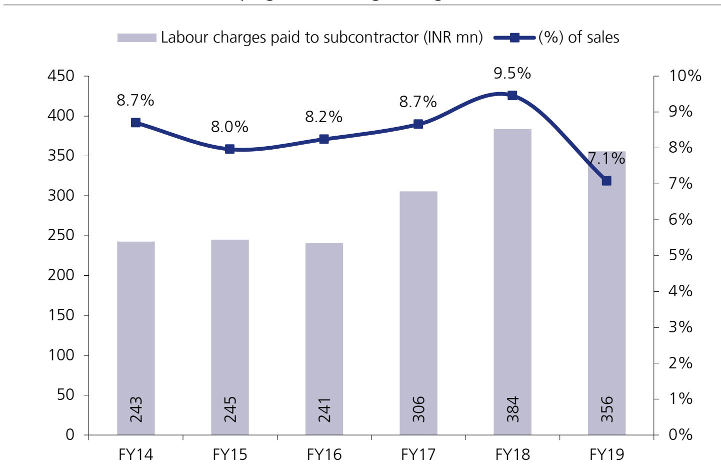
Source: Company, JM Financial

- **Operating leverage and tight cost management to aid margins:** Operating margins have improved from average 9.5% during FY12-15 to 15% in FY19 and 18.8% in FY20. Lower margins in FY12-15 were mainly due to a weak capex cycle for glass-lined reactors, losses in Mavag and slow pace in standalone proprietary products. We understand that during the down cycle, margins were mainly impacted due to lower gross margins while other expenses remained fairly stable. GMM has managed its other expenses effectively led by **a)** implementing gas furnaces over electric furnaces which has reduced power and fuel costs (% of sales) from 5.7% in FY14 to 4.4% in FY19, **b)** savings on stores and spares (2.3% of sales in FY19 vs. 3.1% in FY14), **c)** negligible expenses on commissions and advertisement, thereby signifying the brand pull and **d)** negligible warranty expenses, implying superior product quality.

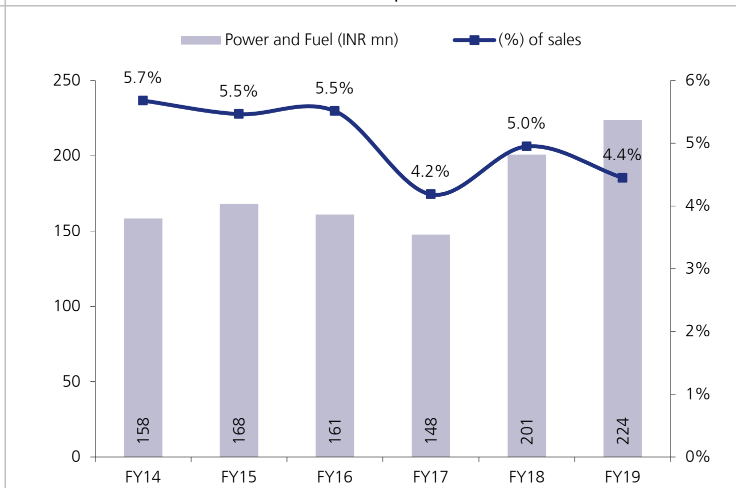
- Led by a cyclical upturn in glass-lined equipment and a turnaround in Mavag, EBITDA margins moved higher gradually to 18.8% in FY20. Over the last 5 years, freight costs (% of sales) have increased from 1.3% to 1.7% while legal and professional charges have increased from 0.6% to 1%. We believe up-cycle in glass lined-equipment, higher share of premium products, operating leverage benefits and cost savings on freight and legal expenses should aid margins to inch higher by 120bps touching 20% in FY23.

Exhibit 31. Operating leverage and cost control driving EBITDA margins

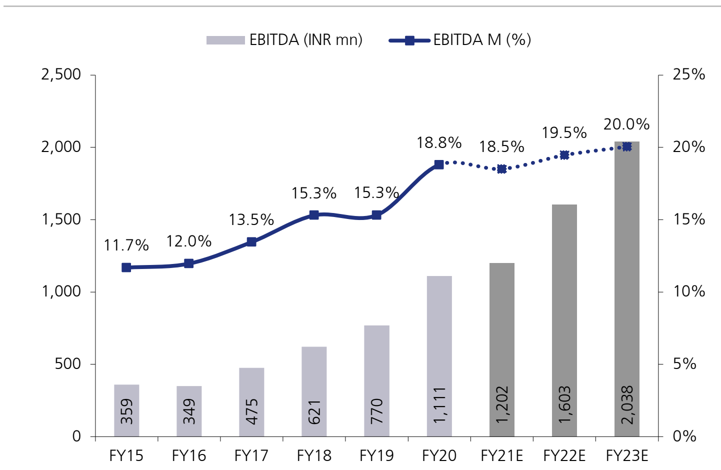
Keeping labour charges in tight control



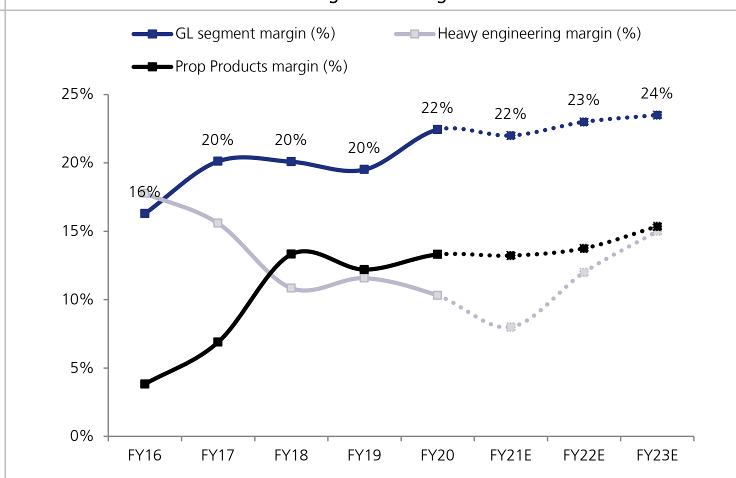
Gas furnaces ensure low power and fuel costs



EBITDA Margins to touch 20% in FY23



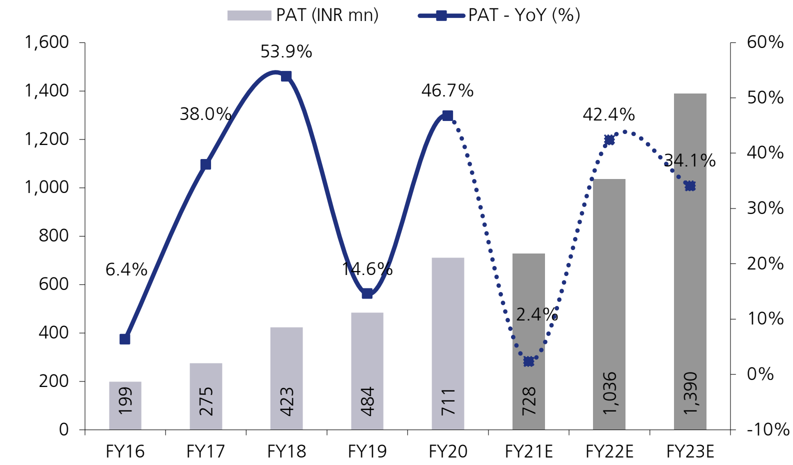
EBIT margins across segments



Source: Company, JM Financial

- **Robust PAT growth expected:** We estimate adjusted net profit CAGR of 25% during FY20-23E (vs. 31% CAGR during FY15-20) on back of improvement in operating margins to 19.7% in FY21.

Exhibit 32. PAT CAGR of 25% expected over FY20-23



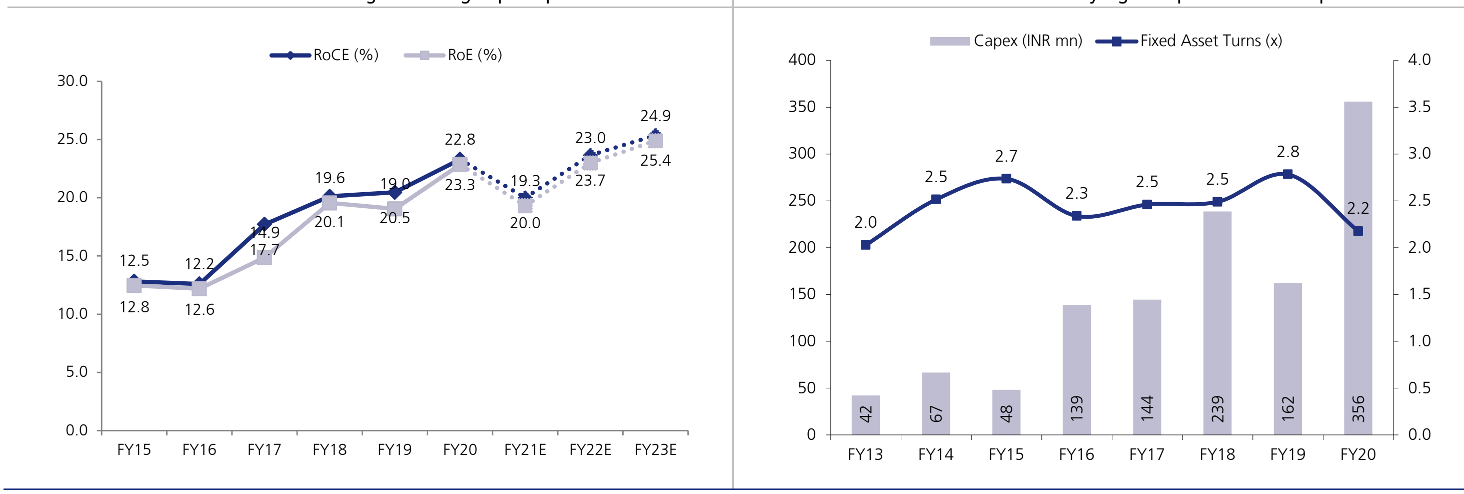
Source: Company, JM Financial

- **Strong return ratios to continue:** Over the last 5 years during the up-cycle, GMM has reported an average RoE of 18%, led by high asset turns of 2.5x and strong net margins hovering around c.9%. RoIC remained at an average of 22% during the same period despite cash accounting for almost 24% of the capital employed. During the down-cycle of FY10-14, average RoEs and RoICs stood at 10% and 10% respectively. We expect RoEs to remain at 22% over the next 3 years led by maintaining average fixed asset turns of 3.1x and net margins of around 12.5%.

Exhibit 33. Return Ratios, capex and fixed asset turns

Return ratios to inch higher as margins pick up

Asset turns remained low led by higher capex towards new plants



Source: Company, JM Financial

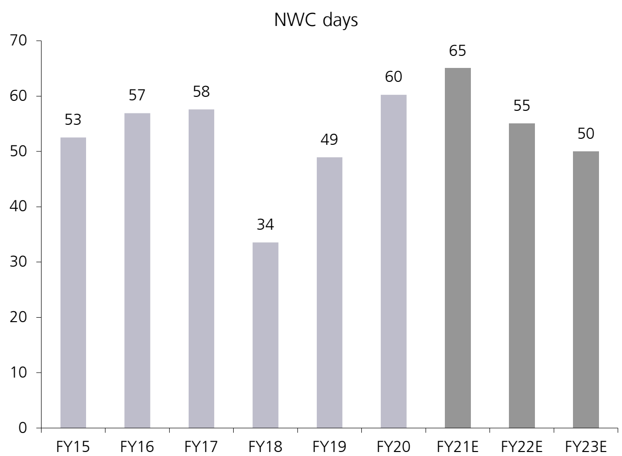
- **Prudent NWC; Strong cash flow generator:** GMM has managed to maintain average working capital of 50 days, despite growing its sales at 14% CAGR over FY15-20. We understand that over years GMM has become more prudent in managing working capital by leveraging its market leadership enabling it to secure 10-20% payments in advance. Over the years GMM has been able to reduce its NWC days to 50 days avg during FY15-19 vs. 68 days during FY10-14. NWC came in higher at 60 days in FY20 vs. 49 days in FY19 due to lower booking of sales and early payments to MSMEs.

- OCF/EBIT remained healthy at an average of 68% over the last five years while during the down-cycle of FY10-14 it stood at 97%. Due to a significant increase in capex over the last 5 years, FCF/EBIT remained lower at an average of 30%.

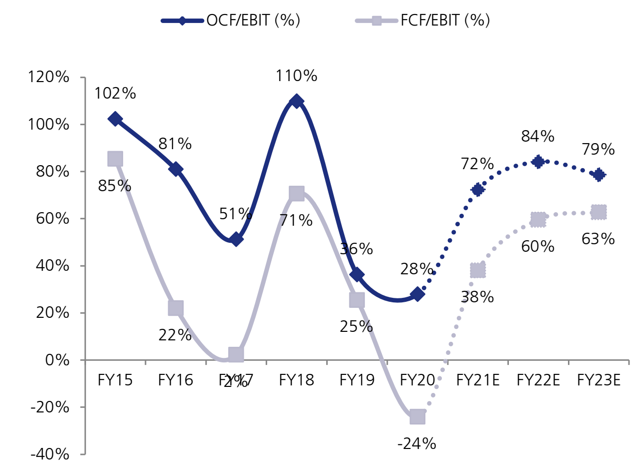
- We expect NWC to remain steady at c.50days. We forecast an average annual capex of around INR 350mn per annum over FY21-22, keeping FCF yield around 1.3% and dividend payout around c.15%. We expect average OCF/EBIT and FCF/EBIT to remain at 78% and 53%, respectively, during FY21-23.

Exhibit 34. NWC days and cash flow profile

NWC days to remain fairly stable at around 50 days



OCF/EBIT to be steady at >70% over FY21-23



Source: Company, JM Financial

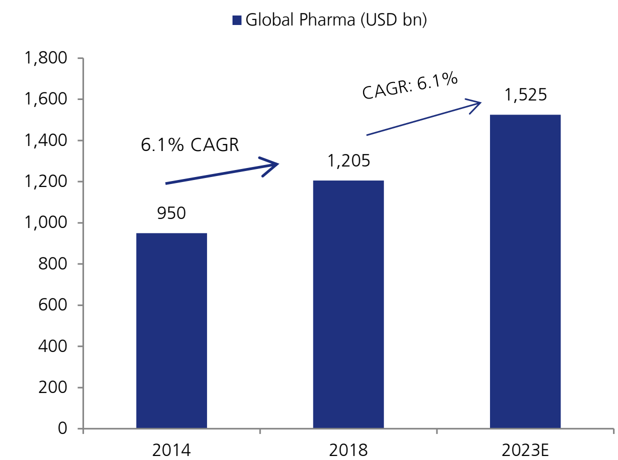
Macro Drivers

Pharmaceutical Industry – Hearty growth outlook

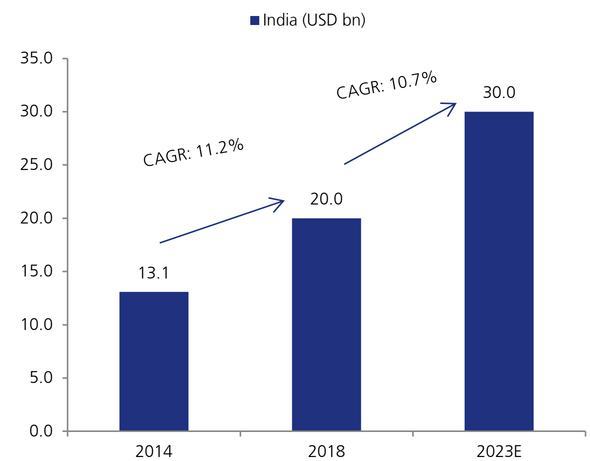
- **Pharma industry boons of a hearty growth outlook:** The global pharma market stood at USD 1,205 bn, clocking a 6.1% CAGR over the last 5 years. The industry is expected to touch INR 1,525bn in by FY23, posting a 6% CAGR. Emerging economies fall in the higher growth bracket, which favours India strategically. India is one of the fastest growing markets. Indian Pharma market stood at USD 20bn, clocking 11.2% CAGR over the last 5 years and is expected to touch USD 30bn in by FY23 (10.7% CAGR). We believe the key structural drivers include **a)** growing and ageing population, **b)** longer life expectancy, **c)** greater prevalence of chronic diseases (57% by FY20), **d)** research focus on orphan drugs and **e)** improving purchasing power. For India in specific, lowest per capita spends and low levels of insurance penetration strengthen the rationale.

Exhibit 35. Structural drivers for Pharma industry

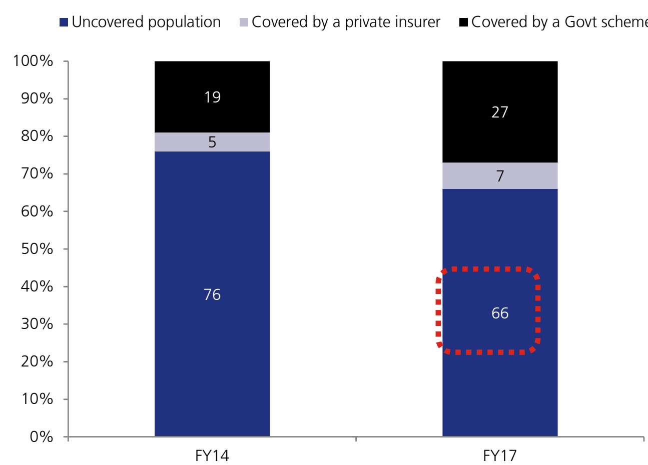
Global pharma industry expected to grow at 6% CAGR up to FY23



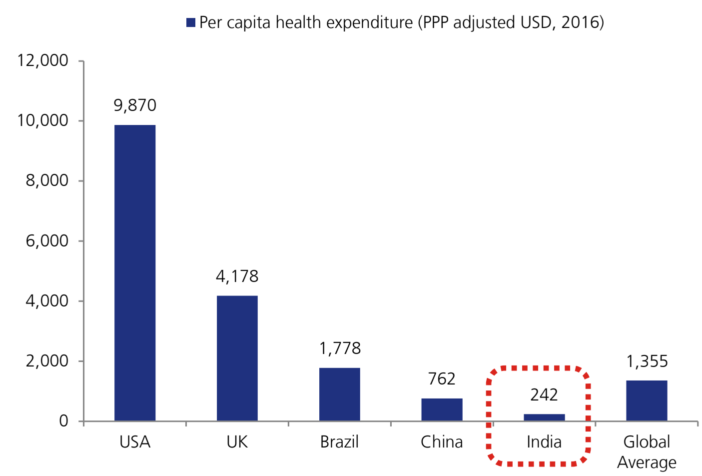
Indian Pharma industry to grow at 11% CAGR up to FY23



Un-insured population stands at 66%



India has the lowest per capita health care expenditure

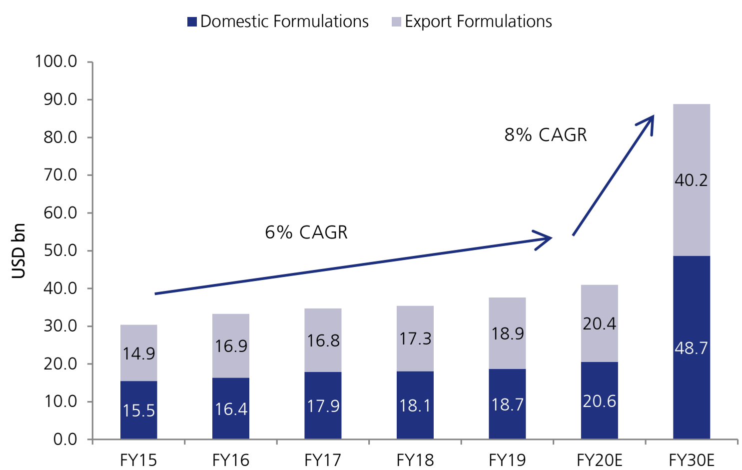


Source: Industry

India's position key in Global Pharma

- **India holds a vital position in global pharma:** India enjoys a vital position in the global pharmaceutical industry. It is the world's largest supplier of generics, accounting for 20% of global exports. It supplies over 50% of global demand for various vaccines and 40% of the demand for generic products in the US. We expect Indian companies to capture incremental market share in regulated markets aided by portfolio rationalisation by larger players and strong pipeline. Recent official actions notwithstanding, sharp improvement in regulatory compliance despite increase in the frequency of FDA inspections indicate Indian Pharma's ability to meet FDA expectations in the long-term. India remains an attractive branded market with sufficient volume-driven growth headroom. Export formulations are likely to double from USD 20bn in FY20 to USD 40bn in FY30E.

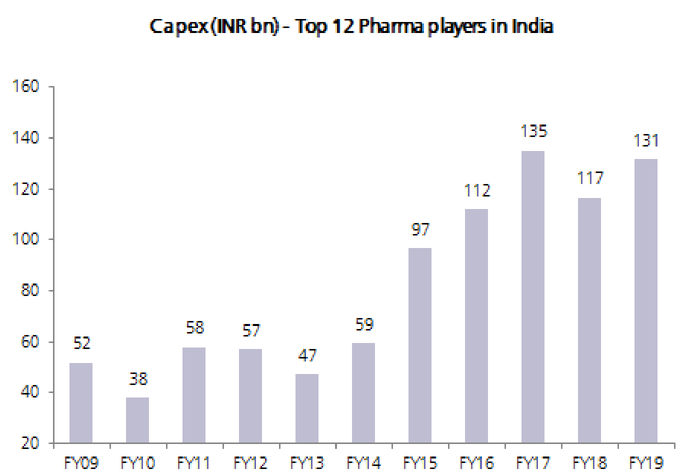
Exhibit 36. Trends in Domestic and Export formulations



Source: Industry

- **Indian companies are moving up the value chain:** In order to provide a sustainable revenue stream and more earnings visibility, Indian companies are moving up the value chain. Specialty drugs could drive spending growth in developed markets going forward; complex generics and biosimilars to be the new drivers of growth. For example, Sun Pharma (derma/ophthal), Lupin (biosimilars/injectables), Dr Reddy's (complex generics) and Cipla (inhalers) provide for a sustainable revenue stream. We analysed capex figures of the top 12 listed pharma companies over the last 10 years and witnessed a 10% CAGR in capex over FY09-19.

Exhibit 37. Capex trends of top 12 pharma companies in India

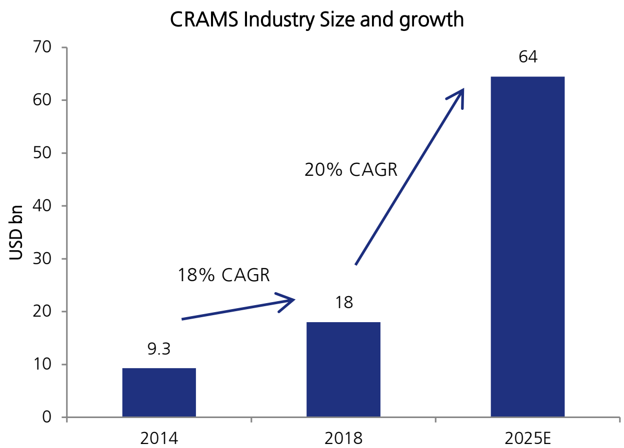


Source: Capitaline Databases, JM Financial

CRAMS: India to be largest beneficiary

- We understand that rising costs and regulatory pressure in developed markets are forcing many global pharmaceutical companies to reduce their internal capacities in research and development (R&D), and manufacturing, and turn to contract manufacturing and research services (CRAMS), and outsourcing of research and clinical trials to emerging countries. India, with a large patient population and genetic pool, is fast emerging as a preferred destination for such multinationals seeking efficiencies of cost and time. India has the largest bracket of professionals who are proficient in English and highest number of chemistry and manufacturing graduates entering the workforce every year. Besides, India is the only country in the world that has the highest number of USFDA-approved plants for generic drug manufacturing outside the US. Hence, India's CRAMS market size is expected to report 20% CAGR over 2018-2025 and grow to USD 64bn from USD 18bn in 2018.

Exhibit 38. CRAMS industry size and growth



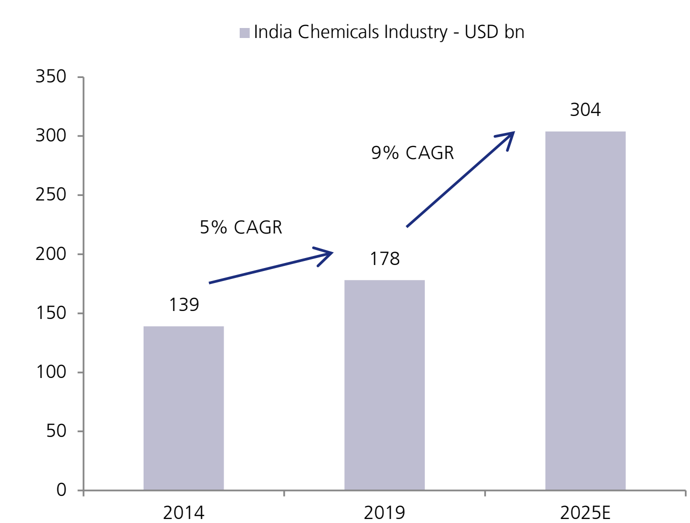
Source: Industry

Chemicals Industry - No looking back

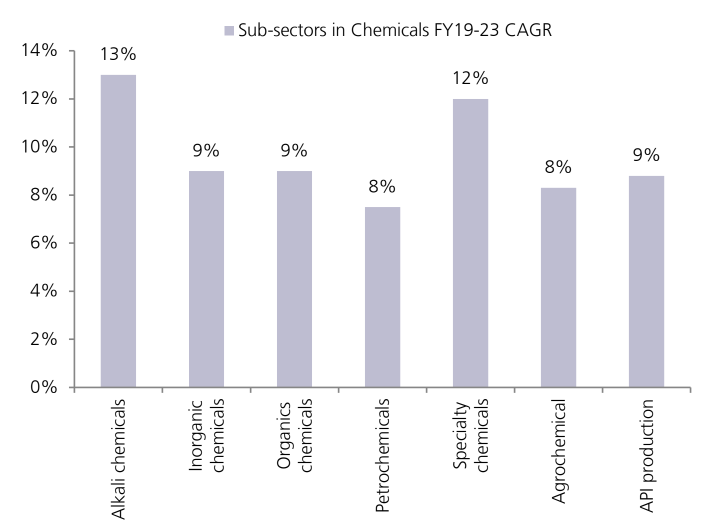
- **No looking back for the chemicals industry:** The India chemicals story is one of outperformance and promise. A consistent value creator, the chemical industry remains an attractive hub of opportunities, even in an environment of global uncertainty. India's chemicals industry has grown fairly well over the last few years and is expected to continue its growth trajectory. According to Invest India, Indian chemical industry is expected to grow from USD 163bn in 2017 to USD 304bn in 2025 registering a CAGR of c.8% on the back of demand growth, government initiatives and attractiveness of India as a manufacturing hub. Further to achieve this size, an investment of USD 75bn to USD 100bn is expected in the next 5 years.
- **Structural drivers too support:** According to FICCI, India's per capita consumption of chemical products is c. 1/10th of the global average. India is a huge market for consumption and increasing disposable income provides the demand certainty. Local manufacturing saves on expense and makes the products cheaper to consume which benefits both the domestic population and foreign companies. Companies and governments are also focusing on improving infrastructure and development of downstream companies and value-added products.
- **Government impetus:** Understanding the significance of the chemicals sector, government has initiated several initiatives such as a) 100% FDI is allowed in chemical sector apart from few hazardous chemicals, b) decrease in corporate tax to promote "Make in India" initiative and c) Accelerating the implementation of Petroleum, Chemical and Petrochemical Investment Regions (PCPIRs) for domestic and export-led production. Government has approved 4 PCPIRs in the States of Andhra Pradesh (Vishakhapatnam), Gujarat (Dahej), Odisha (Paradeep), and Tamil Nadu (Cuddalore and Naghapattinam). Once this is completed, PCPIRs are expected to attract USD 107bn of investment. India currently has a chemical trade deficit of USD 15bn and hence increasing dependence on local supplies would boost chemical manufacturing in India.

Exhibit 39. India chemicals industry

India chemicals industry to grow to USD 300bn in 2025



Expected growth rate across sub-sectors in chemicals



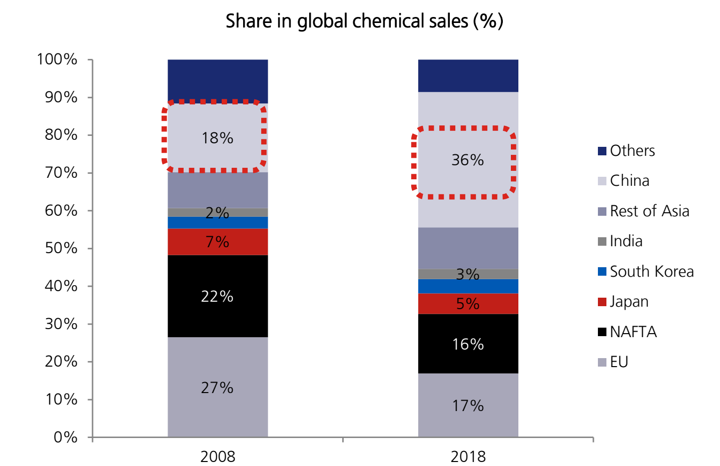
Source: Industry

Why India?

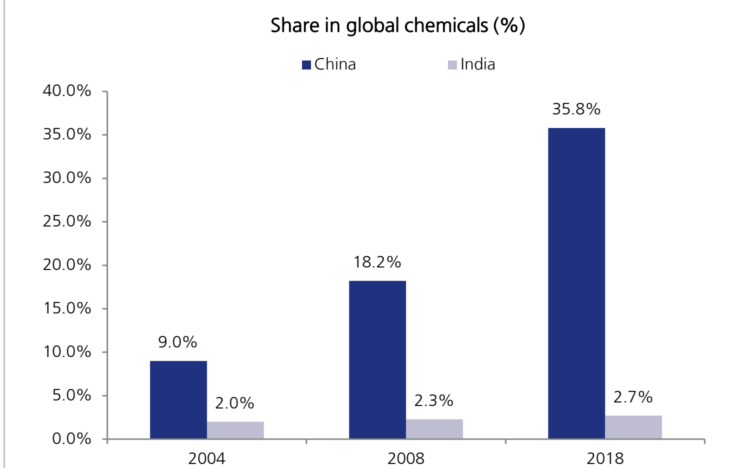
- **India's share negligible in global chemicals:** China's share in global chemical industry has doubled since 2008 to 36% while developed economies like Americas (NAFTA), EU and Japan have lost share. Share of other Asian countries has increased from 10% to 11% while India's share has grown by just 40bps from 2.3% to 2.7%. Over the last 15 years, India has grown its share in the global chemicals from 2% to only 2.7% while China has grown it 4x from 9% to 36%. Going forward, de-risking from China and preference of emerging economies puts India in a sweet spot to raise its overall share in the global chemicals industry.
- The inherent strength of Indian chemical manufacturing sector such as low operating overheads, better manufacturing and compliance standards, stringent environment policy, availability of feedstock, skilled manpower and stronger IP protection, among others, are good drivers to build India as a viable sourcing alternative for global players. We believe that over the last decade, financial performance of Indian companies has improved drastically, leading companies to attain the status of "reliable supplier".

Exhibit 40. Global chemical industry share and India's share vs China's

India's share remains minimal; China's share soars



India's share has grown only 50% in 15 years, China's has grown 4x



Source: Industry

The shift from China to India

- Laws in China and search for alternatives to help manufacturing in India: We analysed several laws and increased regulation on Chinese manufacturers that are likely to impact
- On 1Jan'19, China's new Soil Pollution Prevention and Control Law came into effect. Under this law, the non-compliant party can be penalised up to CNY 2mn on the principle of "polluters pay". Furthermore, the law also adopts the protection-first approach whereby third party authentication will be required to justify the pollution prevention methods adopted by the owner. This may make land buying costly for the companies and puts extra operating expense for regular inspection and maintenance of land in use.
- Additionally, China has published a draft regulation on the Environment Risk Assessment and Control of Chemical Substances (also being called the China REACH, similar to EU REACH). It is expected that the major impact of this law, if passed, will be on companies that manufacture, processes and trade in chemicals. The law imposes civil, administrative and even criminal liabilities for violations. This law will lead companies to spend more on legal and technical counselling as any non-compliance can attract penalty up to CNY 2mn and executives may face administrative detention.
- Beginning in 2013, the Chinese government began to target pollution with its "Atmospheric Pollution Prevention Action Plan," seeking a reduction in harmful particulates in an effort to improve air quality to certain benchmark levels. Surprise plant inspections often result in fines and factory closures pending compliance with environmental regulations. The impact on Chinese manufacturers has been profound, with more than 14,000 factories closed in 2017.
- Chinese environmental regulations are here to stay and will likely become even stronger. Strict norms have led to thousands of factories being shut or relocated, thereby impacting the supply chain and leading to higher prices for end users. Going forward, Chinese manufacturers will undoubtedly be affected in one way or another either through direct fines and forced closures, or indirectly via problems in the supply chain. Manufacturers will have to navigate the change in political environment as they seek to meet the regulations imposed through implementing the appropriate measures to conform to environmental standards.
- In 2016, stricter regulations to enforce better environmental compliance led to shutdown of chemical facilities near Yangtze River which led to some orders moving to Indian chemical companies. Trade conflicts among China, the US and Western Europe would led to shifting of global supply chain which provides opportunity to Indian Chemical companies. With recent outbreak of Covid-19, there is an increased perception of country risk associated with China and hence buyers are looking at alternate sources.
- Indian chemical companies have been investing in expanding their manufacturing capacities with multi-year contracts with innovator companies. After the recent covid-19 pandemic, this tendency to outsource to India is likely to further strengthen. Emergence of full-value-chain companies such as Aarti Industries that provides a supply chain independent of China for value added products. For instance, Reliance Industries plans to have 70% conversion of crude refined to high-value petrochemicals in phases over 10 years provides the opportunity to have large scale basic chemical availability in India increase the independence in the supply chain.

Large explosion led to shutting down of chemical plants:

- In March 2019, a chemical plant explosion in the Xiangshui chemical industrial park in Yancheng city, Jiangsu province, resulted in 78 deaths. Apart from the large number of deaths and people injured, the explosion shook the whole chemical industry in Jiangsu. In the immediate aftermath, on 1 April 2019, Jiangsu province released the 'Plan for Regulating and Improving the Chemical Industry of Jiangsu Province (Consultation Paper)', planning to:

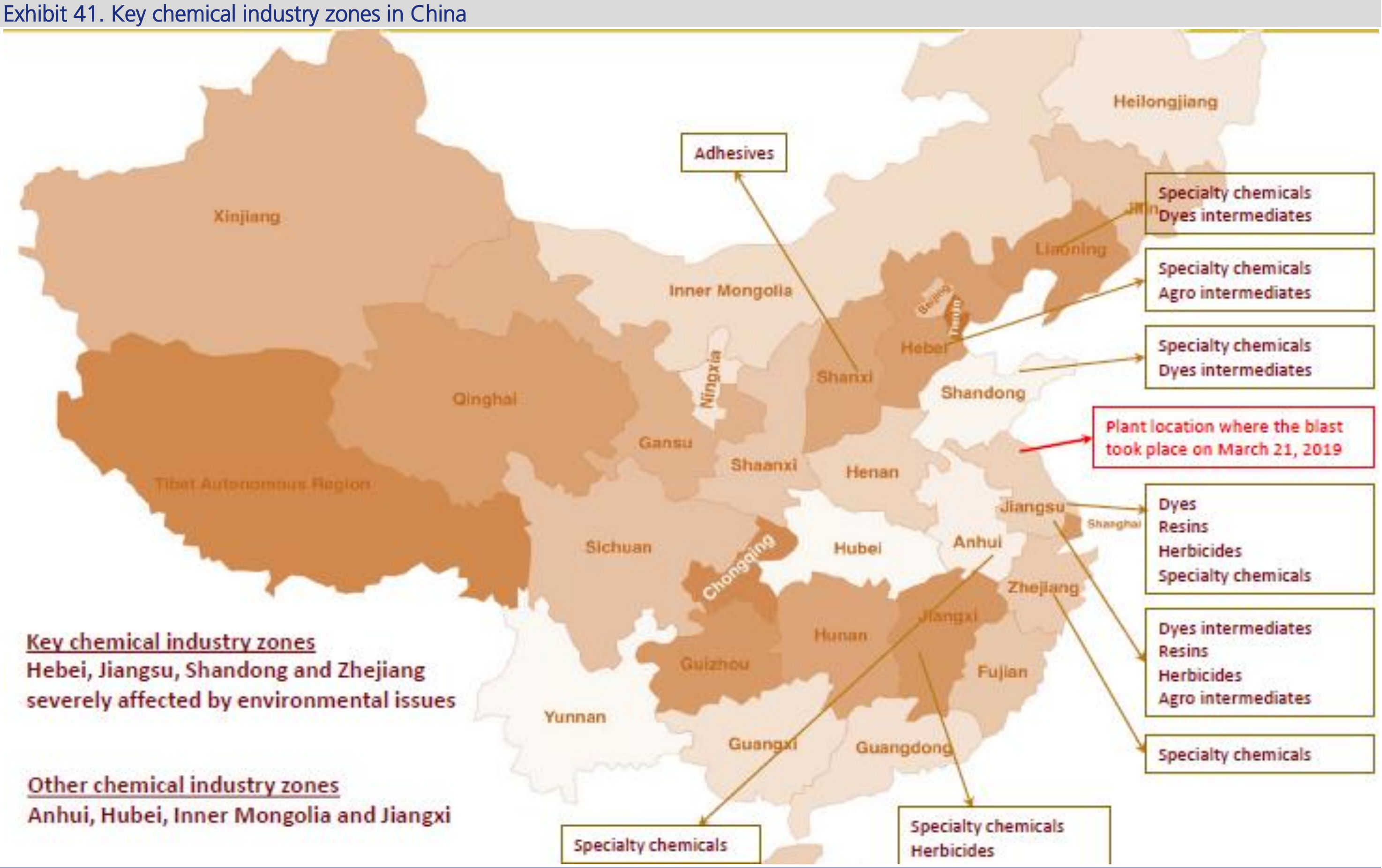
- Reduce the number of chemical enterprises to 2,000 by 2020, and 1,000 by 2022;
- Reduce the number of chemical industrial parks to 20
- Stop production at chemical enterprises not fulfilling related safety/environmental norms; and
- Prohibit new projects on pesticides/medicines/dye intermediates.

- On 4 April 2019, the government of Yancheng city decided to shut down the Xiangshui chemical industrial park permanently. The goal of Jiangsu Province is to close 579 chemical companies and nine chemical parks (clusters). In addition, a large number of companies in the area have to be upgraded, modernised or relocated to state-of-the-art production levels.
- Also, chemical industrial parks are located close to important drinking water sources which indicate potential environment risks can lead to more shutdowns of factories in the future.

Shifting chemical belt away from Yangtze river:

- Yangtze river, the world's third longest river and a drinking source for 1/3rd of China's population has been choked with toxic chemicals, plastic and garbage due to the presence of Yangtze River Economic Belt. Saving on freight costs due to being on the waterway was one of the many advantages. Understanding the criticality of the river, China issued a development plan for the Yangtze River Economic Belt in September 2016 and a guideline for green development of the belt in 2017. Some areas of the river have been declared as a protective zone where no factories can be established within 1 km from the river. This will lead to a shut down or relocation of c.134 factories. For instance, Tiantian chemical plant, located at the southern bank of the Yangtze River in Yichang City has been shut and a new plant worth CNY 10 bn will be built in Zhijiang City.

Exhibit 41. Key chemical industry zones in China



Source: Industry

Exhibit 42. Yangtze river comes within the chemical belt of China

In a new development the Chinese Government is keen to protect Yangtze river and declared some areas of the river as a protective zone. No factories can be established within 1 km from the river. This will impact the Chemical industries set up in those regions.

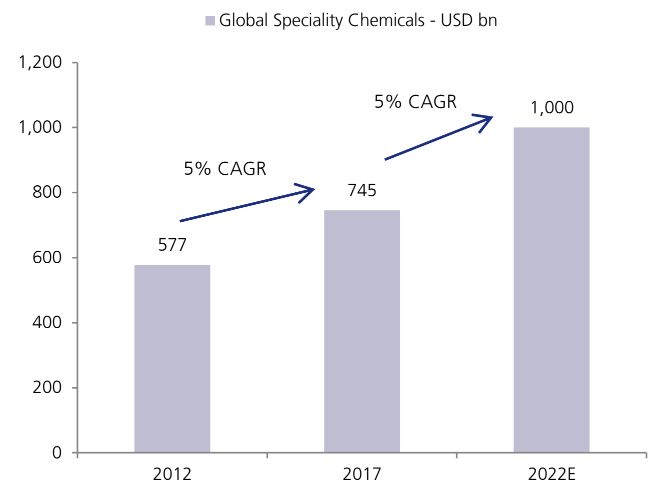
Source: Industry

Speciality chemicals: A gigantic opportunity

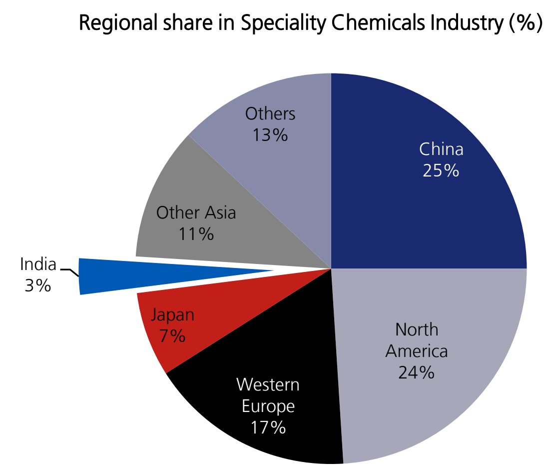
- This sector has end-use in industries such as textile, automotive, personal care, construction chemicals and agrochemicals, as well as application-driven segments such as surfactants, paints, coatings and colourants. Over the last 5 years this industry has grown at 12-15% and currently the size is USD 35bn (FY14: USD 18-19bn). Led by strong growth in end-user segments (Exhibit 44), the speciality chemicals industry is expected to post a 12% CAGR over the next 5 years to become c.USD 50bn in value. We note that despite becoming a USD 50bn industry in 2025, India's share stands at only 5% of the world. We believe that led by manufacturing edge, better environmental compliance framework, stronger IP protection, an abundance of skilled manpower and a younger workforce there would be an increase in demand for Indian made chemicals for global composition.

Exhibit 43. Speciality chemicals industry

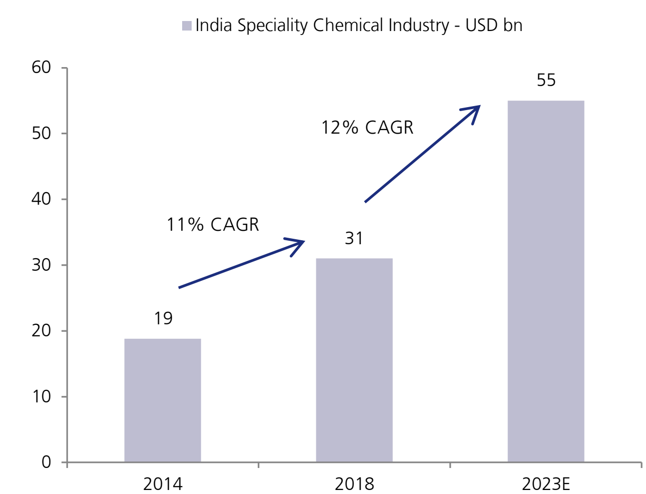
Global speciality chemicals industry to grow at 5% CAGR till 2022



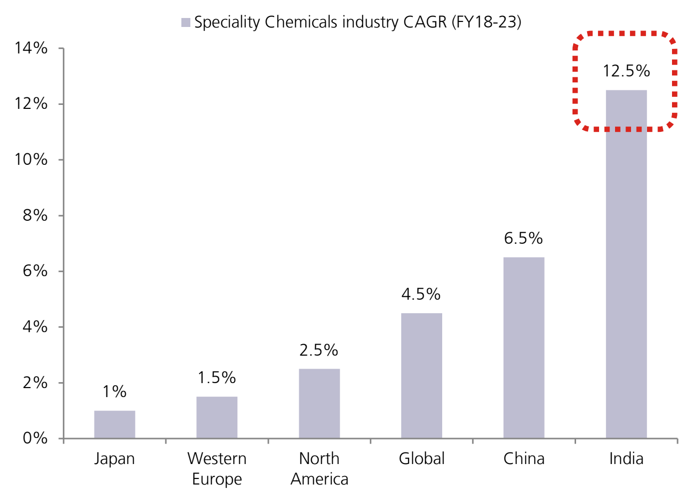
India's share is minuscule at just 3%



India's speciality chemical industry is set to grow at 12% CAGR during 2018-2023



India is the fastest growing country in speciality chemicals



Source: Industry

Exhibit 44. Key end-user drivers for speciality chemicals

Sub Segment	Growth Driver	User Industry
Paints and Coatings	Has grown at 1.5-2X GDP growth rate with CAGR of 13.5% in last five years and is likely to maintain over 15%	Construction, Automotive
Specialty Polymers	Growth in plastic demands resulting from increased usage in packaging, construction and automotive	Packaging, Automotive
Construction Chemicals	Current expenditure on admixtures is very low in India as compared to other countries	Infrastructure, Real estate
Paper Chemicals	Paper industry is expected to grow at 8-10% on growing demand	Printing, Packaging
Textile Chemicals	Industry has benefited from currency depreciation and has strong growth potential	Apparel, Technical Textile
Water Chemicals	Growing urbanization has led to higher needs for water purification and treatment	Industrial water, Municipal water
Cosmetic chemical	Personal care is getting extremely sophisticated and increasing awareness and evolving consumer driven growth	Bath, Shower, Hair Care
Flavors & Fragrances	India is lagging behind but rapidly catching up	Food Processing, Personal Care
Agro Chemicals	Strong growth in CRAMS and domestic agrochemical industry as pesticide consumption is low in India	Agriculture, Exports
Home Care Surfactants	Growth is primarily driven by increased consumption	Laundry Care, Dishwashing
Colorants	Exports from India is about 80% of total consumption	Textile, Exports

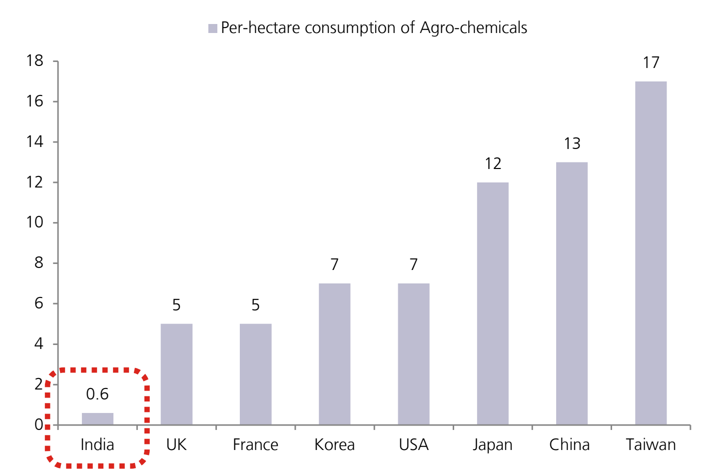
Source: Industry

Agrochemicals: Improving productivity will drive growth

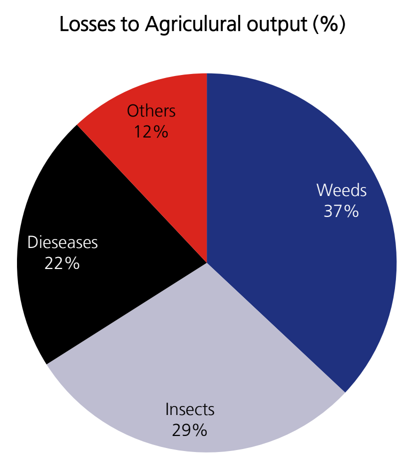
- The agro-chemicals industry is currently valued at USD 2.5bn and is expected to reach USD 3.7bn (8% CAGR) in 2022. The key drivers for this expansion include **a)** lowest consumption in the world with per hectare consumption being just 0.6 kgs as compared to the United States (5-7 kgs/hectare) and Japan (11-12 kgs/hectare), **b)** losses due to weeds, insects and others are at 12-20% of output, **c)** significant share of non-genuine pesticides and **d)** strong CAGR in herbicides of 15% as it is the least used in India.
- Agro-chemical exports have increased by 13% CAGR over FY14-18. Globally, India is the 13th largest exporter of pesticides and most of the exports are off-patent products. The major exports from India happen to Brazil, USA, France and Netherlands. India's capability in low-cost manufacturing, availability of technically trained manpower, seasonal domestic demand, overcapacity, better price realization globally and strong presence in generic pesticide manufacturing (India has process technologies for more than 60 generic molecules) offers solid scope for growth in exports.

Exhibit 45. Agro-chemicals industry structural drivers

India has the lowest per-hectare consumption of agro chemicals

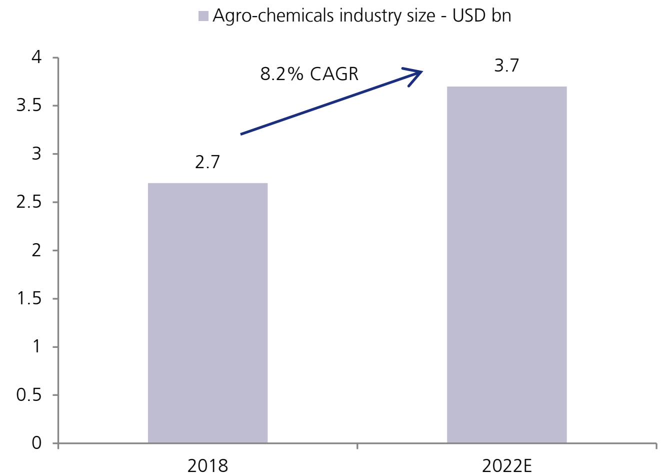


Share of losses to agricultural output (%)



Source: Industry

Exhibit 46. Agro chemicals industry size and growth expectation



Source: Industry

Valuations

- Why is the stock at such a large premium?: GMM is trading at a hefty premium over its long term median multiple led by the following factors:
  - End-user industry (pharma, speciality chemicals and agro-chemicals) is likely to witness continuous investments over the next many years and see structural growth going forward. Hence, size of opportunity for the glass-lined industry remains massive.
  - GMM has a leadership position in GL reactors with strong pricing power in the domestic market. It has the moat and bandwidth to grow profitably by surpassing industry growth in up-cycles.
  - During down-cycle, it has displayed traits of solid NWC and cash-flow management at the same time focusing on cost reduction preventing material margin decline.
  - Strong opportunity to benefit from outsourcing to Pfaudler Inc.
  - Increased it’s wallet share through non-GL product portfolio and after-market business making GMM a more structural growth story compared to a cyclical one
- We value GMM at 40x FY23E EPS, in-line with MNC peers like ABB India and Honeywell Automation, but a premium to peers like Siemens, Cummins and Thermax, led by a) faster EPS CAGR over FY20-22E of 25% vs 8% for peers, b) superior RoEs of 23% vs 14% for peers and c) dominant share of c.50% in its end market vs 10-15 % for peers. Currently, the stock trades at expensive valuations of 84x FY21E, 59x FY22E and 44x FY23E EPS. We initiate with a HOLD rating with target price of INR 3,800, based on 40x FY23E EPS.

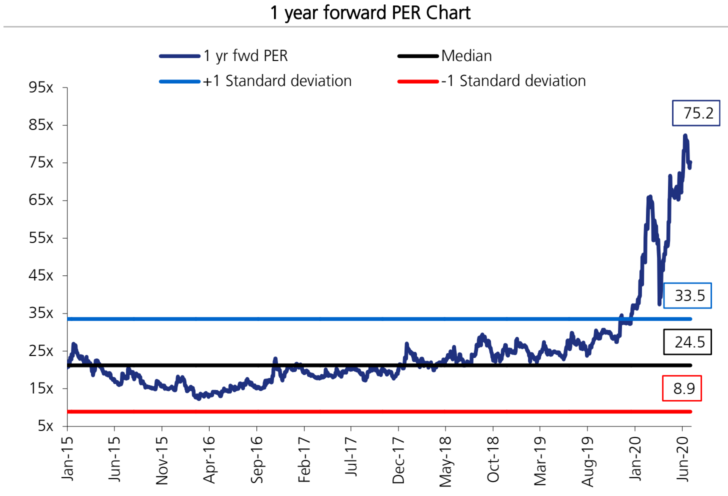
Exhibit 47. Comparative Valuation

	CMP	Mcap	EV/E (x)		P/E (x)		EPS CAGR %	P/B (x)		RoE (%)		RoCE (%)
Company	INR	INR bn	FY21E	FY22E	FY21E	FY22E	FY20-22E	FY21E	FY22E	FY20	FY21E	FY20
GMM Pfaudler	4,094	60	49.0	36.3	82.3	57.8	20.7	14.8	12.1	22.8	19.3	23.3
Grindwell Norton*	498	55	20.3	17.9	27.5	24.4	4.8	4.3	4.1	16.0	13.5	24.5
Honeywell Automation*	31,096	275	38.6	33.9	52.6	43.5	13.4	10.6	8.4	25.0	21.6	38.4
Siemens*	1,116	398	23.9	20.9	33.8	29.6	22.8	3.8	3.5	10.1	12.0	23.2
ABB India	920	195	74.2	29.6	111.1	42.7	14.1	5.4	4.9	10.2	4.9	11.0
Cummins India	398	110	27.1	19.7	26.9	20.3	(6.8)	2.8	2.8	15.1	10.0	17.6
Thermax	749	89	26.5	19.8	42.0	30.9	(3.4)	2.8	2.7	7.0	6.9	7.2
Average - ex GMM (x)			35.1	23.6	49.0	31.9	7.5	4.9	4.4	13.9	11.5	20.3

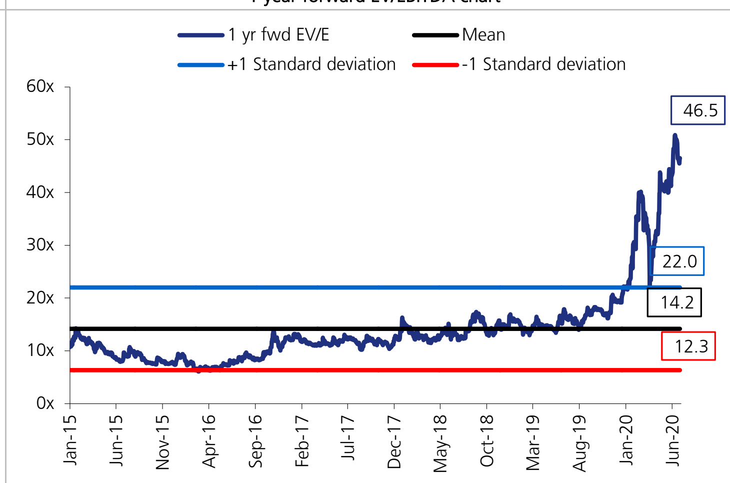
Source: Company, JM Financial*BBG estimates

Exhibit 48. PER and EV/EBITDA chart – 1 year forward

1 year forward PER Chart



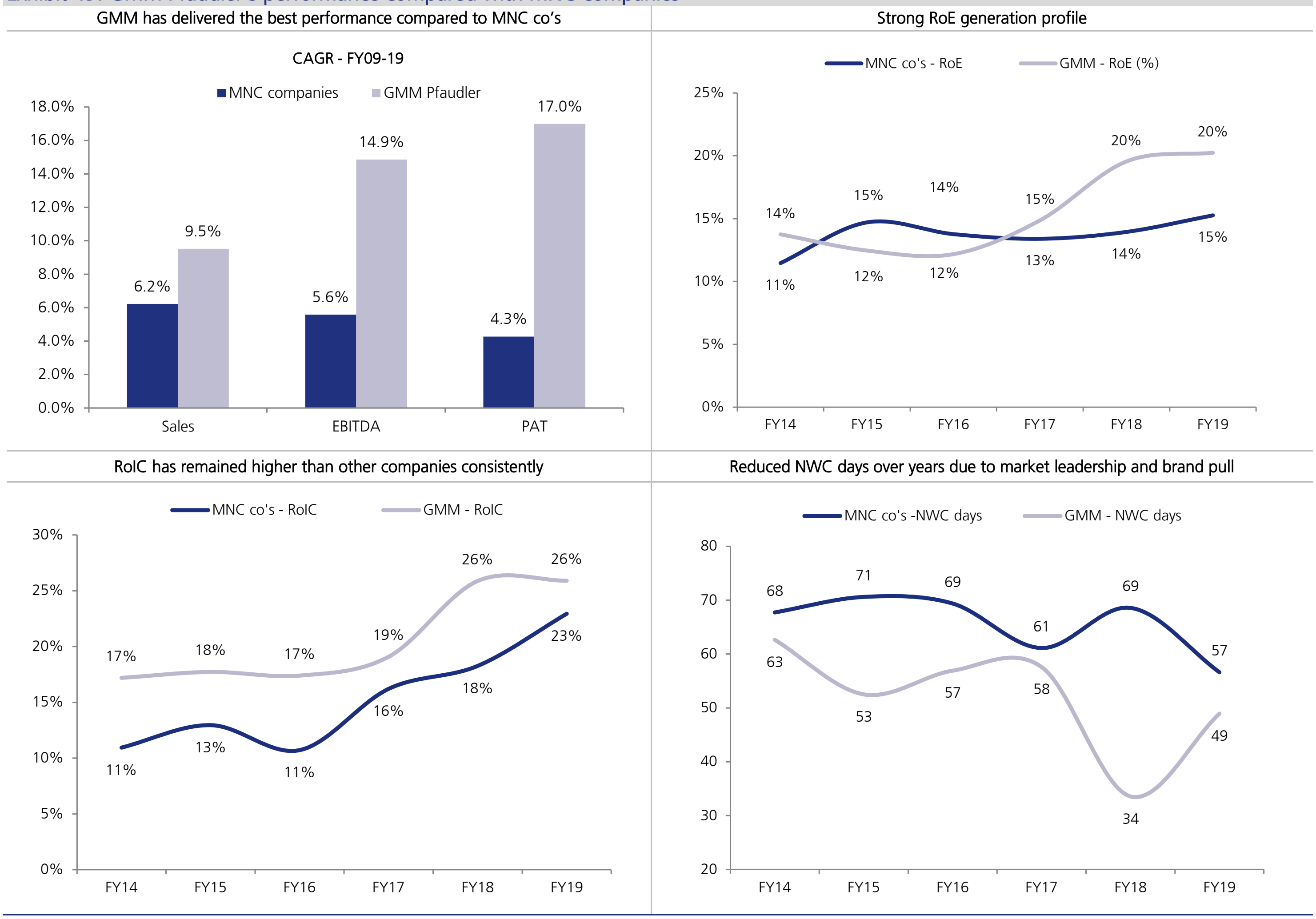
1 year forward EV/EBITDA chart



Source: Company, JM Financial

- **GMM outperforms 11 MNC co's:** We evaluated a list of MNC companies which include: 3M India, ABB India, Siemens India, Cummins India, Disa India, Esab India, Grindwell Norton, Honeywell Automation , Ingersoll Rand, Kennametal and KSB Pumps. We understand that over the last decade GMM has outperformed these players' in-terms of revenue, EBITDA and profit CAGR over FY09-19 (Exhibit 49). We also understand that GMM has a better RoE/RoIC profile, managed NWC prudently and has managed down-cycles very well compared with peers.

Exhibit 49. GMM Pfaudler's performance compared with MNC companies



Source: Company, JM Financial

- **Only cap-goods company with end-user capex visibility:** GMM deserves a premium as it is linked to mainly consumer-linked capital goods industry vs. the other peers whose revenue is led by manufacturing, core sectors, infrastructure ordering and government spending. We note that given the current uncertainty on demand due to Covid-19, manufacturing players may delay capex plans. Government spending on infrastructure projects can also take a knock if the fiscal situation escalates. Whereas consumer linked pharmaceutical and speciality chemicals have an upcoming structural shift and visibility of capex remains intact. GMM's market share is at c.50% vs. other players at anywhere between 10-20% market share in their respective categories.

Key Risks

- Cyclical in nature: The GL reactor industry is mainly dependent on new capex by pharma and chemical manufacturers. 60% of revenues for GMM comes from GL-reactors. Any negative positioning for Indian pharma or chemicals industry can lead to delay/reductions in capex, thereby impacting growth in GL-reactor segment.
- Increase in competition: GMM Pfaudler currently is the market leader with c.50% market share in the GL-reactor industry and is 2.3x larger than its No 2 competition. We note that players such as HLE Glascoat have a strong financial position to increase capacity and push for market-share gains. De-dietrich and Thaletec are strong players in the global glass lined industry and possess financial muscle to grow aggressively in India. Players such as Schott Glass India and Alfa-laval India are well-known suppliers to the pharma and chemicals industry. These companies currently do not operate in similar GL-reactors.
- Mavag AG profitability: Mavag AG currently has break-even of CHF 10mn and revenues are CHF 11mn. We have witnessed losses during CY08-10 and net-margins of average 2% over CY11-16 during the slowdown in EU operations. Any slowdown in EU markets could impact profitability at Mavag AG. Mavag AG has a meaningful contribution to EBIT and there stands a risk of fluctuation in profits.
- Possible rise in NWC with increasing share of non-GL equipment: Non-GL equipment, comprising proprietary products and heavy engineering, accounts for 40% of revenues and 28% of EBIT. Any slower-than-expected pick-up in this segment, provisions on account of non-fulfilment of order and a stretch in working capital cycle can impact overall profitability.

What is Glass-lined Equipment?

- Glass-Lined Equipment is a corrosion resistant material used in varying processes of operation from production of pharmaceuticals to specialty chemicals and polymers. The strong glass-lined equipment prevents materials exposed to harsh chemicals, such as acids, alkalis, water, and other chemicals, from becoming corroded and causing failure within the pressure equipment. Thus this type of equipment can keep a particularly long service life in environments where service conditions are difficult and other equipment would quickly become unfit for service.
- Aside from just being resistant to corrosion, glass lined equipment is resistant to contamination from dissolved metals or alloys, which can dissolve into damaged metal parts. It's able to handle a diverse range of operating conditions and is much easier to clean than unlined equipment.

Exhibit 50. Features and advantages of glass-lined equipment

Feature	Advantage
Corrosion Resistance	Superior corrosion resistance to acids, alkalis, water and other chemical solutions.
Flexibility	Handle diverse range of operating conditions. Hence manufacturers can make drastic change to process without changing equipment.
Purity	Aggressive reaction environments tend to dissolve metals which can contaminate the product. These metals can compromise product quality, negatively affect product yield. Glass-lined steel is inert so it is impervious to contamination.
Ease of Cleaning	Cleaning of reactor is essential between batches. Its high degree of surface smoothness makes it easy to clean using non-corrosive, low pressure cleaning systems. The smooth surface of glass-lined steel also resists the build-up of viscous or sticky products, which means less frequent cleaning.
Economy	Highly cost efficient and beneficial in the long run as compared with pure steel and alloy vessels.

Source: Industry

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY19A	FY20A	FY21E	FY22E	FY23E
Net Sales	5,026	5,910	6,494	8,237	10,170
Sales Growth	23.9%	17.6%	9.9%	26.8%	23.5%
Other Operating Income	0	0	0	0	0
Total Revenue	**5,026**	**5,910**	**6,494**	**8,237**	**10,170**
Cost of Goods Sold/Op. Exp	2,329	2,898	3,182	4,119	5,085
Personnel Cost	726	880	942	1,039	1,145
Other Expenses	1,202	1,021	1,168	1,477	1,901
EBITDA	**770**	**1,111**	**1,202**	**1,603**	**2,038**
EBITDA Margin	15.3%	18.8%	18.5%	19.5%	20.0%
EBITDA Growth	24.0%	44.3%	8.2%	33.4%	27.1%
Depn. & Amort.	110	211	243	248	250
EBIT	660	900	959	1,356	1,788
Other Income	85	58	63	70	104
Finance Cost	12	35	50	40	35
PBT before Excep. & Forex	733	922	973	1,385	1,858
Excep. & Forex Inc./Loss(-)	22	0	0	0	0
PBT	754	922	973	1,385	1,858
Taxes	227	212	245	349	468
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	527	711	728	1,036	1,390
Adjusted Net Profit	**484**	**711**	**728**	**1,036**	**1,390**
Net Margin	9.6%	12.0%	11.2%	12.6%	13.7%
Diluted Share Cap. (mn)	14.6	14.6	14.6	14.6	14.6
Diluted EPS (INR)	**33.2**	**48.6**	**49.8**	**70.9**	**95.1**
Diluted EPS Growth	14.6%	46.6%	2.4%	42.4%	34.1%
Total Dividend + Tax	79	114	102	132	146
Dividend Per Share (INR)	4.5	6.5	7.0	9.0	10.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY19A	FY20A	FY21E	FY22E	FY23E
Shareholders' Fund	2,689	3,429	4,054	4,959	6,203
Share Capital	29	29	29	29	29
Reserves & Surplus	2,660	3,400	4,025	4,930	6,173
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	112	0	0	0
Def. Tax Liab. / Assets (-)	45	50	0	0	0
Total - Equity & Liab.	**2,735**	**3,592**	**4,054**	**4,959**	**6,203**
Net Fixed Assets	826	1,491	1,598	1,700	1,750
Gross Fixed Assets	1,031	1,941	2,291	2,641	2,941
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	255	466	709	957	1,207
Capital WIP	50	16	16	16	16
Investments	477	361	361	361	361
Current Assets	3,033	3,583	4,230	5,606	7,435
Inventories	1,155	1,258	1,423	1,805	2,229
Sundry Debtors	672	743	979	1,128	1,393
Cash & Bank Balances	758	764	939	1,656	2,698
Loans & Advances	393	620	890	1,016	1,114
Other Current Assets	56	198	0	0	0
Current Liab. & Prov.	1,601	1,843	2,135	2,708	3,343
Current Liabilities	653	642	890	1,128	1,393
Provisions & Others	948	1,202	1,246	1,580	1,950
Net Current Assets	1,432	1,740	2,095	2,898	4,091
Total – Assets	**2,735**	**3,592**	**4,054**	**4,959**	**6,203**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before Tax	733	923	973	1,385	1,858
Depn. & Amort.	110	211	243	248	250
Net Interest Exp. / Inc. (-)	7	30	0	0	0
Inc (-) / Dec in WCap.	-326	-771	-231	-85	-152
Others	-42	116	0	0	0
Taxes Paid	-212	-242	-245	-349	-468
Operating Cash Flow	**270**	**267**	**739**	**1,199**	**1,488**
Capex	-162	-356	-350	-350	-300
Free Cash Flow	108	-89	389	849	1,188
Inc (-) / Dec in Investments	82	-141	0	0	0
Others	0	0	0	0	0
Investing Cash Flow	**-81**	**-497**	**-350**	**-350**	**-300**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-87	-79	-102	-132	-146
Inc / Dec (-) in Loans	-12	98	-112	0	0
Others	-1	217	0	0	0
Financing Cash Flow	**-99**	**236**	**-215**	**-132**	**-146**
Inc / Dec (-) in Cash	**90**	**6**	**175**	**718**	**1,042**
Opening Cash Balance	668	758	764	939	1,656
Closing Cash Balance	758	764	939	1,656	2,698

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY19A	FY20A	FY21E	FY22E	FY23E
Net Margin	9.6%	12.0%	11.2%	12.6%	13.7%
Asset Turnover (x)	2.0	1.9	1.7	1.8	1.8
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	19.5%	23.2%	19.4%	23.0%	24.9%

Key Ratios

Y/E March	FY19A	FY20A	FY21E	FY22E	FY23E
BV/Share (INR)	184.2	234.6	277.4	339.3	424.4
ROIC	58.6%	45.7%	32.3%	40.8%	49.9%
ROE	19.5%	23.2%	19.4%	23.0%	24.9%
Net Debt/Equity (x)	-0.5	-0.3	-0.3	-0.4	-0.5
P/E (x)	126.0	85.9	84.0	58.9	44.0
P/B (x)	22.7	17.8	15.1	12.3	9.8
EV/EBITDA (x)	77.7	54.0	49.7	36.8	28.4
EV/Sales (x)	11.9	10.2	9.2	7.2	5.7
Debtor days	49	46	55	50	50
Inventory days	84	78	80	80	80
Creditor days	56	49	61	62	63

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
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Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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