

Bid for Long Term

Key Data	
Floor Price (Rs)	3500
Face Value (Rs)	2/-
Issue Size (Rs)	1432.58Cr
Total offered	4,093,100 shares
Retail	
Issue Opens	September 23, 2020
Issue Closes	September 23, 2020
Offered shares	409,310 Shares
NSE Code	GMMPFAUDLR
BSE Code	505255
52 Week High	6913.85
52 Week Low	1357.50
Source:BSE	

GMM Pfaudler Ltd.

Company Background:

GMM Pfaudler was originally incorporated in 1962 as Gujarat Machinery Manufacturers Ltd (GMM). The company manufactures glass lined equipment, heavy engineering and proprietary products. In 1987, Pfaudler Inc, the world leader in GLE and glass-lining technology, acquired a 40% stake in the company; in 1999, it increased its stake in GMM to 51%, following which GMM was renamed GMM Pfaudler. GMM Pfaudler's products are used primarily in the chemical, pharmaceutical, and allied industries. Its facilities are at Karamsad, in Gujarat, and in Pune.

Issue Details:

The promoter of the company Pfaudler Inc., Millars machinery company private ltd and Ms. Urmi Patel proposes to sell up to 25,71,429 equity shares representing 17.49% of the total paid-up equity share capital of the company and face value of Rs.2/- each, with an option to additionally sell up to 15,21,671 equity shares representing 10.41% of the total paid-up equity share capital of the company. The floor price has been set at Rs. 3500/- per share.

Allocation Methodology:

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on September 22, 2020 for institutional bidders. Retail investors for whom 10% shares have been reserved will get to bid on September 23, 2020.

Rationales:

Market leadership in the domestic GLE industry

The GMM Pfaudler's product quality and large production capacities have made the company a market leader in the domestic GLE industry, with a market share of around 55%. It faces intense competition in the small vessel segment from other domestic players. However, the group has a near monopoly in the large vessels segment with capacities of over 16,000 litre.

Technology edge

GMM's majority ownership by Pfaudler gives it a clear technology edge - and a critical competitive advantage - in the Indian market. Pfaudler is the inventor of glass-lining technology and has continued to set the bar for innovation and advancements in the industry globally. With over 20% global share in what is largely an oligopolistic market, Pfaudler is only likely to strengthen its position going ahead. This augurs well for GMM too, as it continues to have access to best-in-class technology, an attribute essential to the business.

Long-standing customer relationships

GMM Pfaudler has been operating in India for close to five decades and has been a credible supplier to most of the large Indian companies in the pharmaceuticals, chemicals, and petrochemicals sectors. By leveraging its technology edge and supplying high quality reactors, GMM has won repeat orders on a recurring basis and built long-standing relationships with all its key customers.

Associate

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Plant acquisition

The company has entered received approval to sign definitive documents with De Dietrich Process Systems India Pvt Ltd. for the acquisition of their Glass Lined Equipment manufacturing facility in Hyderabad, Telangana for consideration equivalent to EURO 6.25mn (Rs.-550mn). The facility is located at Nacharam Industrial Estate, Telangana and spread across an area of 6 acres with the annual capacity of 400 equivalent units (EU's). Management expects this acquisition will help the company to strengthen its presence in the region further. Currently, GMM has 2400 EU capacity at Karamsad Gujarat.

Strong financial performance

Over the years, GMM has a successful track record of delivering consistent growth in sales and profits. In the last five years FY15 - FY20, GMM's operating revenues and profitability have grown by a CAGR of 14% and 30% respectively. Further, during the same period, company's operating profit grew by a CAGR of 26%. The company's operating margin has improved from 12% in FY15 to 19% in FY20. The Company is virtually debt free.

Recommendation:

At the floor price of Rs 3500/-, the stock trades at 70.43x its TTM EPS of Rs.49.69. Considering the management's proven execution capabilities, increasing dominance in the Indian market and tailwinds from a global upcycle in pharma and chemicals capex, We believe GMM is well-positioned to capture the opportunity from increasing demand . **Hence, we recommend to BID for the OFS on a long-term basis.**

Asit C. Mehta

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