



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

GMM PFAUDLER LTD

WHAT WE LIKE

STRONG LINEAGE & MARKET SHARE

With over five decades of manufacturing experience, GMM Pfaudler is a well-established Company with a strong brand and customer goodwill. The Company is currently the market leader in Glass Lined Equipment (GLE) industry with around 55% market share. Established in 1884, Pfaudler Inc. is a world-leading process solutions company, providing technologies, solutions, services and innovations to meet the specific requirements of its customers in the chemical, pharmaceutical and other process industries.

STRONG CUSTOMER BASE



STRONG ORDER BOOK & INDUSTRY TAILWINDS

Despite being the market leader in GLE, the company has diversified its product portfolio to include Heavy Engineering, Mixing Systems, Engineered Systems and Filtration & Drying Equipment to grow revenue and reduce the cyclicity of the business. This has led to a strong order book built up especially on the back of strong demand from the Chemical and Pharma sectors. As chemical companies set up new facilities and Pharmaceutical companies begin to upgrade their plants and equipment, their need for good quality equipment and latest tech will enable GMM Pfaudler grow its sales despite the current slowdown in the economy.

STRONG BALANCE SHEET & STEADY GROWTH

- Debt Free: No long term debt since FY2003.
 - Strong cash generation.
 - Capex done from internal accruals.
- Last 3 years
Revenue: 20% CAGR
Profits: 35% CAGR
ROE: 19%

WHAT WE DON'T LIKE

SLOW GROWING GLE MARKET

Though the company has started diversifying into newer industries like pharma chemicals and others, GLE still earn them 80% of the revenue. And GLE market in India is very small and growing very slowly. If the move of diversification does not go as per plan, scaling up only on the basis of GLE market would be very difficult.

WORKING CAPITAL INTENSIVE

Long lead time in production, and high cost of specialized raw materials, result in large working capital requirement. Gross current asset days are at 210 days as on March 31, 2019, with average inventory turnover of up to four months. This makes the company susceptible to inventory pricing risks, and potential delays by customers in taking deliveries.

RAW MATERIAL PRICING RISK

The Company's primary raw material is steel. Any fluctuation in its pricing will impact the profitability of the company. Certain orders with long manufacturing cycle time may be exposed to the risk of material price volatility. The company follows a typical rolling forecast process to procure and stock primary raw material largely to cover its backlog.

CYCLICAL BUSINESS

The Company is into a cyclical business and is highly dependent for revenue generation on its end user industry expansions. While diversifying to different industries helps the company in cross-selling opportunities, the cyclicity of the business still persist.

VALUATION

As on April 2020, we at Smart Sync Services, believe that the current valuation at 9 times Sales and 72 times earnings have built in a lot of optimism. Hence, margin of safety is not available at current price.

