September 27, 2024

GMM Pfaudler Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based- Cash Credit	85.00	161.76	[ICRA]AA- (Stable); reaffirmed
Long-term – Fund Based- Term loans	111.00	8.24	[ICRA]AA- (Stable); reaffirmed
Short-term – Non-fund based-Others	104.00	130.00	[ICRA]A1+; reaffirmed
Short-term–Interchangeable Limits- Others^	(85.00)	-	-
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure-I; ^100% interchangeable with fund-based limits*

Rationale

The reaffirmation of the ratings factors in GMM Pfaudler Limited's (GMMPL) leadership position globally in engineering equipment and systems, including glass lined equipment (GLE), with strong in-house technical capabilities and manufacturing infrastructure. ICRA notes that GMMPL continues to capitalise on the acquisition of Pfaulder Inc through access to technical know-how, product mix and expansive geographical manufacturing presence and customer relations, evident from the healthy revenue scale-up and order inflows over FY2023-FY2024. Moreover, the management's strategy of undertaking acquisitions over the past fiscals has supported GMMPL's overall business risk profile through improved geographic presence, wider product profile and addition of new end-user industries, bolstering its revenue, profits and earnings growth prospects. Although, the same has led to increase in the company's total debt, which in the current scenario of moderation in profitability has translated into moderation in the debt coverage metrics to some extent.

The ratings factor in the company's healthy business position, supported by a robust global reach, strong technical capabilities and cross-selling opportunities across various product lines, and an established customer base. The rating considers the strong presence of the company in the large vessel segment with an overall market share of over ~40% globally in the GLE segment. The ratings also consider the diversified product offerings by the company in the non-GLE segments, providing access to multiple end-user industries other than chemical and pharma. The bolt-on acquisitions completed by the company over FY2023-FY2024 (Mixel, MixPro & Hydro Air Research Italia) will expand its product portfolio and provide access to additional market segments such as mixing, plant-based proteins, bioplastics and lithium purification. The acquisitions will also aid the company to cater internationally to industries such as water treatment, mining and biogas, among others, in geographies where its current presence is limited to chemical and pharma and support the expansion of its existing mixing division.

GMMPL reported a turnover of Rs 3446.5 crore in FY2024, demonstrating a YoY growth of 8%. Organic revenue growth would have been lower without accounting for revenues of acquired entities being partially consolidated during FY2023-FY2024. The revenue growth slowed down in FY2024 on the back of weakness in key end-user industries – chemicals and pharma, domestically as well as globally for the GLE business. GMMPL derives over ~75-80% of its revenues in the GLE segment from chemicals (~55-60%) and pharma industries (~20-25%) and its revenues remain vulnerable to cyclicality trends in pharma and chemical industries. However, company's diversification strategy is bearing some fruit now as non-GLE verticals arrested the decline in revenues and profitability to some extent, with their increasing contribution to revenues. Heavy Engineering segment did relatively better, driven by demand from other end-user industries like oil & gas, metals & minerals, etc. Overseas Services revenues were also resilient, as customers continue to spend on repair/refurbishment/services even in absence of fresh capex.

However, sluggish demand has resulted in lower capacity utilization, leading to lower operating leverage, as well as pricing pressure amidst higher competitive intensity, translating into decline in profitability over H2FY2024-Q1FY2025. Operating profit margins (OPM) have come down gradually over the past 4 quarters from the peak of 14-15% in H1FY2024 to ~12-13% in H2FY2024, which declined further to ~11% in Q1FY2025. Margin pressures are expected to persist in the near term till demand revives in key end-user industries. However, there are some green shoots as order inflows have witnessed an uptick recently.

The ratings are, however, constrained by the company's continued higher debt levels owing to the sizeable debt additions to fund various acquisitions over the past fiscals, thus moderating the debt coverage metrics at a consolidated level. The debt coverage metrics, reflected in a total debt/OPBDITA at ~2.5 times in FY2024, is expected to improve, going forward with profit expansion as well as debt amortization, though the DSCR may remain continue to remain less than 2 times in FY2025 due to sizeable debt and lease payments. Thereafter, it is expected to remain comfortable in FY2026-FY2027 with improvement in profit generation and relatively lower repayment obligations.

The ratings consider the vulnerability of the company's profitability to the volatility in steel prices, given the production cycle of six to nine months for GLE, and upto 18 months for heavy engineering. Further, GMMPL's operations remain exposed to new capital investment cycles in key end-user segments, with the company deriving a major share of its revenues from the pharma and chemical sectors. However, the company's ability to generate healthy profitability and steady cash accruals through low-cost sourcing and benefiting from economies of scale on a sustained basis will be critical for its credit profile to improve. ICRA also factors in the favorable demand prospects in the medium to long term on the back of healthy growth and the capex expected in pharma and specialty chemicals, both in India and overseas.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its market leadership in the GLE segment, ability to generate healthy cash flows from the business and maintain an adequate liquidity position.

Key rating drivers and their description

Credit strengths

Market leader in glass-lined equipment business with robust global presence and strong in-house technical capabilities - GMMPL has been the market leader in the GLE segment with over 40% market share globally, benefiting from the strong inhouse technical capabilities that has resulted in superior product quality. After the acquisition of Pfaudler, the company has been able to increase its global reach and access untapped geographies through manufacturing facilities present worldwide, leading to a strong global presence in over 100 countries. The company also benefits through improved integration, cross-selling opportunities and better operating leverage from its worldwide presence. To cater to the growing demand, the management has been undertaking regular capex to increase the installed manufacturing capacity and also completed the acquisition of existing manufacturing facilities at Hyderabad and Vatva (Ahmedabad) in the previous fiscals to enhance the installed capacity.

Diversified product portfolio with presence in GLE, non-GLE and heavy engineering; product expansion through multiple bolt-on acquisitions - GMMPL derives majority of its revenue from the GLE segment that contributed nearly ~30% of the revenues in FY2024. However, the company has gradually diversified its operations with the non-GLE segment (excluding Systems and Services) contributing to ~30% of the revenues as well. Systems and services contributed 12% and 28% of the revenues, respectively in FY2024. With an intention to venture into various segments to cater to more end-user industries, improve its product profile and penetrate new markets, the company's management has been expanding through the inorganic route with the completion of various acquisitions in the past fiscals.

In FY2023-FY2024, the company completed three bolt-on acquisitions and one joint venture in its international business, thereby enhancing its product portfolio and providing access to market segments such as plant-based proteins, bioplastics and lithium purification, aiding the company in increasing the market share of its non-glass lined segment. The acquisition of these business will help the company to cater internationally to industries other than chemical and pharma such as food and water treatment and mining and biogas, supporting the future growth of the company's overall scale of operations and the expansion of its mixing division across geographies.

Healthy albeit YoY weaker order book position providing revenue visibility in the near term; improving order inflows – In FY2024, the company secured orders worth Rs. 3014 crore, a 11% decline YoY, driven weak capex in end-user industries domestically as well as globally. The order inflow is expected to be better in FY2025 and reach FY2023 level of approximately Rs. ~3400 crore or more. As on March 31, 2024, the company had a comfortable order backlog of Rs. 1,689 crore as on March 31, 2024 (Rs. 2,162 crore as on March 31, 2023 and Rs. 1,777 crore as on June 30, 2024) at a consolidated level, which declined by 22% YoY, providing a healthy revenue visibility of ~6 months.

ICRA expects order inflow to improve over the next few quarters. Uptick in order inflow momentum is evident by improvement in inflows over past few quarters. Order inflows stood at Rs. 626/756/861/882 crore in Q2FY2024/Q3FY2024/Q4FY2024/Q1FY2025. While order inflows from the pharma sector have improved, chemical sector is reeling with sluggish demand due to dumping by China.

Credit challenges

Moderate debt coverage metrics with sizeable debt outstanding – The company had a total debt of Rs. 1,203 crore (including pension and lease liabilities of Rs. 491 crore) outstanding as on March 31, 2024, which declined from Rs. 1,251.6 crore as on March 31, 2023, primarily on account of term debt repayments, offset partially by higher WC debt.

The relatively high debt levels have resulted in a gearing ratio of 1.2 times as on Mar-2024 (improved from 1.5 times as on Mar-2023), with stable debt but improved TNW. The company has adequate levels of cash balances, thus resulting in a Net debt/OPBITDA ratio of 1.9 times for FY2024. However, the interest coverage deteriorated in FY2024 due to higher finance cost in FY2024. Interest coverage deteriorated from 6.5 times in FY2023 to 5.0 times in FY2024, but still remains comforable. Amid expectations of continuation of pressure on profitability in the near term, the debt metrics are likely to continue to remain moderated in the near term, with improvement expected from FY2026 onwards.

Exposure to new capital investment cycles in key end-user segments - GMMPL derives ~30-40% of its revenues from GLE, which mainly caters to the pharmaceutical and chemical sectors, accounting for over 80% of the revenues from this segment. While the revenue from the services segment is expected to grow significantly in India and the contribution from the non-glass lined business also likely to improve, pharma and chemical will continue to dominate the revenue profile, going forward, exposing the company's operations to the capex cycles in the key end-user segments. The risk is partly mitigated by the company's attempt to diversify its revenue base organically as well as inorganically through the completion of multiple bolt-on acquisitions over the past fiscals coupled with improved geographic diversification post the acquisition of Pfaudler.

Vulnerability of profitability to volatility in steel prices, given the long production cycle– Carbon steel and stainless steel are the major raw materials for the company, the prices of which are volatile. The company's margins remain vulnerable to any adverse fluctuations in commodity prices as the raw material procurement is not entirely order-backed. Nevertheless, GMMPL has been able to pass on any significant movement in steel prices to its customers but with a lag. Further, heavy engineering projects are covered under a price-variation clause, which provides some comfort.

Liquidity position: Adequate

The company's liquidity is adequate considering the free cash of ~Rs. 23.1 crore in the standalone entity as on March 31, 2024 coupled with cushion in the working capital limits with the average utilization being in the range of around ~65% in FY2024. The company has enhanced its FB WC limits in Q1FY2025 to Rs. 551 crore from Rs. 351 crore earlier, keeping in mind medium term requirements. While the consolidated cash and bank balance stood at over Rs. 319.6 crore as on March 31, 2024, the ease of fungibility and repatriation of the same to different locations remains uncertain. Further, while the company has sizeable pension obligations, ICRA draws comfort from the close-ended nature of the fund and long tenure of the same. The consolidated debt repayments, including lease liabilities, are around Rs. ~250 crore for FY2025 (including lease obligations and short term debt repayments), which along with the modest maintenance capex is expected to be comfortably met by the accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is consistent growth in the operating income and profitability along with a DSCR of 3.25 times on a sustained basis.

Negative factors – Pressure on the ratings may arise if any large debt-funded capex or acquisition adversely impacts GMMPL's capitalisation and coverage indicators. A DSCR below 2.5 times on a sustainable basis will also be a rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GMM Pfaudler Limited. As on March 31, 2024, the company had 22 subsidiaries, which are all enlisted in Annexure-2

About the company

Gujarat Machinery Manufacturers Private Limited (GMMPL), incorporated in 1962, was renamed GMM Pfaudler Limited in 1999, with Pfaudler Inc. acquiring a 51% stake in it. Over FY2021-Y2024, as part of a reverse acquisition, GMMPL acquired 100% stake in its parent, the GMM Pfaudler Group ("Pfaudler") from the private equity firm Deutsche Beteiligungs AG Fund VI ("DBAG"). Pfaudler and DBAG have fully exited GMMPL over the course of various transactions in the past ~2-3 years. As on June 30, 2024, the Patel family and associated entities held 25.2% stake in the company, and they are classified the only promoter Group.

GMMPL enjoys a ~40% market share in the global GLE business, while having over 50% market share in the domestic market. The company also derives revenue from the manufacture of proprietary products (mixing, filtration and drying equipment, and engineered systems), services and execution of heavy engineering projects in the domestic market. For its overseas operations, a significant revenue share is contributed by the services and system segments. At present, GMMPL owns ~20 manufacturing facilities across the US, Europe and Asia.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	3177.6	3446.5
PAT	431.2	476.8
OPBDIT/OI	13.6%	13.8%
PAT/OI	6.7%	5.1%
Total outside liabilities/Tangible net worth (times)	3.1	2.2
Total debt/OPBDIT (times)	2.9	2.5
Interest coverage (times)	6.5	5.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-Term	161.76	Sep 27, 2024	[ICRA]AA- (Stable)	Jun 23, 2023	[ICRA]AA- (Stable)	Aug 16, 2022	[ICRA]AA- (Stable)	Jul 30, 2021	[ICRA]AA- (Stable)
									Mar 21, 2022	[ICRA]AA- (Stable)
Term loans	Long-Term	8.24	Sep 27, 2024	[ICRA]AA- (Stable)	Jun 23, 2023	[ICRA]AA- (Stable)	Aug 16, 2022	[ICRA]AA- (Stable)	Jul 30, 2021	[ICRA]AA- (Stable)
									Mar 21, 2022	[ICRA]AA- (Stable)
Non-fund based- Others	Short-Term	130.00	Sep 27, 2024	[ICRA]A1+	Jun 23, 2023	[ICRA]A1+	Aug 16, 2022	[ICRA]A1+	Jul 30, 2021	[ICRA]A1+
									Mar 21, 2022	[ICRA]A1+
Interchangeable Limits- Others	Short-Term	-	Sep 27, 2024	-	Jun 23, 2023	[ICRA]A1+	Aug 16, 2022	[ICRA]A1+	Jul 30, 2021	[ICRA]A1+
									Mar 21, 2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based- Cash Credit	Simple
Long-term – Fund Based- Term loans	Simple
Short-term – Non-fund based- Others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund Based- Cash Credit	NA	NA	NA	161.76	[ICRA]AA- (Stable)
NA	Long-term – Fund Based- Term loans	FY21-FY22	7-8%	FY2026	8.24	[ICRA]AA- (Stable)
NA	Short-term – Non-fund based- Others	NA	NA	NA	130.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
GMM Pfaudler Limited	100% (rated entity)	Full Consolidation
GMM International S.a.r.l.	100%	Full Consolidation
Mavag AG	100%	Full Consolidation
Mixel France SAS	100%	Full Consolidation
Mixel Agitator Co. Limited	100%	Full Consolidation
Hydro Air Research Italia S.r.l	100%	Full Consolidation
GMM Pfaudler Foundation	100%	Full Consolidation
Pfaudler GmbH	100%	Full Consolidation
Pfaudler Normag Systems GmbH	100%	Full Consolidation
Pfaudler Interseal GmbH	100%	Full Consolidation
Pfaudler France S.a.r.l.	100%	Full Consolidation
Pfaudler Service BeNeLux B.V.	100%	Full Consolidation
Pfaudler S.r.l.	100%	Full Consolidation
Pfaudler Limited	100%	Full Consolidation
Pfaudler (Chang Zhou) Process Equipment Company Limited	100%	Full Consolidation
Pfaudler S.A. de C.V.	100%	Full Consolidation
Edlon Inc	100%	Full Consolidation
GMM Pfaudler US Inc.	100%	Full Consolidation
Glasteel Parts and services Inc.	100%	Full Consolidation
Pfaudler Ltda.	100%	Full Consolidation
Pfaudler Private Limited	100%	Full Consolidation
GMM Pfaudler JDS LLC	51%	Full Consolidation
Professional Mixing Equipment Inc	100%	Full Consolidation

Source: Annual report FY2024

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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