

June 23, 2023

## 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	85.00	[ICRA]AA- (Stable); reaffirmed
Long term – Fund based – Term loan	111.00	111.00	[ICRA]AA- (Stable); reaffirmed
Short term- Non-fund-based- Others	104.00	104.00	[ICRA] A1+; reaffirmed
Short term - Interchangeable limits – Others**	(85.00)	(85.00)	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>300.00</b>	<b>300.00</b>	

\*Instrument details are provided in Annexure-1; \*\*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. Also, the synergies from GMM International continue to play out, evident from the improved cost-competitiveness, the opportunities across geographies along with customised solutions for end-user industries and cross-selling offerings, the management's continued commitment to scale up and strengthen business position is reflected in GMMPL acquiring 100% stake in GMM International.

ICRA notes that GMMPL continues to capitalise on the acquisition of GMM International through access to technical know-how, product mix and expansive geographical manufacturing presence and customer relations, evident from the strong revenue scale-up and order inflows in FY2023. Moreover, the management's strategy of undertaking bolt-on 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.

The ratings factor in the company's healthy business position, supported by a robust global reach, strong technical capabilities and cross-selling opportunities across the product line in the GLE, non GLE and heavy engineering segments 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. Additionally, 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 in FY2023 will expand its product portfolio and provide access to additional market segments such as 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 also support the expansion of its existing mixing division.

GMMPL reported a strong 25% revenue growth in FY2023, driven by a healthy order inflow during the year in both the Indian as well as the international business, translating into an order backlog of Rs. 2,162.0 crore as on March 31, 2023, which provides healthy revenue visibility in the near term. The company reported an operating profit margin of 13.6% in FY2023, an expansion of 240 basis points over FY2022. This was attributed to higher revenue share from the services segment, realisation of integration and cost synergies across various entities through value sourcing and customised solutions and benefits of operating leverage even as commodity and energy cost headwinds persisted. The increase in the scale of operations coupled

with better profit margins improved the return metrics with an RoCE of 17.9% for FY2023 (including pension and lease liabilities). ICRA expects the growth trajectory for the scale of operations to continue as the enhanced cost competitiveness as well as performance track record would support the order flow from global locations even as the macro-economic conditions in select markets weigh on the near-term demand conditions.

Favourable demand in India due to the near-term capex plans by Indian pharma and chemical companies will also drive a healthy order inflow for the Indian business. ICRA notes that order flows from global players in the end-user industries that have identified India as an alternative manufacturing location for pharmaceutical and chemical products will also contribute to the order inflows and support the profit margin profile through low-cost base.

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 ~2.9 times in FY2023, is expected to improve, going forward with profit expansion as well as debt amortisation though the DSCR may remain stable in the near term in line with the existing level of 2.6 times for FY2023.

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. 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 near to medium 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 in-house technical capabilities that has resulted in superior product quality. After the acquisition of GMM International, 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 40% of the revenue. However, the company has gradually diversified its operations with the non-GLE segment contributing to 18% of the revenues. Systems and services contributed 14% and 26% of the revenue, respectively. 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, the company completed two 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 order inflow translating into strong order book position, providing revenue visibility in the near term** – In FY2023, the company secured orders worth Rs. 3,392.0 crore, a 15% growth YoY, which was largely driven by healthy order inflows in the Indian entity with new manufacturing capacities being commissioned during the year along with a healthy capex cycle of the end-user industries. The order inflow in the overseas business also improved in FY2023 with the increased investments in the end-user industries and ramp up of the existing manufacturing facilities across geographies. As on March 31, 2023, the company had a healthy order backlog of Rs. 2,162.0 crore at a consolidated level, which grew by 12% YoY, providing a healthy revenue visibility of 6-9 months. ICRA expects the healthy order inflow to continue in the near term for both the Indian and the international business with healthy investment activity expected in the chemical and pharmaceutical industries across geographies.

**Robust growth in scale of operations, supported by improving profitability indicators** - GMMPL reported an OI of Rs. 3,177.6 crore in FY2023, a healthy YoY growth of 25%. This was supported by the strong order inflow during the year, largely from the technologies and the services segments in both the Indian and the international business. The spurt in order inflows came on the back of a ramp-up of various manufacturing facilities, driven by the ongoing capex cycles and healthy investments in the end-user industries. The OI increased significantly to Rs. 2,540.6 crore in FY2022 from Rs. 1,001.1 crore in FY2021 post the acquisition of GMM International, thus supporting the overall scale-up of business operations. The company reported an operating profit margin of 13.6% in FY2023, backed by the higher revenue share from services, better integration and cost synergies across various entities through value sourcing and the company's stock and sale programme and benefits of operating leverage.

The increased scale of operations coupled with a better profit margin also improved the return indicators with an RoCE of 17.9% for FY2023. ICRA expects the growth trajectory of the overall business to continue, driven by a healthy order inflow from the domestic and global markets. The profitability margin is likely to be sustained through value sourcing and integration of the business across geographies coupled with the increasing share of revenue from the services segment in the overall revenue mix.

### Credit challenges

**Moderate debt coverage metrics with sizeable debt outstanding** – The company had a total debt of Rs. 1,255.6 crore (including pension liabilities of Rs. 283.0 crore) outstanding as on March 31, 2023, which increased from Rs. 1,008.8 crore as on March 31, 2022, primarily on account of the significant debt additions made during the year to fund the various acquisitions completed during the year, including the acquisition of the balance stake in GMM International. Notwithstanding the expansion in operating profit, the company had a total debt/OPBITDA of 2.9 times (including pension and lease liabilities) for FY2023 with an interest coverage ratio of 6.5 times and DSCR of 2.6 times. The debt coverage metrics moderated in FY2023 amid the rise in interest rates and increase in external debt during the year, though they continued to be comfortable. Notwithstanding the moderation in debt coverage indicators, the overall improvement in the company's profitability and return indicators in FY2023 provides comfort to some extent. GMMPL is expected to generate stable cash flows in the coming years, supported by better operating leverage and business synergies. ICRA notes GMMPL has moderate repayment obligations in the near to medium term along with minimal capex plans which shall be comfortably met through internal accruals, thus limiting the company's incremental dependence on external debt and supporting its credit profile. Further, the expected revenue growth along with healthy profitability is likely to aid the improvement in coverage metrics. The improvement in the company's leverage and debt protection metrics will remain a key monitorable, going forward.

**Exposure to new capital investment cycles in key end-user segments** - GMMPL derives ~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 GMM International.

**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.

### Environmental and social risks

**Environmental considerations:** GMM Pfadler caters mainly to pharmaceutical and chemical industries and hence the operations of the company and manufacturing activity of its customers are likely to have an environmental impact in the form of emissions, effluent discharges and waste generation. The company is taking various initiatives to reduce its carbon footprint such as increasing generation and consumption of renewable energy, reducing Greenhouse Gas emissions and waste reduction throughout the supply chain, water recycling and implementing measure to reduce energy intensity through energy efficiency.

**Social considerations:** The company is committed in ensuring safety and security of its employees through environment friendly workplaces and inclusive work culture. The company has been taking various initiatives to ensure a diversified and inclusive workplace with equal opportunities and provide adequate training and development opportunities to its employees.

### Liquidity position: Adequate

The company has adequate liquidity, supported by free cash balance of ~Rs. 376.1 crore as on March 31, 2023 on a consolidated basis, though the ease of fungibility and repatriation of the same to different locations remains uncertain. The free cash in the Indian business amounted to ~Rs. 36 crore and the sufficient cushion available in the working capital limits further supports the liquidity position of the standalone entity with the average utilisation of the working capital limits being around 70%. The company has debt repayment obligations of Rs. 100-150 crore lined up over the near term along with modest capex plans which can be comfortably met from internal accruals. Further, the scale-up of business operations is expected to generate steady cash accruals which will further support a healthy liquidity position of the company.

### 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	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Company Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GMM Pfadler Limited. As on March 31, 2023, the company had 21 subsidiaries, which are all enlisted in Annexure-2

## About the company

Gujarat Machinery Manufacturers Private Limited, incorporated in 1962, was renamed GMM Pfaudler Limited in 1999, with Pfaudler Inc. acquiring a 51% stake in it. As on March 31, 2023, the promoter and promoter company held a 38.74% stake in the company, of which Pfaudler Inc. (ultimately held by Deutsche Beteiligungs AG) held around 14.56% with the balance stake being held by the Patel family and associated entities.

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 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 18 manufacturing facilities across the US, Europe and Asia.

### Key financial indicators

GMM Pfaudler Limited (Consolidated)	FY2021(A)	FY2022(A)	FY2023 (Audited)
Operating income (Rs. crore)	1001.1	2540.6	3177.6
PAT (Rs. crore)	63.4	75.4	213.5
OPBDIT/OI (%)	13.9%	11.2%	13.6%
PAT/OI (%)	6.3%	3.0%	6.7%
Total outside liabilities/Tangible net worth (times)	3.5	3.1	3.1
Total debt/OPBDIT (times)	7.9	3.6	2.9
Interest coverage (times)	13.6	11.5	6.5

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

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding (as on Mar 31, 23) (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				June 23, 2023	Aug 16, 2022	Mar 21, 2022	Jul 30, 2021	-	
1 Fund based – Cash credit	Long Term	85.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	
2 Fund based – Term loans	Long Term	111.00	63.9	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	
3 Non-fund-based – Others	Short Term	104.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	
4 Interchangeable limits- Others	Short Term	(85.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash credit	Simple
Fund based – Term loans	Simple
Non-fund based- Others	Very Simple

<b>Interchangeable limits - Others</b>	Very Simple
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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-1: 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	-	-	-	85.00	[ICRA]AA- (Stable)
NA	Long term - Fund based- Term loan	FY21-FY22	7-8%	FY2026	111.00	[ICRA]AA- (Stable)
NA	Short term- Non-fund-based- Others	-	-	-	104.00	[ICRA] A1+
NA	Short term - Interchangeable limits- Others	-	-	-	(85.00)	[ICRA] A1+

Source: GMM Pfaudler Limited

**Annexure-2: List of entities considered for consolidated analysis:**

Company	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
Pfudler GmbH	100%	Full Consolidation
Pfudler Normag Systems GmbH	100%	Full Consolidation
Pfudler Interseal GmbH	100%	Full Consolidation
Pfudler France S.a.r.l.	100%	Full Consolidation
Pfudler Service BeNeLux B.V.	100%	Full Consolidation
Pfudler S.r.l.	100%	Full Consolidation
Pfudler Limited	100%	Full Consolidation
Pfudler (Chang Zhou) Process Equipment Company Limited	100%	Full Consolidation
Pfudler 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
Pfudler Ltda.	100%	Full Consolidation
Pfudler Private Limited	100%	Full Consolidation
GMM Pfaudler JDS LLC	51%	Full Consolidation

## ANALYST CONTACTS

Sabyasachi Majumdar  
+91-124-4545304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

Girishkumar Kadam  
+91 22 6114 3441  
[girishkumar@icraindia.com](mailto:girishkumar@icraindia.com)

Anupama Arora  
+91-124-4545303  
[anupama@icraindia.com](mailto:anupama@icraindia.com)

Tanya Agarwal  
+91-124-4545844  
[tanya.agarwal@icraindia.com](mailto:tanya.agarwal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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