March 21, 2022 Revised

GMM Pfaudler Limited: Ratings reaffirmed

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Term Loans	155.00	111.00	[ICRA]AA-(Stable); reaffirmed
Long-term Fund-based - Working Capital Facilities	55.00	85.00	[ICRA]AA-(Stable); reaffirmed
Short-term Non-fund Based – Working Capital Facilities	90.00	104.00	[ICRA]A1+; reaffirmed
Short-term- Interchangeable Limits**	(55.00)	(85.00)	[ICRA]A1+; reaffirmed
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure-1*

***100% Interchangeable with fund-based limits*

Rationale

The reaffirmation of the ratings factors in the leadership position of GMM Pfaudler Limited (GMMPL) in engineering equipment and systems, including glass lined equipment (GLE), globally with strong in-house technical capabilities. ICRA notes that the acquisition of the Pfaudler International business by GMMPL in February 2021 significantly scaled up the company's revenues and order book. The acquisition also cemented GMMPL's market position globally, aided by improved cost-competitiveness and sharing of technical know-how, which bolstered its revenue growth prospects. With two months of revenues from Pfaudler, the operating income (OI) at a consolidated level was Rs. 1,001.1 crore for FY2021, which increased to Rs. 1,841.2 crore in 9M FY2022. The company's order book also improved to Rs. 2,067.0 crore as on January 1, 2022 from Rs. 381.9 crore (excluding Pfaudler Int) as on April 1, 2020.

ICRA expects the growth trajectory to continue as the enhanced cost competitiveness will increase the order flow from global locations. Moreover, demand is expected to be favourable in India due to the capex plans by Indian pharma and chemical companies pursuant to the announcement/approvals under the production-linked incentive (PLI) scheme. The growth will also be supported by order flows from global players in the end-user industry that have identified India as an alternative manufacturing location for pharmaceutical and chemical products. The acquisition has benefitted GMMPL in strengthening its presence in the overseas markets by allowing access to new geographies, while supporting its revenue growth and providing cost synergies in the medium term. While GMMPL has been catering to reputed customers in the domestic pharmaceutical and chemical sectors, the acquisition allows it to cater to reputed overseas customers and provide cross-selling opportunities.

ICRA notes that while the profit margins of the India business remain robust despite commodity price related headwinds, the operating margin moderated on a consolidated basis following the takeover of the Pfaudler International business. ICRA also notes that the operating margin of Pfaudler Int (accounting for 67% of consolidated revenues) improved to 9.5% in 9M FY2022 from 8.5% in 9M FY2021 following the synergy post-acquisition by GMMPL. However, the company's ability to increase its market share through low-cost sourcing and benefiting from economies of scale on a sustained basis will be critical for margin improvement in the Pfaudler Group. ICRA also factors in the favourable demand prospects on the back of healthy growth and capex expected in the pharma and specialty chemicals space, both in India and overseas.

The acquisition of the Pfaudler International business has provided GMMPL with new capacities, capabilities and markets. ICRA notes that the company's debt levels have increased, moderating the debt protection metrics at a consolidated level[1]. The debt coverage metrics, reflected in the total debt/OPBDITA, stood at ~4.3 times in H1 FY2022, which is expected to improve, going forward. In addition, 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.

The Stable outlook on the long-term rating reflects ICRA opinion that the Group will be able to generate healthy cash flows from the business and maintain an adequate liquidity position.

Key rating drivers and their description

Credit strengths

Global leader in glass lined equipment business with strong in-house technical capabilities – GMMPL (standalone) derives ~60% of its domestic revenues from the GLE segment. It has been the market leader with more than 50% market share in the segment, with over five decades of experience and strong in-house technical capabilities. To cater to the growing demand, the management has been undertaking regular capex in recent years, along with domestic acquisitions. This has increased its installed manufacturing capacity to 2,700 equivalent units (EUs) in December 2021 from 1,290 (EUs) in FY2017. Further, the company has acquired manufacturing facilities across the US, China and Europe with the acquisition of Pfaudler, strengthening its foothold in the global market with around 40% market share in glass lined equipment.

Reputed customer base in pharma and chemical industries – The company's clientele includes leading players in the pharmaceutical and chemical sectors, such as Sun Pharmaceuticals Industries Limited, Cipla Limited, BASF Group and GlaxoSmithKline PLC, among others. The customer base is diversified with the top-five customers driving ~40% of the revenues in the Indian entity and the top-10 customers accounting for ~20% of the revenues in the Pfaudler Group.

Acquisition of Pfaudler Group brought in economies of scale, cross-selling opportunities and entry into new markets – At a consolidated level (GMM and its Switzerland based subsidiary- Mavag AG), the revenues grew at a CAGR of 19% during FY2016-FY2020, driven by regular order inflows from the chemical and pharmaceutical industries. The company (GMM and Mavag) reported healthy growth of 28% and the operating income was Rs. 757 crore in FY2021. The operating income at a consolidated level was Rs. 1,001 crore in FY2021 with two months of revenues from Pfaudler, which increased to Rs. 1,841 crore in 9M FY2022.

ICRA expects the growth trajectory to continue as the enhanced cost competitiveness helped increase the order flow from global locations. Besides, favourable demand in India due to the capex plans by Indian pharma and chemical companies pursuant to the announcement/approvals under the production-linked incentive (PLI) scheme will support growth. Order flows from global players in the end-user industry that have identified India as an alternative manufacturing location for pharmaceutical and chemical products will also contribute to the growth trend. The company's order book also improved to Rs. 2,067 crore as on January 1, 2022 from Rs. 382 crore (excluding Pfaudler Int) as on April 1, 2020.

Strong operating margin in Indian business likely to continue, though consolidated OPM moderated after acquisition of Pfaudler Group – At a standalone level, the company's operating profit margin was 24% in FY2021 and 23% in 9M FY2022. However, the consolidated adjusted OPM was 19%[2] in FY2021 (consolidation of Pfaudler for two months) and 14% in 9M

[1] The reported debt at the consolidated level stood at ~Rs. 1,108 crore as on September 30, 2021 against Rs. 1,109 as on March 31, 2021. The pre-Pfaudler acquisition debt was at Rs. 50.0 crore as on March 31, 2020.

[2] The reported OPM was at 14% in FY2021 and 12% in 9M FY2022

FY2022 (adjusted for one-time non-cash purchase price allocation (PPA) cost) due to low margin in some subsidiaries and one-time transaction-related expenses. Despite the moderation in the consolidated margin, ICRA notes that the OPM of Pfaudler Int (accounting for 67% of consolidated revenues) improved to 9.5% in 9M FY2022 against 8.5% in 9M FY2021 following the synergy post-acquisition by GMMPL. However, the company's ability to increase its market share through low-cost sourcing and benefiting from economies of scale on a sustained basis, will remain critical for margin improvement in the Pfaudler Group.

Credit challenges

Significant increase in debt and moderation in debt protection metrics following Pfaudler acquisition – While GMMPL remained debt-free in the past, its debt increased significantly as on March 31, 2021 and September 30, 2021. At a consolidated level, the debt increased to Rs. 1,095 crore as on March 31, 2021 (Rs. 1,109 crore as on September 30, 2021, due to the term loans taken to acquire Pfaudler, a Hyderabad unit and a Vatva unit in the Indian entity, and the existing term loans on the books of Mavag and Pfaudler International) from Rs. 50 crore as on March 31, 2020. The increase in debt was also attributable to pension liabilities of ~Rs. 440 crore (~Rs. 462 crore as on March 31, 2021) and lease liabilities of ~Rs. 140 crore (~Rs. 141 crore as on March 31, 2021) as on September 30, 2021, which were an impact of the Pfaudler acquisition and applicability of the Indian Accounting Standards (IND AS). The debt coverage metrics, reflected in the total debt/OPBDITA was at ~4.3 times in H1 FY2022.

ICRA notes that the pension liability is a long-term plan extending around 25 years with an average annual payout of around USD2.5 million. GMMPL is expected to generate stable cash flows in the coming years with a scale-up in its business. The expected revenue growth along with a healthy profitability are expected to keep the company's incremental reliance on debt under check and its capitalisation and coverage metrics are likely to improve. GMMPL's repayment obligations have increased post the acquisition of the Pfaudler Group unlike the past few years when there were no long-term external borrowings and hence repayments. ICRA notes GMMPL has moderate repayment obligations along with some capex plans which shall be comfortably met through internal accruals, thus limiting the company's dependence on external debt and support its credit profile. As a result, the DSCR is expected to moderate in FY2022[3] and FY2023, though it is expected to remain comfortable at over 2.0 times.

Exposure to new capital investment cycles in key end-user segments – GMMPL (standalone) derives ~60% of its revenues from the GLE segment, which mainly caters to the pharmaceutical and chemical sectors. While the other segments (heavy engineering and proprietary products) in India are expected to grow and the contribution of the systems and service segments from the Pfaudler Group will increase substantially following the acquisition, pharma and chemical will continue to dominate the revenue profile, going forward. Thus, the company's operations will remain exposed to the capex cycles in the key end-user segments. The risk is partly mitigated by the replacement demand for glass lined equipment derived from these segments, along with geographic diversification post-acquisition of the Pfaudler Group.

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 supported by free cash of ~Rs. 34.1 crore in India and unutilised bank lines of Rs. 241.5 crore as on September 30, 2021. While the consolidated cash and bank balance was over Rs. 250.0 crore as on September 30, 2021, the ease of fungibility and repatriation of the same to different locations remains uncertain. Further, while the company

[3] The DSCR remained below 3.0 times after adjusted for one-time purchase price allocation (PPA) as on September 30, 2021.

has sizeable pension obligations, ICRA draws comfort from the close-ended nature of the fund and the long tenure of the same. The consolidated debt repayments, including pension liabilities, are around Rs. 70 crore for FY2022, which along with the planned 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. 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 December 31, 2021, the company had 16 subsidiaries, which are all enlisted in Annexure-2.

About the company

Gujarat Machinery Manufacturers Private Limited, incorporated in 1962, was renamed as GMM Pfaudler Limited in 1999, with Pfaudler Inc. acquiring a 51% stake in it. As on December 31, 2021, the promoter and promoter Group held a 54.95% stake in the company, of which Pfaudler Inc. (ultimately held by Deutsche Beteiligungs AG) held around 32.7%.

GMMPL directly acquired a 34.45% stake in the Pfaudler Group and 19.6% through its wholly-owned subsidiary, GMM Mavag AG, for a total consideration of ~Rs. 206 crore in February 2021. Post-acquisition, GMMPL enjoys ~40% of the market share in the global GLE business, while it continues to enjoy 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. In its overseas operations, a significant revenue share is contributed by the service and system segments. At present, GMMPL owns fourteen manufacturing facilities across the US, Europe and Asia.

In FY2021, at a consolidated level, the company reported a net profit of Rs. 63.4 crore on an OI of Rs. 1,001.1 crore against a net profit of Rs. 71.1 crore on an OI of Rs. 591.1 crore in the previous year. It posted a net profit of Rs. 20.4 crore over an OI of Rs. 1,198.9 in H1 FY2022 and a net profit of Rs.58.1 crore on an OI of Rs. 1,841.2 crore in 9M FY2022.

Key financial indicators

	FY2020 Audited	FY2021 Audited	H1 FY2022 Unaudited
Operating Income (Rs. crore)	591.1	1001.1	1198.9
PAT (Rs. crore)	71.1	63.4	20.4
OPBDIT/OI (%)	19.0%	13.9%	10.8%
PAT/OI (%)	12.0%	6.3%	1.7%
RoCE (%)	28.9%	7.8%	6.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	3.5	3.4
Total Debt/OPBDIT (times)*	0.4	7.9	4.3
Interest Coverage (times)	32.1	13.6	8.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

*Source: GMM Pfaudler Limited, ICRA Research; *includes the PPA impact*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2021 (Rs. crore)	Date & Rating on		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 21, 2022	Jul 30, 2021	-	-	-
1	Term Loans	Long-term	111.00	101.98	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-
2	Fund Based Limits	Long-term	85.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-
3	Non-fund Based Limits	Short-term	104.00	-	[ICRA]A1+	[ICRA]A1+	-	-	-
4	Interchangeable Limits*	Short-term	(85.00)		[ICRA]A1+	[ICRA]A1+	-	-	-

*Interchangeable with fund-based working capital limits

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based- Term loan	Simple
Fund based- Working Capital Facilities	Simple
Non-fund Based - Working Capital Facilities	Very Simple
Fund Based/ Non-fund Based – Working Capital Facilities	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: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Apr 2021	6.4%	Apr 2025	65.00	[ICRA]AA- (Stable)
	Term Loan-III	June 2020	6.8%	May 2025	46.00	[ICRA]AA- (Stable)
NA	Long-term Fund-based - Working Capital Facilities	NA	NA	NA	85.00	[ICRA]AA- (Stable)
NA	Short-term Non-fund Based – Working Capital Facilities	NA	NA	NA	104.00	[ICRA]A1+
NA	Short-term-Interchangeable Limits	NA	NA	NA	(85.00)	[ICRA]A1+

Source: Group and Company Financials, ICRA research

Annexure-2: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
GMM Pfaudler Limited	100.00% (rated entity)	Full Consolidation
Mavag AG	100%	Full Consolidation
GMM International S.a.r.l	54%	Full Consolidation
Pfaudler GmbH	54%	Full Consolidation
Pfaudler Normag Systems GmbH	54%	Full Consolidation
Pfaudler Interseal GmbH	54%	Full Consolidation
Pfaudler France S.a.r.l	54%	Full Consolidation
Pfaudler S.r.l	54%	Full Consolidation
Pfaudler Limited	54%	Full Consolidation
Pfaudler Services Benelux B.V.	54%	Full Consolidation
Pfaudler Private Limited	54%	Full Consolidation
Pfaudler Ltda.	54%	Full Consolidation
Pfaduler S A de C.V.	54%	Full Consolidation
Pfaudler (Chang Zhou) Process Equipment Co. Ltd	54%	Full Consolidation
GMM Pfaudler US Inc	54%	Full Consolidation
Edlon Inc	54%	Full Consolidation
Glasteel Parts and Services Inc.	54%	Full Consolidation

Corrigendum

PAT/OI has been updated in Key financial indicators table.

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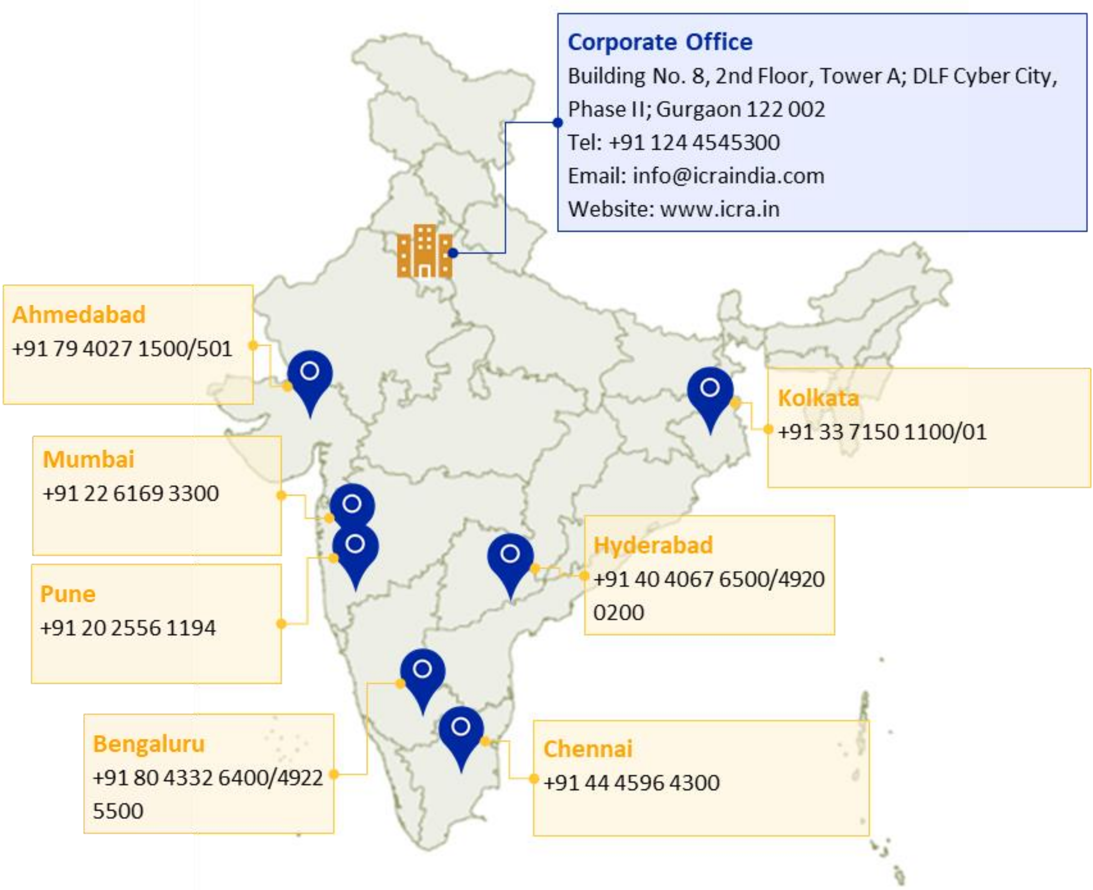

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