CRISIL
Ratings

# Rating Rationale

August 16, 2022 | Mumbai

# GMM Pfaudler Limited

*Ratings Reaffirmed*

**Rating Action**

| | |
|---|---|
| **Total Bank Loan Facilities Rated** | **Rs.200 Crore** |
| **Long Term Rating** | **CRISIL AA-/Stable (Reaffirmed)** |
| **Short Term Rating** | **CRISIL A1+ (Reaffirmed)** |

*1 crore = 10 million*
*Refer to Annexure for Details of Instruments & Bank Facilities*

**Detailed Rationale**

CRISIL Ratings has reaffirmed its 'CRISIL AA-/Stable/CRISIL A1+' ratings on the bank facilities of GMM Pfaudler Limited (GMM Pfaudler).

On August 4, 2022, GMM Pfaudl er (GMMP) announced its plan to acquire the balance 46% stake in 17 Pfaudler International entities through GMM International S.a.r.l (GMMI) from its exiting owners (DBAG Fund VI: 20% share; Millers concrete Technologies Ltd: 26%) for a total consideration of Rs. 344 crores. Rs. 194 crores payable to Millars Concrete Technologies Private Limited (Company held by the promoters of GMM Pfaudler i.e. Patel family) would be settled through issuance of fresh shares of GMM Pfaudler worth Rs. 170 crores while balance Rs. 24 crores would be paid in cash. Rs. 150 crores to be paid to BDAG Fund VI would be settled in cash.

The cash component worth Rs 174 crores is proposed to be funded via a structured debt with a long tenor and stepped-up repayment schedule. The transaction has been structured in this way to ensure leverage at GMMP remains at a comfortable level.

Post the aforementioned acquisition, the group shareholding structure will get simplified with GMMP ultimately holding 100% stake in the 17 Pfaulder International entities through GMMI. Equity stake of Patel family in GMMP would increase from 22.3% to 24.2% while DBAG would continue to hold 31.9% in GMMP (currently 32.7%).

The ratings continue to reflect the company's leadership position in the glass lined equipment (GLE) market and strong technological expertise and market presence of the Pfaudler group in the overseas markets. These strengths are partially offset by limited revenue diversity outside the GLE segment, large working capital requirement and moderate albeit improving financial risk profile.

The group's business risk profile is expected to further strengthen over the medium term post the acquisition of 100% stake in 17 Pfaudler entities (target entities) which has made the company a market leader in corrosion-resistance technologies, systems, and services. Pfaudler entities' product portfolio and offerings will complement GMM Pfaudler's existing portfolio and allow it to expand its sectoral bandwidth, explore cross selling opportunities and enhance wallet share with existing customers. The business risk profile shall further benefit owing to access to newer geographies and expected synergies between the parent and target entities. In order to smoothen the acquisition process, company had initiated Project Apollo which identified work streams for capturing synergies across its three pillars – operational excellence, value sourcing and cross selling. The financial risk profile, which has moderated marginally post the acquisition owing to sizeable de bt addition and pension liabilities, is expected to improve going forward with increased topline and profitability that is likely to further strengthen the debt protection metrics.

For fiscal 2022, company recorded revenues of Rs 2541 crores driven by im proved performance in Europe, America, and Asia. The revenue momentum has continued into the first quarter of fiscal 2023 with company recording revenues of Rs. 739 crores majorly driven by international operations and healthy traction in India, China, and Germany. Overall margins were also healthy at 13.0% during fiscal 2022 owing to improvement in margins in the international business. Revenue growth is expected to sustain at 10-12% over the medium term driven by improved geographical diversification and stable demand from end-user industries such as pharmaceutical, agro and specialty chemicals.

The consolidated financial profile of the company moderated post the acquisition of Pfaudler entities owing to addition of sizeable debt and existing under-funded pension liabilities (though reduced). The overall debt levels including pension liabilities are expected to be in the range of Rs. 1000-1050 crores in fiscal 2023. However, the debt protection metrics are expected to remain healthy for the rating category. Also, cash outflow in lieu of pension obligations shall be spread over around 25 years. With increased integration and business synergies, the consolidated profitability and cash flows are expected to improve going forward, thereby resulting in the strengthening of debt protection metrics.

Company's liquidity position also remained strong with annual accruals of over Rs. 250 crore, sufficient to cover repayment obligations and regular capex. Liquidity position was further augmented by cash balance of Rs. 291 crores, as on March 31, 2022.

**Analytical Approach**

CRISIL Ratings has combined the credit risk profiles of GMM Pfaudler and its subsidiaries, Mavag AG, and GMM International S.A.R.L. collectively referred to herein as GMM Pfaudler.

Additionally, CRISIL Ratings has treated the pension liabilities as part of the total debt in its analysis.

*Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

**Key Rating Drivers & Detailed Description**

**Strengths:**

**Market leadership in the domestic GLE industry**

Strong product quality and large production capacities have made the company the market leader in the domestic GLE segment, with a 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 large vessel (with capacities over 16,000 litre) segment. Smooth integration of the acquired entities along with benefits on account of synergies will be a key rating monitorable.

**Strong technological expertise and market presence of Pfaudler group in global markets**

The business risk profile benefits from the technological support provided by the Pfaudler group. The company has acquire d technology for manufacturing GLE from Pfaudler and has access to the diversified product mix and strong research and development capabilities of the group. Besides, the group also has a robust global reach with manufacturing facilities in four continents.

**Weaknesses:**

**Moderate financial risk profile**

GMMP has a total debt of Rs. 878 crores as on March 31, 2022, which includes pension liabilities worth Rs. 373 crores. Further with the acquisition of GMMI, the overall debt levels including pension liabilities are expected to be in the range of Rs. 1000-1050 crores next fiscal. However, the debt protection metrics are expected to be healthy for the rating category with interest cover expected between 7-9 times over the medium term. Also, cash outflow in lieu of pension obligations shall be spread over around 25 years. However, with greater integration and business synergies, the consolidated profitability and cash flows are likely to improve over the medium term which coupled with progressive debt repayment would strengthen the debt metrics over the medium term. Even after factoring in the additional debt of Rs. 174 crore, to fund the acquisition of balance stake in GMMI, consolidated Debt/ EBITDA is expected to stay less than ~3 times over the medium term. Any further large debt funded acquisition will remain a key monitorable.

**Limited revenue diversity**

Operations are concentrated in the GLE segment, with limited diversification in other segments. The company has been making attempts to diversify into non-GLE products both organically and inorganically through acquisition of Mavag AG in 2008, Pfaudler International in 2020 and HDO Technologies in 2021. Also, with the aforesaid acquisition, the revenue base for the company has diversified with sizeable contributions expected from systems and services segment. The non-GLE segment contributed about 32% of revenue in the standalone entity in fiscal 2021, and its share is expected to improve gradually over the medium term. Further access to newer geographies and improved presence in global markets, post the acquisition, will also help offset challenges in the domestic market.

**Large working capital requirement**

The long lead time in production and high cost of specialised raw materials result in large working capital requirement. Typically inventory days range from 100-120 days while debtor days remain around 40-50 days. Given the long lead time in order processing and delivery, operations may remain susceptible to inventory pricing risk and potential delays by customers in taking deliveries.

**Liquidity: Strong**

Healthy cash balance, of Rs 291 crores as on March 31, 2022, together with net cash accrual of over Rs 250 crores per annum is adequate to cover the entire capex and debt repayment obligation. Further, liquidity is augmented through the presence of bank lines with low utilization.

**Outlook: Stable**

GMM Pfaudler should continue to benefit from its strong market position in the GLE segment and technological support from the Pfaudler group. The company is likely to maintain a healthy financial risk profile through steady cash accrual and benefits of synergies flowing in.

**Rating Sensitivity Factors**

**Upward factors**

- Revenue growth CAGR of 12-15% over the medium term, along with a steady operating margin of 13-14%
- Improvement in Debt/EBITDA to below 2.75 times on a sustained basis (Net debt/EBITDA below 2 times on a sustained basis)

**Downward factors**

- A sustained decline in revenue by over 10% per fiscal, with operating margin below 11%
- Any larger-than-expected debt funded acquisitions or elongation in working capital cycle, leading to moderation in Debt/EBITDA beyond 4 times (Net Debt/EBITDA above 3.2 times)

**About the Company**

GMM Pfaudler was originally incorporated as Gujarat Machinery Manufacturers Ltd (GMM) in 1962. The company manufactures GLE, 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, and increased its stake to 51% in 1999, following which GMM was renamed as GMM Pfaudler. The parent of Pfaudler Inc, Robbins and Myers Inc, was acquired by National Oilwell Varco, Inc (NOV) in February 2013; NOV sold its stake in Pfaudler to Deutsche Beteiligungs AG (DB AG), a German private equity firm in December 2014.GMM Pfaudler's products are used primarily in the chemical, pharmaceutical and allied industries. The company has 14 manufacturing facilities with 3 in India, 1 in China, 3 in America and 7 in Europe.

GMM Pfaudler is listed on the Bombay Stock Exchange and the National Stock Exchange. As on June 30, 2022, the promoter and the group entities held 54.95% stake and general public held the remaining.

On a consolidated basis, for quarter one of fiscal 2023, operating income and profit after tax stood at Rs 739 crores and Rs 61 crores, respectively, against Rs 552 crores and Rs 30 crores (excluding PPA impact), respectively, for the corresponding period of the previous fiscal.

**Key Financial Indicators**

| Particulars | Unit | 2022 | 2021 |
|---|---|---|---|
| Revenue | Rs crores | 2541 | 1001 |
| PAT | Rs crores | 75 | 63 |
| PAT Margin | % | 2.9 | 6.3 |
| Total debt/Networth | Times | 1.46 | 2.07 |
| Interest coverage | Times | 13.41 | 20.41 |

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs.Crore) | Complexity level | Rating assigned with outlook |
|---|---|---|---|---|---|---|---|
| NA | Cash Credit | NA | NA | NA | 25 | NA | CRISIL AA-/Stable |
| NA | Bank Guarantee* | NA | NA | NA | 66.55 | NA | CRISIL A1+ |
| NA | Working Capital Demand Loan# | NA | NA | 20-Aug-22 | 52 | NA | CRISIL AA-/Stable |
| NA | Term Loan | NA | NA | 31-Mar-25 | 45 | NA | CRISIL AA-/Stable |
| NA | Letter of Credit* | NA | NA | NA | 11.45 | NA | CRISIL A1+ |

**Fully interchangeable with each other*
*#WCDL is main limit. Sublimit of BG and LC - inter-changeable upto Rs 48 crores. Sublimit of CC - fully-interchangeable. All ofthese limits are revolving in nature*

**Annexure - List of Entities Consolidated**

| Names of Entities Consolidated | Extent of Consolidation | Rationale for Consolidation |
|---|---|---|
| Mavag AG | Full | Subsidiary |
| GMM International S.A.R.L. | Full | Subsidiary |

**Annexure - Rating History for last 3 Years**

| | Current | | | 2022 (History) | | 2021 | | 2020 | | 2019 | | Start of 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Instrument | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 122.0 | CRISIL AA-/Stable | 02-02-22 | CRISIL AA-/Stable | 27-04-21 | CRISIL AA-/Stable | 20-11-20 | CRISIL AA-/Watch Developing | 30-09-19 | CRISIL AA-/Stable | CRISIL AA-/Stable |
| | | | -- | | -- | 12-02-21 | CRISIL AA-/Watch Developing | 31-08-20 | CRISIL AA-/Watch Developing | | -- | -- |
| Non-Fund Based Facilities | ST | 78.0 | CRISIL A1+ | 02-02-22 | CRISIL A1+ | 27-04-21 | CRISIL A1+ | 20-11-20 | CRISIL A1+/Watch Developing | 30-09-19 | CRISIL A1+ | CRISIL A1+ |
| | | | -- | | -- | 12-02-21 | CRISIL A1+/Watch Developing | 31-08-20 | CRISIL A1+/Watch Developing | | -- | -- |
| Commercial Paper | ST | | -- | | -- | | -- | | -- | 30-09-19 | Withdrawn | CRISIL A1+ |

*All amounts are in Rs.Cr.*

**Annexure - Details of Bank Lenders & Facilities**

| Facility | Amount (Rs.Crore) | Rating |
|---|---|---|
| Bank Guarantee* | 15 | CRISIL A1+ |
| Bank Guarantee* | 1.55 | CRISIL A1+ |
| Bank Guarantee* | 7.5 | CRISIL A1+ |
| Bank Guarantee* | 2.5 | CRISIL A1+ |
| Bank Guarantee* | 20 | CRISIL A1+ |
| Bank Guarantee* | 20 | CRISIL A1+ |
| Cash Credit | 5 | CRISIL AA-/Stable |
| Cash Credit | 12 | CRISIL AA-/Stable |
| Cash Credit | 2 | CRISIL AA-/Stable |
| Cash Credit | 2 | CRISIL AA-/Stable |
| Cash Credit | 4 | CRISIL AA-/Stable |
| Letter of Credit* | 2.5 | CRISIL A1+ |
| Letter of Credit* | 7.45 | CRISIL A1+ |
| Letter of Credit* | 1.5 | CRISIL A1+ |
| Term Loan | 45 | CRISIL AA-/Stable |
| Working Capital Demand Loan# | 52 | CRISIL AA-/Stable |

**Fully interchangeable with each other*

*#WCDL is main limit. Sublimit of BG and LC - inter-changeable upto Rs 48 crores. Sublimit of CC - fully-interchangeable. All ofthese limits are revolving in nature*

## Criteria Details

| Links to related criteria |
|---|
| CRISILs Approach to Financial Ratios |
| Rating criteria for manufaturing and service sector companies |
| CRISILs Bank Loan Ratings - process, scale and default recognition |
| CRISILs Criteria for rating short term debt |
| CRISILs Criteria for Consolidation |


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