

July 31, 2023

## Management Meet Update

### Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22	FY23
Sales (Rs. m)	15,893	15,158	26,132	30,720
EBITDA (Rs. m)	1,212	1,069	1,830	2,044
Margin (%)	7.6	7.1	7.0	6.7
PAT (Rs. m)	339	300	750	878
EPS (Rs.)	14.7	13.0	29.5	33.4
Gr. (%)	7.7	-11.6	126.6	13.3
DPS (Rs.)	0.0	0.0	2.0	2.5
Yield (%)	0.0	0.0	0.4	0.5
RoE (%)	10.3	8.2	17.7	16.2
RoCE (%)	16.5	13.5	19.5	20.0
EV/Sales (x)	1.2	1.3	0.7	0.6
EV/EBITDA (x)	16.0	18.1	10.6	9.5
PE (x)	33.8	38.2	16.9	14.9
P/BV (x)	3.3	3.2	2.8	2.2

### Key Data

### GLST.BO | GLIN IN

52-W High / Low	Rs. 555 / Rs. 308
Sensex / Nifty	66,160 / 19,646
Market Cap	Rs. 13.6bn / \$ 164.8m
Shares Outstanding	27.3m
3M Avg. Daily Value	Rs. 171.8m

### Shareholding Pattern (%)

Promoter's	58.73
Foreign	0.05
Domestic Institution	-
Public & Others	41.22
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	17.6	10.3	16.9
Relative	15.1	(1.0)	47.3

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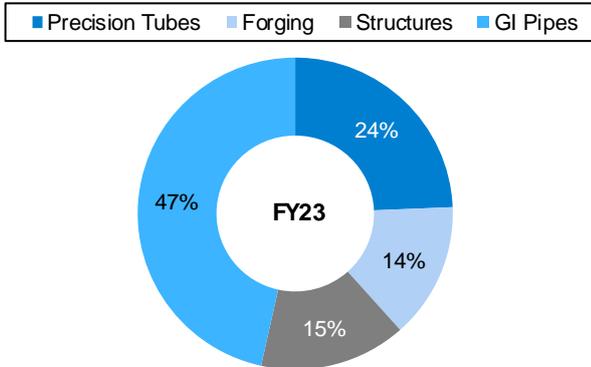
## Focus on value addition

We met the management of Goodluck India (GLIN) and visited its facilities located at Sikandrabad. GLIN is a high value engineered steel products manufacturer catering to automobile, aerospace, oil & gas, T&D, defence, solar and overall infrastructure space. Over next two years, mgmt. is focusing on a) Value addition in the high volume low margin GI pipe business which is dragging consolidated margins and b) Capacity addition in high value added product (VAP) segments. GLIN has spent Rs 3 bn over last five years to increase capacities in VAP segments and expects EBITDA margin expansion from 6.7% in FY23 to 8.5-9% by FY25E. We believe with newly added capacities and measures undertaken to turnaround GI business, GLIN is well placed to benefit from Govt.'s planned infrastructure spending over next few years. GLIN has delivered 19%/16%/43% Revenue/EBITDA/PAT CAGR over FY18-23. At CMP, stock is trading at 14.9x FY23 PE and 9.5x FY23 EV/EBITDA. **Not rated.**

- VAP segments witnessing strong volume growth:** GLIN is setting up 60ktpa capacity in Precision tubes (PT) segment as it is witnessing strong traction from both domestic as well as global Auto OEMs. Capex of Rs1.7bn is expected to get completed by 1QFY25 taking total PT capacity to 145ktpa. Over 60% of the volumes gets exported from this unit as GLIN is Cat-2 supplier to various global automotive OEMs. PT contributed maximum to GLIN's exports which were ~33% of FY23 revenues. In forging business, GLIN added one fully automatic metal press unit in FY22, which enabled it to improve its single piece press capacity to 25t. With addition of this unit at capex of Rs400mn total forging capacity is ~32ktpa from 12ktpa earlier enabling volume growth.
- Higher capacities & expertise attract high value export orders:** With addition of higher capacity press, GLIN is getting good traction on high value export orders. With technical background of promoters and legacy of delivering critical components, mgmt. expects to enter into newer areas of sub-sea forged components going forward. In the past GLIN has also supplied material to various prestigious programs of DRDO.
- Strong domestic infrastructure capex driving structures business:** Being Cat-1 supplier to domestic infrastructure majors, GLIN is receiving orders for supply and fabrication of critical components. GLIN has recently received letter of intent of Rs2bn by L&T for the upcoming first bullet train in India for supply and fabrication of special bridges required for high speed tracks. GLIN has set up new unit at Kutch for the same and project supplies have started. The company has also received orders from other user industries and Metros for supply and fabrication of heavy duty structures. As GLIN has proven expertise and track record, mgmt. expects to continue receiving such orders in future for other upcoming bullet trains and metro projects in India.
- Unaffected by volatile steel prices:** Being a secondary steel processor GLIN has pass through arrangement with its customers for any rise in raw material prices which protects it from the steel price volatility.

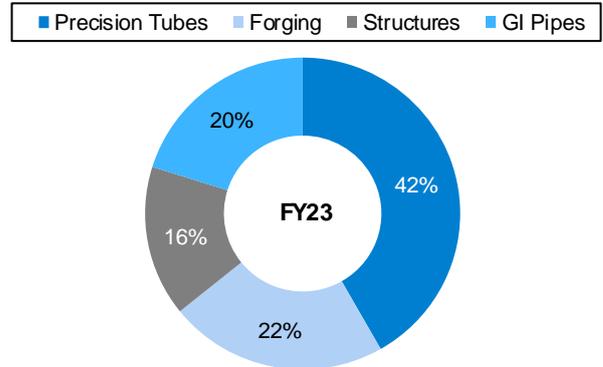
## Story in Charts

**Exhibit 1: Segment wise revenue break up**



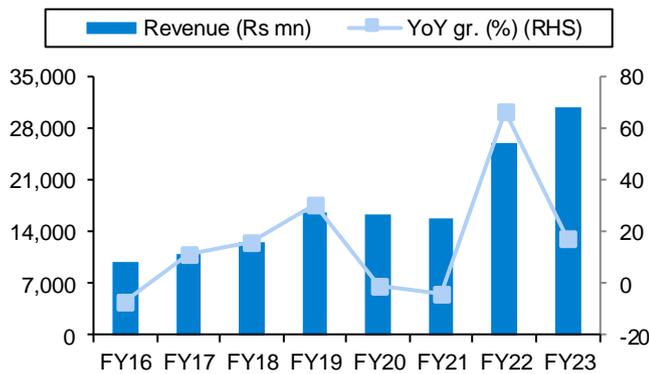
Source: Company, PL

**Exhibit 2: Segment wise EBITDA contribution**



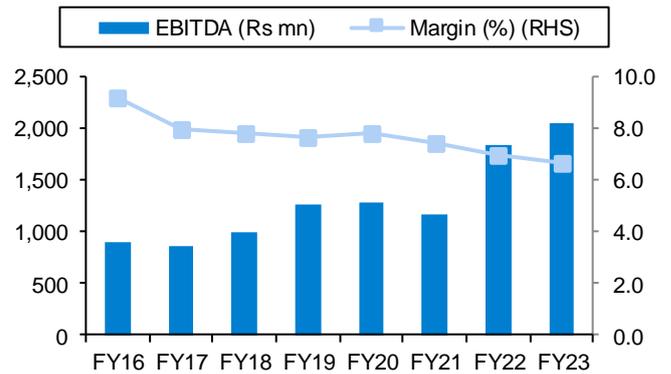
Source: Company, PL

**Exhibit 3: Strong 18% CAGR in revenue led by VAP**



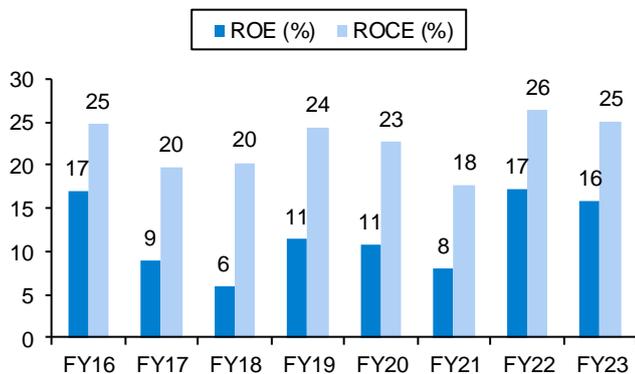
Source: Company, PL

**Exhibit 4: Margins affected by high volume segment**



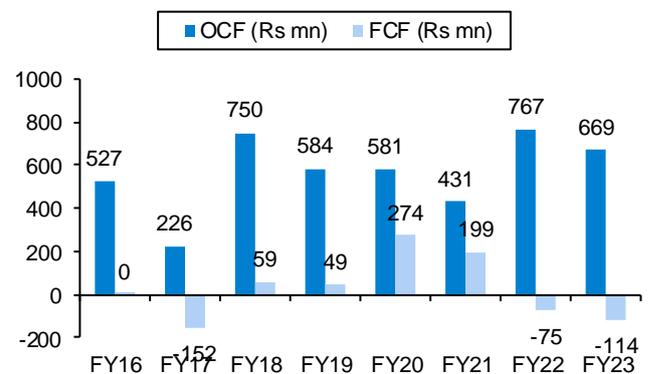
Source: Company, PL

**Exhibit 5: Return ratios to improve as VAP share increases**



Source: Company, PL

**Exhibit 6: Higher Capex pushing FCF down in recent years**



Source: Company, PL

## Key takeaways:

GLIN has five manufacturing plants at Sikandrabad (UP) and two at Kutch (Gujarat) including the Structures unit recently set up for supply and fabrication of special bridges for bullet train project. It caters to various user industries such as automobile, aerospace, oil & gas, T&D, defence, solar and overall infrastructure space.

GLIN is a high value engineered steel products manufacturer present in Precision tubes, Forging, Structures and GI pipes business:

### Tubes: Timely capacity addition to drive volumes

- **GLIN is second largest Auto grade precision steel tube manufacturers** (post TIL) in India with capacity of 85ktpa. Although there are many other Tier-II suppliers of tubes in India, however supplies to OEM requires stringent approvals which is the key entry barrier for this business.
- **Supplies tubes to major Automotive segments** (spread over 6 acres land) such as 4W passenger cars, commercial vehicles and 2wheelers. Other industries being catered are aerospace, construction equipment, earth moving, general engineering, oil & gas, railways, wind energy etc. The overall product portfolio consists of Auto tubes, CDW/ ERW tubes, boiler tubes, Transformer tubes etc.
- **GLIN is seeing strong traction from automotive OEMs** and is preferred category II vendor to various marquee global clients viz. BMW, Audi, Mercedes etc.
- **Existing unit of 85ktpa capacity is already running at over 90% capacity** utilization and GLIN is setting up another unit near existing plant at Sikandrabad of ~60ktpa capacity. Overall capex for this expansion is Rs1.7 bn and it is expected to get commissioned by 1QFY25. Mgmt. expect strong 15% CAGR in volume over next few years.
- **60% volumes gets exported from tubes segment** as GLIN has strong presence in exports markets. Within exports developed nations such as US, Europe and Australia contribute ~80-85% of the volumes. It is a largest player in export market; superior in technological expertise and execution.
- **EBITDA per ton is in the range of Rs 13-14k** which is better than biggest competitor as GLIN has higher share in exports.

### Forging: Rising share of VAP to drive EBITDA/t

- **Forging unit located near Dadri (UP) has capacity of ~32ktpa.** It caters to critical components of Oil & Gas, automotive (HCV), general industrial equipment, marine, aerospace and defence.
- **Single largest piece capacity that can be pressed is 25t**, with recent addition of new fully automatic metal press unit imported from S Korea. GLIN spent Rs 400 mn on this project and commissioned this unit in February 2022. With addition of this unit, total forging capacity is ~32ktpa from 12ktpa earlier.

- **Specializes in Steel, Duplex, Carbon, Alloy Steel Forgings & Flanges** supplied in more than 100 grade products.
- **Recently GLIN empaneled with leading global Offshore drilling company** to supply few of its sub-sea forged components and expects to receive orders from Europe in the near term.
- **Started supplying material to various prestigious programs of DRDO** such as BrahMos. As the product mix from these new high value added businesses will increase, EBITDA/t is expected to improve from c. Rs 27k/t to 35k/t over next two years. Although Defence contributes just over 2% of consolidated revenue, GLIN is aiming at increasing this share over next few years.

### Structures: Indian Infrastructure Capex driving growth

- **GLIN is category-1 supplier to critical components** required for various marquee projects of L&T in the domestic infrastructure space.
- **In September 2021, GLIN received letter of intent (LOI) for Rs 2 bn by L&T** for the upcoming first bullet train in India for supply and fabrication of special bridges on National High Speed Rail Track between Mumbai and Vapi.
- **Set up structures unit at Kutch (Gujarat)** and supply of material to L&T has already started. Mgmt expects another 12-15 months to complete this order.
- **Also received orders from other industries such as Steel (AM-NS), metro (Chennai Metro)** for supply and fabrication of heavy duty structures.
- **With proven expertise and track record**, mgmt. expects it to continue to receive such orders for other upcoming bullet trains and metro projects in India.

### High volume segment: Asset fungibility to improve value

- **GI pipes is dragging the consolidated EBITDA per ton**, as this segment has maximum competition and relatively less value added products. However, mgmt. is focusing to add value added products by converting GI lines to produce Tracker tubes required in Solar energy business as it is gaining strong traction for the product from leading domestic as well as overseas clients.
- **As world is moving towards green energy**, investment in Solar energy is increasing at rapid pace and GLIN expects strong traction for tracker tube business over next few years. This business is expected to drive EBITDA per ton of this segment from Rs 2,500-3,000 to over Rs 5,000/t led by rising high margin Tracker tubes volumes.
- **GLIN is also increasing its own share of renewable usage over the years** to reduce power costs. GLIN is drawing ~25-30% of the power required from solar plants which is expected to translate into Rs 60 mn of savings per year.

## Updates from Precision tubes & Forging unit visit

**Exhibit 7: Post cutting HRC gets rolled on Accumulator**



Source: Company, PL

**Exhibit 8: Gets welded & converted into tubes**



Source: Company, PL

**Exhibit 9: Pipe Annealing & heat treatment line**



Source: Company, PL

**Exhibit 10: Final Packaging post inspection**



Source: Company, PL

**Exhibit 11: Fully automatic Korean press unit (25t capacity)**



Source: Company, PL

**Exhibit 12: Forging at older presses**



Source: Company, PL



**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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