



“GMM Pfaudler Limited Q3 FY ’20 Earnings
Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the GMM Pfaudler Limited Q3 FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you, Sir.

Binay Sarda: Thank you, Aman. Good Evening to all the participants on this call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertain risks and other factors. It must be viewed in conjunction with our business risk that could cause future results performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements. Please note that we have e-mailed the results and the press release and the same are available on the company's website. In case you have not received the same, you can write to us and we will be happy to send the same to you.

To take us through the results and answer your questions today, we have the top management of GMM Pfaudler represented by Mr. Tarak Patel – Managing Director; Mr. Ashok Pillai – COO; and Mr. Jugal Sahu – CFO. We will start the call with a brief overview of the Quarter-3 FY20 results and then conduct the Q&A session. With that said, I will now hand over the call to Mr. Tarak Patel. Over to you, Sir.

Tarak Patel: Good Afternoon everybody. Let me start off by giving you a brief about the quarter that has ended on December 31, 2019. We are quite happy with how the quarter progressed. We have been performing consistently throughout the year and every quarter we continue to grow significantly both in terms of revenue and profitability. On a nine-month basis, we grew our revenue on a standalone basis at about 35% or Rs.403 crores versus Rs.298 crores for the nine months in the previous year. The operating expenses reduced by about 4% improving our EBITDA margin from 16% to 20%. In terms of Rupee values, we increased the EBITDA from Rs.48.5 crores to Rs.79.3 crores. PBT was also up at about 49% over previous year and profit after tax also improved by 74% year-on-year.

On a nine-month basis, on a consolidated basis, we grew our revenues by 26%, Rs.363 crores versus Rs.459 crores in this quarter. Operating expenses reduced by 3% improving the EBITDA from 16% to 19%. In terms of rupee value, we increased the EBITDA from Rs.57.2 crores to Rs.88.7 crores, which is an increase of 55%. PBT and PAT were up 41% and 60% respectively. We continue to be bullish about the coming quarter. Next quarter for us also will be a similar growth story for both revenue and profitability. We continue to have a healthy backlog in all three product lines.

Our Glass Line business continues to do very well. What has been really heartening is the heavy engineering business where now we have a very strong backlog that puts us in a very good

position for next year especially for Q1 and we are making a lot of traction there, so that should give us a good amount of opportunity to grow the business in the next financial year.

The proprietary product business is also doing well. The Mixing Systems business, Filtration and Drying business, and the Engineered System businesses are showing a lot of traction, so we continue to be bullish on the opportunities available. The chemical as well as the pharmaceutical industry are continuing to invest and we are seeing a lot of opportunities out in the market and with our competitive edge we have been able to take the orders and to build our backlog. We also have some opportunities lined up. We recently launched our next five-year strategic plan that comes into effect on April 1, 2020. We have some good opportunities in the pipeline which if they eventually turn out positive, I think that will help us to the next level of growth in the coming months.

With that, I would like to open the call for question and answers. Thank you very much.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Couple of questions, one with regard to the five-year plan which you have released just last week, with regard to moving from 600 to 1000 crores by FY '23, if you could share some more details as to how do you plan to go ahead in this direction and what kind of CAPEX plan because last call you had mentioned that probably by the next quarter, we should be able to give you more about the CAPEX plan, so what kind of CAPEX plans are you envisaging over the next 12 to 24 months and if you could share that with regard to each of your segments? Secondly Sir you are at record margins as far as our company is concerned in Glass Line business and overall also, of course prior to the quarters, we had the benefit of steel prices being low, but off late steel prices have started moving up, so will we see the impact of that going ahead and will we be able to further pass on this, if you could share something more on that side? Thirdly Sir you mentioned that you have a very strong order book, if you could just share details about each of the segment in regard to how the order book is currently or what kind of deliveries today you are talking about, are they deliveries about six months or more or it has increased to nine-month somewhere like that?

Tarak Patel: Let me start with the last question first. Our deliveries right now are actually not at a very high level even though we have a backlog of about 800 equipment, we can still offer equipment within a five to six month range as we have the capacity and we are manufacturing nearly 200 equipment every month. Some of you may know that we had ordered a gas furnace few months ago which just became operational about a month or so ago, so that will definitely add up additional capacity. Last time I had mentioned that we had some CAPEX plans in mind. We did take approval from the Board to actually add capacities, so we have recently ordered two more gas furnaces from Japan which should come on line sometime in June or July, so with that additional capacity I think we will be in a very strong position. We will also be doing a little bit

of re-organization in our factory in our glass lining shop and I think capacity increase that will come from this furnace, it was just commissioned as well as the new furnaces would put us in a very strong position.

Regarding the prices of commodity, you know that most of the time, the plates that we use today have been bought in advance. We usually take the price advantage and since we buy such large quantities, we are able to get really good pricing from the steel suppliers and we usually buy a few quarters worth of steel at once, so the steel that is currently being used as well as maybe three to four months down the line have also been bought at a lower price. If we do buy new steel that will obviously be passed onto the customers. The backlog, like, I mentioned to you, 800 equipment in Glass Line business. In heavy engineering, we have a very strong backlog that should definitely meet our Q1 and Q2 shipment targets. This financial year, actually we started the year with a very poor backlog in heavy engineering and that is why we had to play the catch-up, however, Q1 of next year we believe that HE is going to be a very strong performer and I think next year is the year that HE will really have a breakthrough performance. Lastly, on the new five year strategic plan, I just mentioned Mission 2020 ends on 31st March 2020 and our new five-year plan “UDAAN” comes into effect from 1st April, 2020.

We have plans for both growing organically as well as inorganically. We still strongly believe that India is a market that we need to focus on. There is definitely market share available as well and being the premier supplier of Glass Line equipment that more often than not if the price and the timeframes are acceptable to the customer, the customer will give us the first right of refusal. As I mentioned also there are few opportunities out there for the M&A transactions which we are always very keen on to look at, and hopefully, in the coming months one of those would materialize and that would give us another leg of growth going forward.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Sir, I had questions on the Glass Line equipment, so in that you mentioned that the gas furnace became operational let us say in November or December, so our average run rate has been in the region of around 85-90 crores in the last few quarters, so can we expect a ramp up in that run rate going forward, that was one? On the heavy engineering side, you just now mentioned that there is a decent order book, but in the December quarter we have seen a drop in the segmental revenue so there what you are basically alluding to is that we should see higher execution in the forthcoming quarter and also within heavy engineering, we have seen some increase in the capital employed so if you can also share as to why that has happened?

Tarak Patel: On the heavy engineering business as you rightly mentioned that one quarter would not really make a big difference, but yes you are right that next two quarters there is a very strong order book. There are some equipment which have got manufactured, but have not been shipped in

this quarter but will get shipped in Q4 and Q1 of next year so I think HE will perform quite well. From a glass lining point of view, can you repeat that question again?

Kaushal Shah: Sir, what I wanted to know was that since this gas furnace has become operational let us say a month back, can we expect a higher run rate in terms of revenues, we have done roughly let us say 85-90 crores in the last few quarters on the revenue every quarter on GLE so now that these additional furnaces has come into play, can we expect a higher quarterly run rate?

Tarak Patel: Definitely, the quarterly run rate will increase. There is definitely more capacity added and the furnaces were a bottleneck for us, so you will see an increase there. You will also see an increase in profitability because this gives us an opportunity to probably not use one of the electric furnaces and push the extra production through only the gas, so there will be a simultaneous effect both on the top line as well as the bottom line.

Kaushal Shah: If I can squeeze in one more question on the proprietary products, there we have seen kind of fairly stable numbers last two to three quarters around 28-30 crores, so are we expecting a ramp up their also now that the integration of that IMSD facility would be completed and we would be in a good position to take newer orders?

Ashok Pillai: The proprietary product will ramp up, of course we cannot match the pace at which the Glass Line division has grown. There is lot of metalwork involved in all the proprietary products, but yes we do plan to see in the next quarter as well as for the next year a very good ramp up in all the divisions of proprietary including mixing, filtration and drying, as well as engineered systems.

Tarak Patel: Just to add to that as we have been speaking and many of you who have been on our calls earlier also heard our talk about asset recovery, that is a product line that we have been working on quite with a lot of focus and we expect this year to probably be a year where we can probably execute maybe one or maybe even two orders in that business.

Moderator: Thank you. The next question is from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: I have few questions, firstly about we heard through our channels that the third largest player in the Glass Line equipment which is De Dietrich, so they are going out from the business so is that correct and if it is so then are they selling of their business or they are just shutting it down?

Ashok Pillai: The had stopped taking their orders in their Hyderabad plant, they definitely did not make a lot of money and they have been in India for maybe 10 years have not been very successful. On a global basis, I think they are facing some difficulties around the world, so as far as I know they have also probably thought of reducing their exposure here in India. You must understand that they were a very small player in India. I think they were doing about 30-35 crores every year, so they exiting really will not have a lot of additional market for us. I mean obviously in terms of

market share they did not have a lot of market. If they are selling or exiting, I am not really sure what their game plan is.

Dhavan Shah: As far as the next goal is mentioned about Rs.1300 odd crores, so the revenue mix would remain at the same level like GLE would contribute around 55-60 odd percent and the rest would come from the other businesses?

Tarak Patel: Probably not, I think that Glass Line after a point with the market share that we own will probably stagnate because if the market continues to grow obviously the Glass Line business will continue to grow. There will be also a lot of replacement demand, we are already seeing that. Plants are now 10-15 years old, so if that continues to happen then we see a lot of growth in the Glass Line business, but I think that the rates that we want to grow eventually, we will have to increase the other businesses especially heavy engineering to make it may be a 30%-40% out of the total sales that we do.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, for nine months or whatever for the calendar year, what would have been the Glass Line market growth rate and our market share?

Ashok Pillai: Our growth is 30% which would more or less reflect the growth in the market as well, but we expect our market share to remain around based on 55-57%.

Pritesh Chheda: My second question in the UDAAN plan that we have where we have given our revenue target, would there be any assumption on asset recovery plant business size in that and if it is what it would be?

Tarak Patel: There would definitely be the component, but it would not be a very large component. I think maybe in the fifth year it could be around the 50 crore mark that is being a little conservative, but I think it will pan out the way we think they will pan out if the Government actually becomes a lot stricter on way companies are allowed to dispose of asset then that could definitely be a bigger chunk of the business.

Pritesh Chheda: But if you are talking about getting couple of orders in FY '21 itself that itself should be about 30-40 crores, right?

Tarak Patel: Right, but really not that much., We have said two orders of about 10 crores or 20 crores is what we are trying to target, but as you said that if things were to happen and they might happen two or three orders might happen at the same time then obviously those numbers will be a lot higher.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, first I want to understand on the raw material, do we book stainless steel and alloys as and how we get the order so as to negate the entire commodity range, how do we exactly do it, you mentioned you have five to six months steel on hand so is it like back-to-back growth so that you do not have to negotiate on the steel prices, how does it work?

Ashok Pillai: Typically for Glass Line business and even for many of the HE businesses, the prices are fixed so it is not variable on prices of commodity changing. Our Glass Line is headed very well because we have several quarters worth of steel with us at the prices that we had bought, so we have actually at least cost to the steel, we know exactly the product cost and our prices are based on those cost. Going forward when we anticipate or when we see prices increase in the market, we adjust our prices so that we quote higher and we close at higher prices than what we did now, so that by the time these equipment come for delivery, we will have steel at the right prices that is how we take care of it in the Glass Line business. In the non-Glass Line business again for the smaller HE orders again we have fixed price contracts and we base on the current prices of steel and we typically procure steel for each order, so in that sense we are pretty much covered from the commodity price fluctuation.

Dhaval Shah: Because when I was going through your earlier annual reports, you did mention about increase in the raw material which impacted the margin, so have we changed our procurement process and the way we do our orders, book our raw material with the growth in our side?

Ashok Pillai: We have not changed that but different product lines have different margins that are expected and are possible and it is sometimes the product mix changes then that could impact margins because the MOC, material of construction, would allow for certain margin in some cases it does not, so if the mix changes, your margin that is reported could get affected.

Dhaval Shah: Sir, last question what is the difference between labor charge and employee expense in the P&L?

Jugal Sahu: Labor charges are for the y external contractors that will get the work done.

Ashok Pillai: And employee cost is for the employees on our payroll.

Moderator: Thank you. The next question is from the line of Kirti from Sundaram Mutual Fund. Please go ahead.

Kirti: Sir, in terms of our heavy engineering, you highlighted that next year we will have a breakthrough year, so can you highlight in terms of what is our capacity in our heavy engineering and what is our order flow order book in heavy engineering side?

Tarak Patel: I believe the current capacity we have two very large sheds which we have dedicated for heavy engineering. I believe with the right order mix the output from those two sheds could be anywhere in the range of may be 150 to 200 crores. Again, the right product mix, the right metal, the right pricing so anywhere between that and about our current backlog, we do not share

actually backlog numbers and maybe from next year onwards we might start sharing that, that is something we are considering, however, right now I can say that we have more than six months of backlog in heavy engineering.

- Kirti:** So next year we would be able to reach the lower end of that 150 crores, Sir?
- Tarak Patel:** Again I cannot tell you that because it is just forward-looking and I am not sure if that is something that we do, but I believe it will lead to 30% growth of what we will end up doing this year, if possible next year.
- Moderator:** Thank you. The next question is from the line of Jatin Kalra from Alpha Capital. Please go ahead.
- Jatin Kalra:** Sir, on GLE my question was on this 30-35% nine-month growth what would be price growth and volume growth, and after these two furnaces that we will get from Japan, what would be our current capacity utilization?
- Tarak Patel:** Just a couple of clarifications here, so the growth that we have seen in the past nine months has come from both volume and as well as price. so Our production in terms of number of EUs is steadily increasing and in terms of price also, we have been able to manage better pricing with our customers because the demand has been quite high. One furnace was commissioned last month, so we will see some impact in the coming quarters. The next two furnaces that come in will be coming sometime in June-July next year, so you would probably see an effect from Q2, Q3 and Q4 of the next financial year.
- Jatin Kalra:** So, our capacity utilization will be about 70%-80% after those two furnaces come?
- Tarak Patel:** I mean we would definitely like to use much more than that because we believe the demand is there, if the demand were to slowdown then there is definitely market share available. We believe that the market size would be anywhere between 750 to 800 crores on a conservative basis out of which we are somewhere between the 300-400 crore mark, so there is still market share to be taken, but we strongly believe that the market will continue to grow, so hopefully by the time the new furnaces come in, we would probably be able to take more orders and build up a backlog which we will then execute through the new capacity.
- Moderator:** Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.
- Ankit Gupta:** Sir, on the order backlog and order enquiry side, tell us how has the growth been in the past few months or the past few quarters compared to what it was a year back and on the similar thing that which segments are driving the increase in order backlog. You know primarily few quarters back we used to say that the orders were primarily from agrochemicals and chemical with

specialty chemicals and pharma was a bit lacking in that, so have we seen revival in the API segment of pharma for our orders?

Tarak Patel: Let me just take you through a few quarters of order book, so if we go back to Q4 FY '19 we had an order booking of Rs.160 crores, Q1 of this financial year was about Rs.165 crores, Q2 of this financial year there was a bit of slowdown and we came down to about Rs,100 crores, but Q3 again has been quite good and we are back to the original levels of Rs.160 crores plus growth again, so that has helped us build a nice backlog. We believe the orders are continuing, we see a good amount of traction and we expect to book good orders in the coming months as well. Coming back to pharma, there has been investments seen in pharma, companies especially in and around Hyderabad region have been investing. Sun Pharma has had a round of CAPEX after really a long period of time. They also have mandate of upgrading some of their facilities, their plants in Halol. The management has decided to completely revamp those facilities, so there is a good amount of the business comes from that. We will see companies like the Lupin, Cipla, will also start investing. Aurobindo, Divi's, Hetero in Hyderabad region have always been continuously investing and I think they will continue for the foreseeable future. Pharma City I think lately have also received some permission, so I think that is moving along well and I think the future could be that we will see a lot of growth coming from investments in Pharma City.

Ankit Gupta: How do you see the growth panning out in GLE segment next year?

Tarak Patel: Next year GLE segment I think we will continue to grow at the same rate, I think the order book that we have currently gives us a lot of hope for next year and as I said before even if the market were to slow down for a few quarters, there is always market share that we can also capture.

Moderator: Thank you. The next question is from the line of Anand Jain as an Individual Investor. Please go ahead.

Anand Jain: I just want to understand what is happening with the European subsidiary and the numbers they are stagnant. The second question is that our margins in proprietary segments are lower compared to the other two segments, can you just throw some light on that?

Tarak Patel: About the subsidiary, things in Europe are not fantastic right now so they have seen a bit of slowdown, however, they will manage to remain at the same level as they did last year. They are still going to remain profitable, but we will not see the kind of growth that we enjoy here in India at GMM Pfaudler for the standalone. However, we are working with them to look at new markets and newer areas, part of the next five-year plan we have a strategy in place for them as well. They have a good brand, they are financially stable, they have cash on their books, so I think if we can really implement the strategy that we want, I think we can see some growth, but again it will be nowhere close to the 30% growth levels that we are seeing here in India. On the proprietary product, it will really depend on what orders you have. In Proprietary product there is a bit more competition as well and we are not the market leaders, however, we are trying to

find areas where we can compete or give equipment in clinical applications where the margins are much better. We have seen a lot of improvement in the profile of what we are selling, so some of our strategies of improving margin in that business will also play out in the coming quarters.

Moderator: Thank you. The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Sir, can you help us with current split of the order backlog between GL and non-GL and also are you witnessing incremental enquiries from pharma players post the Central clearance on Hyderabad Pharma City which you just mentioned earlier?

Ashok Pillai: On the second question first, it is just in the news about the Hyderabad Pharma City, so it is too early for enquiries to come in because there will be lot of other things that have to go forward, so it will probably be at least about a year before we start seeing actual enquiries for equipment coming from that expansion in the Pharma API manufacturing.

Tarak Patel: On the breakup of the backlog, the Glass Line part is the biggest backlog that we have and that would be more than 50% of the backlog and about 20% would be HE and the balance would be proprietary products.

Amandeep Singh: In the previous call you had mentioned about improving profitability in GL segment in coming quarters as the installation of gas furnaces has come up, however, over our gross margin and GL's EBIT margin have contracted sequentially, so can you guide us here?

Jugal Sahu: On Glass Line business, if you look at our segmental results, it contributed about 22% profit on sales in current quarter and presiding quarters as well. On a nine-month basis, it is about 21%, so there are no contrasts in profitability. As compared to previous year we are far ahead in terms of profit margin on sales.

Moderator: Thank you. The next question is from the line of G Vivek from GS Invest. Please go ahead.

G Vivek: Sir, I would like to know are you facing any slowdown in specialty chemicals sector or not and agrochem sector and what about the Pharma API and how does the opportunity size remain and is it sustainable?

Ashok Pillai: For the moment, we are seeing no particular slowdown in the specialty or the agrochemicals. The Pharma sector still continues to struggle and although we are seeing some green shoot revival from pharma product point of view in the Hyderabad Pharma industry, we are still yet to see much of those things happening in the rest of the Pharma industry. Having said that, we do know that some of the majors that are based out of Mumbai like Sun Pharma and the Lupin's are looking at expansion and we expect to see that business grow as well. At this point of time, we are not seeing any significant slowdown in specialty and agrochemical bit.

- G Vivek:** Sir, what about the F&D filter, where do we stand and how is the opportunity size in that particular segment?
- Ashok Pillai:** F&D typically follows the Glass Line business because most F&D goals just after the Glass Line equipment is placed, so as such the volume should follow, or the potential should follow the Glass Line business. The difference between the Glass Line and F&D that in Glass Line be the market leaders by a large margin whereas the F&D are not and we are still trying to make sure that we become Number Two if not Number One in a very short time, so there is good potential over there, the prices there are much lower than what we would want them to be, and therefore, we struggle to look for applications that require technology where the customer would appreciate what we are giving and rather than be forced to supply this as a commodity product.
- Moderator:** Thank you. We move to the next question and that is from the line of Alisha M from Aventus Wealth. Please go ahead.
- Alisha M:** Sir, can you share the volume in Glass Line segment for Q3?
- Tarak Patel:** Volume as in the number of units about 1600 odd plus or minus 10%.
- Alisha M:** You are saying, this is a nine-month number, correct?
- Tarak Patel:** Yes.
- Alisha M:** You feel that the earlier vision of having 2400 units by FY '20 is on track, we will be able to do it in Q4?
- Tarak Patel:** Q4 obviously we are going to make an effort to try and improve and increase production especially now with the new furnace coming in, 2400 is possible or not I am not really sure. There has been a slight change in the average size as well, so maybe we need to look at that but maybe I am really not sure 2400 is the right number, but in terms of volume growth over previous year, I think we should be able to definitely growth substantially over previous year.
- Alisha M:** Sir, now that the one of the gas furnaces has been added, your capacity from 200 units per month is expected to reach where?
- Tarak Patel:** I think one is at 200 units could become a sustainable number. We have hit 200 units in the past but it has been one off, so we can definitely become more consistent and probably look at increasing that number by 20 units a month or something like that. We also need to do a little bit of re-organization in the factory in the blasting area like I mentioned which improves the flow of material, the cooling areas and spraying area and that is something we are working on. We are actually expanding to double the size of the Glass Line facility, that work is ongoing, so I think when the new two furnaces comes in, I think then we will have a kind of transformational job in terms of production capacity.

- Alisha M:** Sir, lastly the average realizations for the EU would be in the range of 15-16 lakhs?
- Tarak Patel:** Yes, right, around that maybe slightly on the higher side.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.
- Dhruv Bhatia:** Sir, could you just talk about the inorganic opportunities that you are looking at, what are the capabilities that you are looking to acquire, I mean is it a larger market size that you are trying to tap?
- Tarak Patel:** It is a combination of technology, market size, competition, we do not really have a specific area that we want to do the transaction in, but it could be a combination of market as well as technology. We could even look at international companies that have good technology that can increase and improve our product portfolio, so there are no specific areas that we focus on, I think we look for really the right company that can add value for all shareholders at the right price.
- Dhruv Bhatia:** What would be the export opportunity that you are looking for in the next three years, so you have given a vision of FY '23 and FY '25, how big can export be in this forward scheme of things?
- Tarak Patel:** For us, especially in the glass lining space India is still the focus area first. The volumes that India needs here are significantly higher than anything else that they have in Europe plus Europe has Pfaudler facility so it is really not in our best interest to really go into those territories, but there are times when Pfaudler uses us to win business around the world and we are very happy to support them. The area where we can actually grow business is in the heavy engineering space, that is where we have made a lot of traction. We have recently done some jobs for the network in the US market, for in the Middle East market. We are currently working for a project for Saudi Arabia. There are some South-East Asian countries as well where we have made some other traction, so exports can become a good growth area for the heavy engineering space and also the proprietary product market, there are WFEs, there are filter dryers that we export, we do a little bit business with the Mavag as well, so those are the two areas where we see exports. Exports currently are at about 10% to 12%, we would over time like to increase that to at least 15% in the short-term and 20% in the long-term.
- Dhruv Bhatia:** Last question, you said that two new furnaces which will come up, what will the expanded capacity be from these 200 units per month?
- Tarak Patel:** I do not have the details right now with me, I am not really sure maybe so I will answer this question probably during the next conference call if you do not mind.

- Moderator:** Thank you. The next question is from the line of Jason S from Monarch Network Capital. Please go ahead.
- Jason S:** Sir, just wanted to know there has been a sequential rise in the cost of raw material which is kind of dented your margins to a certain extent, just wanted to know the reason for it?
- Ashok Pillai:** On a standalone basis or on a consolidated basis?
- Jason S:** Sir, consolidated basis.
- Ashok Pillai:** I think that is not really so if you look at GMM standalone, I do not think there is an impact really from commodity prices, I think profitability has improved but maybe on a consol basis there could be probably more absorption in Mavag that could have resulted in slight dent there.
- Jugal Sahu:** On standalone basis, our raw material consumption is about 45%, this quarter and even in the preceding quarters and in the corresponding quarter, it was about 48% so gradually icost of raw material consumption is reducing which resulted in improvement in profitability but as far as Mavag is concerned it all depends on their product mix there.
- Jason S:** Just to confirm, you said your market share right in GLE 55% now and the growth rate for this nine month has been 30% for GLE, is that right?
- Tarak Patel:** GLE growth rate for the first nine months compared to previous year about 30%, that is the growth rate which is a combination of price as well as volume growth and size increase.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Sir, when we say that we have 50% of our order booking in form of GLE, so that would be how many months or the quarters visibility?
- Tarak Patel:** We have basically about 800 units, if you look at 200 units a month consistently maybe that is about four to five months that is what we are really, five months should be our sweet spot.
- Kunal Bhatia:** Sir, this heavy engineering that we have that would be going to which industry specific or it is same as GLE or it is slightly different?
- Ashok Pillai:** Some of it is same industry, so it is chemical industry that we do supply in HE, but also in the oil and gas refinery and fertilizers, they have the potential for which we expect to get more and more revenues as we go forward in the heavy engineering space, so we have also just recently brought in people from oil and gas where we are trying to make a big push and there has been sourcing tenders where we have been L1, we have been also registered now with EIS, so we are hopeful over the next few months, we will start getting business from these industries as well.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Sir, my question relates to what about the future five-year plan what you had given that is purely for GMM Pfaudler standalone or it includes even Mavag?

Tarak Patel: The term plan is on a consolidated basis.

Sunil Jain: Sir, the second question relating to heavy engineering margin, how you see this margin in this particular business as compared to Glass Line business?

Ashok Pillai: Heavy engineering is a more competitive business as they stand now and therefore the margins are lower that of Glass Line. We are trying to go into the spaces where the competition is less and we believe that with the approvals that we expect to get from EIL and we go into the oil and gas and refinery business, the number of people that are competing just reduces and therefore our margins can improve, but if I see that HE will be a business that has higher revenues, but could be marginally lower margins than compared to that of Glass Line.

Moderator: Thank you. The next question is from the line of Rhea Mehta from Anand Rathi. Please go ahead.

Rhea Mehta: Sir, actually I would have wanted like you always been giving guidance for equivalent number units for annual figure so for FY '20 and '21 if you could just help with the new furnaces addition, what would be the targeted equivalent units?

Tarak Patel: On this, let me come back to you next quarter when we have this call. I will give you some guidance for EUs for the next five-year strategic plan that we have, how that is going to shape up. For this year, as I mentioned we have done about 1600-1700 and we will probably in the last quarter we perform better than what we have in the previous quarters, so probably take us around not really sure, I do not want to give you a number and then not be able to back it so just give us some time and maybe we will give you some guidance on EUs in a more scientific and a thoughtful way so that we do not have to go back on the number.

Moderator: Thank you. The next question is from the line of Vihan Subramanyam from Samsung Asset Management. Please go ahead.

Vihan Subramanyam: Sir, just a broader question like you give out a five-year plan and stuff, so do you think your customers in specialty chemical are entering like a super cycle of CAPEX or do you think we are already halfway like done through that CAPEX cycle because last few quarters etc. have also been very good for us, so just wanted your thoughts on where are we exactly in that cycle?

Ashok Pillai: The way we see it and the way we hear from our customer is that they have not finished their CAPEX cycle, they are still investing especially in the specialty sectors. Companies may have pushed back their implementation plan or the CAPEX plan for the short duration, but they still

believe that in the medium-term next three to five years their CAPEX program is going to be strong and they are expecting to see increased revenues with that CAPEX, so we believe that the specialty and agrochemical sectors are still quite bullish and we expect to derive some good market share from them.

Vihan Subramanyam: Just a follow up on that like the clients whom you are bullish upon, are they like you know export oriented specialty chemical companies or are they like more domestic focused?

Ashok Pillai: Almost all the specialty chemicals are largely export-oriented. They may have some portion and a very small portion of domestic, but these are all mostly contract manufacturing and mostly tailored for export markets.

Vihan Subramanyam: Just my second question I think you mentioned earlier that if the market slows down, you can kind of take market share as well as to kind of keep your growth rate high, so how does that sort of, do you have like low hanging fruits where you know some customers are like waiting to shift to you or something?

Ashok Pillai: If we were to drop prices for example or give more aggressive delivery, both of which we have an option of doing, we believe that maybe the customers who are not buying from us will buy from us. All things be equal, we believe that customer will prefer to buy from GMM Pfaudler because of the reliability and the quality of equipment.

Tarak Patel: Just to add here there are orders that we have let go because of delivery issues with our key customers, so customers who buy 80% of their business from us have actually, these customers are the ones that prefer to buy from us and just because we could not supply in a typical time period, then they were forced to pretty much go outside, so there is a lot of business that we have to let go also because of capacity which we can obviously take back quite easily going forward and I think the customer has also changed and evolved over time. It is no longer the cheapest vendor, I think they now want to build really world-class plants, really outstanding facility because there are foreign customers who come and visit them regularly. They themselves have visited European plants and American plants, so they see, they have the exposure, so I think in a matter of 5%-7% between us and the next best, they do not really want to take a risk anymore, plus having said that the applications in specialty and Agro chem. are much more corrosive, they are much larger size reactors, so customers do not really want to take a risk there with unproven quality or unproven competitors.

Moderator: Thank you. The next question is from the line of Abhishek Dutta from Prabhudas Lilladher. Please go ahead.

Abhishek Dutta: Sir, I missed the order backlog number per se because you give overall GLE account of around 50%, can you just quantify the number?

- Tarak Patel:** Sorry, we do not share backlog numbers. I just give you a breakup between Glass Line, heavy engineering, and proprietary products, but you know we can tell you that we do have visibility in Q1 and a little bit of Q2 as well going forward.
- Abhishek Dutta:** Sir, you mentioned sometime back 160 crores after Q2 there was a dip in Q2 and now it is back to 160 crores?
- Tarak Patel:** That was order book, the orders that were coming in. Q4 of last year was very strong, it was around 160 plus crores, Q1 was 160 plus crores as well. Q3 we did about 100 odd crores and then again in the last quarter Q3 we have again crossed the 150-160 crore mark.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak:** Just wanted to understand Sir from the demand side is this investment or the CAPEX which might come from the client, is it mainly coming from the new capacity or is it also a replacement demand, how the demand is shaping up between these two, if you can share?
- Ashok Pillai:** In the Glass Line space, the demand is still largely driven by new requirement, new CAPEX. Having said that, some of the customers who have ageing plants like Aurobindo's, Cipla's and stuff like that, they are now looking to replace the old equipment that they bought maybe 15 years ago and they are considering how they need to do this, so we are finding that we are seeing some interest from them to look at the replacement market. We are seeing that they are now looking at to replace those equipment, so we can see the replacement markets also going to grow and the shift being from the new market which is dominating all these years to now being part of the replacement market as well.
- Kamlesh Kotak:** For example, hypothetically if we install one furnace for Glass Line equipment, after how long the demand for replacement or maybe wear and tear of spares come up to us?
- Ashok Pillai:** There is a difference between spares requirement which will be continuous and it could be there all the time, but the replacement of the vessel itself would typically come between 7 to 10 years and some of the well-maintained plants you could continue using the equipment even for longer may be 12 years, but these cycles have now come to that stage in different ages of plants that were supplied 10 to 15 years ago and we think that replacement cycle is now going to show an uptrend, and this is especially true for pharma.
- Moderator:** Thank you. The next question is from the line of Anish Jobalia from Banyan Capital Advisors. Please go ahead.
- Anish Jobalia:** Sir, my question is related to the proprietary products division, so as I understand rest of two are expected to do quite well in the next year and looking at the numbers of Q3 we saw growth of 9%, but I think this quarter includes that IMSD division which was not there in the last Q3 of

FY '19, so adjusting for that we have actually seen a degrowth in the proprietary products of Q3, so could you, if my data and my logic is correct, could you please explain what are the reasons why this has happened and are only things going to improve in this division in Q4 and FY '21?

Tarak Patel: We actually felt that there was some part of the proprietary products business that were not giving us enough margin and we said we are going to pick and choose the business that we do because we really do not want to have a price war and reduce our overall margin, so our strategy for proprietary products especially the filter and dryers in the filtration space is to really go after the critical applications, to go after the high-end applications where we really can differentiate our products from that of the competitor. SWe still believe that there is a lot of demand in these areas, but every year I believe that there will be growth in this product lines even the Mixing System business, even the acquisition which we have done recently together when we combine the IMSD business and the GMM Pfaudler business, we are going to continue growing that business. The Engineered System business is something that probably we are also seeing a lot of traction in, but in the filter and dryer space, we do not really want to just take orders and fill up our factory and then reduce our overall margins, but year-on-year basis you will definitely see a growth in proprietary products compared to previous year and as per our client for the next financial year again, we definitely plan to grow the proprietary business as well.

Anish Jobalia: If you can throw some light around the raw material prices, where we change in terms of the raw material prices increase or decline, what is the scenario around there?

Tarak Patel: I think when we bought last, we bought it a few months ago and we bought the couple of quarters' worth of carbon steel plates that the pricing was good and we expected the price to rise so we decided to buy a large quantity at the same time.

Ashok Pillai: There is news in the market that the prices of steel are expected to increase. We have not seen that as yet because as said we have already taken care of the few quarters' requirement in the last purchase, but we have pretty track on that so that we can adjust our prices in time for the next round of orders and when the deliveries are due, so that we can time that as well as we can.

Tarak Patel: But more often than not especially in the heavy engineering and in the proprietary business, we do the costing of our products as per the actual material prices so all the prices and the price increases are passed on to the customer. In Glass Line, there could be a lag of may be a few months, but eventually the prices will get passed on to the customer.

Moderator: Thank you. The next question is from the line of Sriram Rajaram from Ratna Traya Capital. Please go ahead.

Sriram Rajaram: Just a follow up on the earlier question, what is the mix between replacement and OE demand?

Ashok Pillai: Right now, the OE demand on new equipment is probably 85%-90% would be till new and the rest is replacement.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities as a follow up question. Please go ahead.

Kaushal Shah: In the last quarter that is the September quarter we had a debt of around 25 crores, is it still there or is it repaid?

Jugal Sahu: There was no debt, maybe we had a working capital loan of about 10 crores that we have taken from the Banks at the end of last quarter which has been repaid in the month of October itself.

Moderator: Thank you. The next question is from the line of Dhavan Shah as a follow up question from ICICI Securities. Please go ahead.

Dhavan Shah: Basically, you mentioned some strong growth which is coming from pharma as well as the specialty chemicals or agrochemicals and given that the Glass Line equipment market is right now is duopoly like you and the HLE Glasscoat is only there, so is it safe to assume that you still will grow at around 20-25 percentage on YOY basis for the next eight to 10 quarters in the Glass Line business?

Tarak Patel: I would not say we are duopoly because there are three other manufacturers in India. There is a small company in Ahmedabad that has got 50-60 crores, there is a company in Hyderabad that does about 70-80 crores, and there is obviously a multinational in India who does about 30 crores, so there is additional market that is available, but most of the companies that have received business because either or recently were not in a position to book the business because of our capacity, so there is definitely if the market continues to grow obviously we will grow along with the market. If the market were to slowdown, there is definitely market share that can be captured.

Moderator: Thank you. The next question is a follow up question from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, what will be the opportunity size or the market size of GLE equipment in China, even in China has such an established market in the chemical industry, if we were supposed to see India 10 year down the line given the way tailwind of chemical segment is for us, what do you see what interest can we draw from the Chinese market?

Tarak Patel: Good question, the Chinese market is very peculiar. It is very different from the Indian market. One is that they do have aspiration to buy European product, so maybe 20%-30% of the equipment that goes into China is actually made in Europe, made in Pfaudler or the other competitors of Pfaudler around the world in Europe and then supply to China. There are also local manufacturers and there are multiple levels of quality there. There is now also Pfaudler and there are global competitors also have factories in China. I know Pfaudler maybe around 40 to 50 million. I think the French company could be around that, but I know there are some Chinese companies that are like maybe \$ 100 million plus the companies who are only involved

in glass lining, so it is quite a large market. It is quite fragmented and there are very different quality levels, but as you have seen with China because of the explosions that have happened, the controls have become much stricter, so the new plants that they are building is going to come in with a lot more expense. The quality of the equipment that these guys are going to put in is going to be more expensive and they are going to have much more automation. In India, we have been doing this now for a few years now, so our plants are definitely much safer and well organized than some of the Chinese plants, but I think once the Indian companies have got their foot in the door where foreign multinationals have derisked their China strategy have dual options when it comes to large quantities of the same product. India will continue to get investment because more and more customers will look at India because the cost structure probably will be slightly lower than their Chinese counterparts.

Moderator: Thank you. The next question is a follow up question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir, on the ANFD side how has the growth in the demand for the products been largely in line with the GLE growth or it has been lower?

Ashok Pillai: For us it has not been in line with the GLE growth. As we said earlier also, the market for ANFD products are, the main market leader is somebody else, so they have a majority of the market share so probably we have the growth potential for that but we do not have the same capability in terms of getting the market share that can match the growth rate offered by ANFD product.

Tarak Patel: I think he was asking more from a market standpoint, I think yes, it would be similar maybe not as high as Glass Line because not all companies that use Glass Line especially in the specialty and chemicals industry use ANFD, ANFDs are more common in the pharma industry, so having said that I think the Glass Line growth would be slightly higher than the filter, ANFD growth.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, with regard to the heavy engineering business just wanted to understand more so the industry demand as far as the heat exchange segment is concerned, where are we seeing this demand coming from and because you mentioned heavy engineering you have a decent order backlog which is there for the next year, so this demand is coming from which segments and how do you perceive heat exchanger to do for next two-three years to come?

Ashok Pillai: Heat exchanger is one of the heavy engineering product and heat exchangers are used in almost all industries, fertilizer industry, oil and gas, petrochemicals refineries and all industries heavy heat exchangers which are tailor made for that particular application form a part of HE. We have something that forms a part of HE at specialty high pressure vessels and column and they again follow the various industries that I talked about, power sector, oil and gas, and refineries and petrochemicals.

Moderator: Thank you. The next question is from the line of Jatin Kalra from Alpha Capital. Please go ahead.

Jatin Kalra: Sir, my question was regarding your comment about the market share gain, how high do you think we can go in case there is a slowdown and with capacity coming in next year the two furnaces. do you think we will go for market share gain that time or the industry will grow enough that we will not need to go for market share gains at that time?

Tarak Patel: Good question, I really do not have a crystal ball but I think another maybe 10% to 15% of market share is definitely possible. As I mentioned to you, customers do want to go for well-established good quality products now. We are able to give the customer pricing that makes sense to him, if you can give him delivery that makes sense to him, there is definitely options there, so yes there could be a slight pressure on margins, but you know that kind of market share increase could be possible in the slow down, but as of now all of us are busy. We are adding capacity, some of the other competitors have added capacity, and there is no shortage of business and I expect the markets to continue to grow as well especially driven by chemicals. There are large projects that our customers are talking about, significantly large CAPEX and investments that are going to come in and then if pharma were to pick up that would definitely help us grow for the next few years.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the Management for their closing comments. Thank you and over to you.

Tarak Patel: Thank you very much everybody. We will see you next quarter for the next round of discussion, by then I will try to make some more information on the EUs and what we plan in terms of EUs for the next foreseeable future and we look forward to talking to you again in the coming months. Thank you very much.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of GMM Pfaudler Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.