"GMM Pfaudler Limited Q1 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to GMM Pfaudler Limited's Q1 FY21 Earnings Conference Call. As a reminder, all participants' 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 '*' 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: Good afternoon 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 and uncertainties and other factors. It must be viewed in conjunction with our business risks that could cause future result performance or achievement to differ significantly from what it is pressed or implied by such forward-looking statements. Please note that we have mailed the results and the press release and the same are available on the company's website.

In case if you have not received the same, you can write to us and we will be happy to send the same over to you. To take us through the results and to 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 gone past and then conduct Q&A session. With that said, I will now handover the call to Mr. Tarak Patel. Over to you, sir.

Tarak Patel: Good afternoon everybody. So let me start off with throwing some color on our Q1 performance. So for, I think we have started the year with a very solid performance in spite of the current Coronavirus pandemic as well as the nationwide lockdown which affected our production capacities because of the loss of production days.

We are still able to show a strong performance which puts us into a good position for the rest of the year. Our factories have worked really hard over the first quarter in spite of having a loss of production in most of April. We managed to turn it around in May and in June and we performed quite well for the quarter.

Our backlogs continue to remain quite strong and the industry segment that we cater to namely, pharmaceuticals and chemicals, continue to show a lot of traction. Our order book across all our product lines also remains quite strong and our outlook for this financial year remains very positive.

We will use the next few quarters to build on our Q1 performance and maintain the same level of growth that we have been achieving over the last few years. In terms of other highlights for this quarter we have, as many of you know, completed the acquisition of De Dietrich Process Systems India facility in Hyderabad. This facility will be most likely handed over to us on 1st of September. This gives us readymade glass line capacity in Hyderabad. It will improve our presence in the region and help serve our customers in a much quicker and prompter manner.

We have already taken steps to make sure that we hit the ground running. Our raw materials, our glass lining materials, our labor, our glass line sprayers, our vendors, the supply chains have already been geared up so that on September 1st we are very quickly up and running and we can start producing as soon as possible from that facility.

That facility also will help us reduce the current backlog at our Gujarat facility which means that our backlog will reduce by about 200 to 300 units which means that we can now supply equipment faster to the customers which will mean in turn that we can then go and capture some more market share as well.

Like I had mentioned to you during our last call, our heavy engineering business has done extremely well. This is the first year that we have started the year with a very strong backlog which means that this is the first year that heavy engineering business will perform up to our expectations.

We have built a lot of capabilities over the last two or three years and now they are finally bearing fruit. Also, in our proprietary business we have a very strong order book. These orders are not standard equipment. We have managed to upsell these equipment and go after technology and innovative products, really trying to differentiate ourselves from our competitors and I believe that we will see margins improving as well.

The export business also continues to do well. Southeast Asia and Middle East have been doing quite well for us. We have seen significant amount of order intake from these regions which would then translate into better margins going forward.

Lastly, our two new furnaces have also arrived on Indian shores. They are now on our way to our factories and within the next couple of months we should have that up and running which will mean that we will have enough capacity to cater to the glass line market here in India for the foreseeable future and we can maintain our market leadership position.

So with that let me then open this investor call for questions and I will be happy to answer any questions that you may have.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

We have our first question from the line of Rohit from Progressive Shares. Please go ahead.

Rohit: Hi, though the numbers look optically flat, indeed you had a good achievement in the current scenario?

Tarak Patel: Hi Rohit, so yes you are right compared to Q1 of previous year and Q1 of this financial year, the numbers are flat, but you must also understand that for Q1 of FY20 we had three full months of production, in this Q1 of FY21 we had about two months of production. There were many issues relating to labor, to supply chain in terms of startup and things like that.

In spite of that I believe, we have still performed well. I believe a lot of other companies in the manufacturing sector will probably not have similar kind of performances. We were not very heavily dependent on migrant labor. Most of our employees are from local villages, so that helped us a lot. We also had a very strong backlog and materials in stock with us, which helped us and then lastly we used our financial abilities to make sure that all the bought outs that were required to complete these equipment were supplied to us in time.

So going forward I think many people would have expected Q1 to be worse than the Q4 of previous year, however, we have turned it around and we have actually outperformed Q4 of previous year. We are showing about 17% quarter-on-quarter growth in spite of having more off days than in Q4. So I think a lot of credit goes to the facility in the Gujarat. I think they have done extremely well to get up and running quickly and again like I said it puts up in a very strong position to do well in this financial year.

Rohit: Tarak, I agree to that. That is why I said optically flat. I have two questions, which are related to this new plant. So of this approximately 6 acres of property at Telangana, what percent is currently used for manufacturing or was used for manufacturing by them and what is the free land available to you for future expansions if any?

Tarak Patel: So I think it is about 49,000 square feet the covered factory area, but I am not completely sure. It is around 40,000 square feet mark. We do have significant ability to expand that facility, not only that facility has not really had anybody invest in it for quite some time. It is something that has been continuing from the last 10 to 15 years, so we definitely want to bring in our own efficiencies.

We have reached a kind of level at GMM Pfaudler in Gujarat that we want to bring and implement in this new facility and really ramp up both in terms of operational excellence as well as in terms of improving efficiencies. So we can bring that in as well we will then slowly add new machines, new work centers and look at improving the output from there. So in the first year if we have a full year of production, we believe we can manage anywhere between Rs. 60 crores to Rs. 70 crores of output.

Now that for this financial year we have about six months of production available starting in September, we expect about Rs. 40 crores of output, but it is more of an opportunity cost for us. For us it gives us two benefits, one it gives us the benefit that we immediately are able to bring our backlog down and two, it gives us the ability to manufacture equipment locally, which means that we do not have to spend transportation cost from Gujarat to Hyderabad. We can now produce it locally and then supply it from there to the local market.

Rohit: Okay I understand that you are having a readymade plant to gulp down the market share. But any views or any thought or calculation as to how many equivalent units was the plant able to make earlier?

Tarak Patel: We have no idea in terms of what they were able to make, their processes are very different from our processes. Their firing cycles for glass line are very different, but in terms of what we expect, we expect about 400 equivalent EUs in the first full year and obviously that can be ramped up as and when we keep bringing in more and more efficiencies.

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

Rahul Jain: Sir, just to carry this further, so we are adding roughly about 400 unit plants over and above that we were adding about 500 units at Gujarat, which is supposed to come by August and September and you had already planned a CAPEX at Hyderabad, so roughly putting I think from around 2,300 you are going up to almost 3,700.

So firstly, whether your new CAPEX at Hyderabad, the new facility would that get a bit delayed because of this acquisition and if not sir do you feel you are adding almost more than 50% capacity addition is happening with a span of 12 months. So is it that the market is growing at very fast phase or will you be taking market share?

Tarak Patel: Okay so just to clarify now that we have made this acquisition in Hyderabad, we will not be adding any further capacities. So the greenfield project was something that we had thought about because we did not have the option of this acquisition, now that we have acquired this facility and we have readymade access, there will be no longer any investment in the greenfield project. So, we will use this facility to produce in Hyderabad for the next three to five years and maybe then look at adding more capacity or even look at a greenfield project at that time.

So right now for the next three to five years, we only have two facilities, one in Gujarat and the one that we just acquired from DDPSI India. So in terms of adding capacity we are not really adding 60% capacity like you rightly said. In this financial year, once the new furnaces come in, our EUs in Karamsad, Gujarat will be about 2,300 units and in Hyderabad it will be about 400 units. However, in Hyderabad please note that we only have six months left since we will acquire this facility only in September, so we have about half of that.

So about 2,500 to 2600 EU capacity this year, we believe that the market is conducive. There is lot of traction happening in both the chemical and pharmaceutical space. So one is that we will reduce our backlog and whatever new orders that come in that something that we can also cater much quicker and much faster to our customers.

Rahul Jain: Sure and sir just one last thing. How has been the order inflow in this quarter? And do you find any difference in how the managements are talking about their CAPEX and the time gap between our fall for the fourth quarter and as we speak today?

Tarak Patel: Right so there is definitely more traction on the ground because of the pandemic in Q4 things had slowed down. We are now seeing more and more managements now taking a call on new investments. We are seeing there is definitely some traction in the pharmaceutical space. There are smaller players who used to order may be one or two equipment are now going and ordering 6 to 10 equipment. It is not the big traction that we want to see in the big players, but on the ground level it is happening.

We do believe that Indian companies will look at localizing production of intermediates. There is going to be a shift from China to India. We believe the government is also pressurizing Indian companies to look at manufacturing locally. So all in all, I do believe there is traction in the pharmaceutical space. I think more traction will be seen in the coming quarters. Chemical still remains very strong.

Our big chemical players still have investment plans, major CAPEXs are on their way and like I mentioned earlier we have seen some traction in the international markets. We recently got two large orders from South East Asia, Malaysia and Taiwan, which also will be quite nice in terms of international and export business. Yes, I think overall we are quite positive in terms of the outlook for glass lined equipment.

Rahul Jain: So the order inflow numbers for this quarter?

Tarak Patel: Sorry so I said the backlog numbers right now, sorry, I missed that. So on the end of Q1 of this financial year we have about Rs. 330 crores of backlog on our books, executable backlog and this is evenly spread between glass lined and non-glass lined, 50% with glass lined and 50% with heavy engineering and proprietary products.

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

Dhaval Shah: Sir, for the Q1, how much of the sales or the growth could you attribute to the spillover sales from the fourth quarter given we had shut down in the past couple of days in the fourth quarter?

Tarak Patel: Right so it is a combination again Dhaval. It is readymade equipment I would say would be in the range of like say Rs. 5 crores to Rs. 7 crores, but like you know there is always work in progress and that also got the carried forward. So I would say in the range somewhere between may be Rs. 15 crores to Rs. 20 crores and then obviously we also created WIP in this quarter. So even though we could not ship everything this quarter some of it will again spillover into next quarter.

So we were quite cognizant of the fact that we need output, but we also need to create WIP, which can then be used in the following quarters because as we want to grow in the next three quarters we expect to be a significant ramp up in output and the WIP that we created in Q1 will help us doing much, much better in Q2, Q3 and Q4.

Dhaval Shah: Okay. On the heavy engineering part, can you elaborate on the product side and even the profitability wise we have been very, very healthy roughly 20% I think we have done? Can you elaborate bit more on this and the way forward?

Tarak Patel: Sure, so heavy engineering is something that I have been talking for long, long time. Many of you must be hearing my heavy engineering outlook every year I said it is going to do well, but this is really the first year we have really hit significant volumes. So the absorption in terms of the fixed cost will finally come through and that will affect the profitability. Last whole year the numbers in heavy engineering were close to Rs. 50 crores, but in Q1 we have already done about Rs. 41 crores right, so immediately you will see a big improvement in profitability.

In the same way the proprietary products did not do extremely well in the first quarter even though we have lot of WIP and we will see a big improvement in Q2, there was not enough output for the profitability to improve significantly because of the absorption of the fixed cost. So yes, exactly the reason why you have a seen a big surge in profitability is obviously the volumes, the revenues that have increased significantly, but again we have also managed to have a good mix of the right kind of orders in heavy engineering. So we have had a little bit of export to the Middle East.

We have hastelloy material, we have carbon steel, we have stainless steel, so the product mix has always been nice and again that is one area that I am quite confident in heavy engineering and we have really spent a lot of effort to build in our capabilities so that customers will really regard us as one of the premier players in this industry segment.

Dhaval Shah: Sir, what would be the industry segment in which we have supplied?

Tarak Patel: So it is again a mix as there will be oil and gas, there will be fertilizer. There will be chemical as well, may be a little bit of pharma, but it is really the idea here is to kind of diversify from our legacy segments of chemical and pharma, so oil and gas, petrochemical would be a significant portion of this.

Moderator: Thank you. We have next question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, my major questions are answered, but sir can you elaborate on heavy engineering side? What is our total rated capacity and what turnover we can do with the established facility and what are we doing for increasing that later on?

Tarak Patel: So Sanjay, good question. We do have additional capacity. For the last three, four years we have been Rs. 40 crores to Rs. 50 crores and odd. We can very easily in my opinion reach anywhere between Rs. 150 crores to Rs. 200 crores allowing the right kind of product mix. So we have to be very careful here in terms of what we bring in. There has to be the right combination. If you bring in all carbon steel only, which is low value, you might not even reach Rs. 100 crores and if you bring in let us say all stainless steel and hastelloy then you can very easily even do more than Rs. 200 crores.

So finding the right product mix is something that we are working on. We have a clear strategy in this front, but all in all I believe that between Rs. 150 crores to Rs. 200 crores is currently our capacity. We have two large manufacturing sheds, which we have built recently. One was slightly older, one is new. We have capacity available and again I think it is important to understand that for this business line there is not a lot of CAPEX required.

So even though if the business were to increase significantly, we can really bring and add manufacturing space very quickly by just adding space. So this business is something that we have been quite bullish on. Finally, we have a time where we have a good starting backlog and a good order book and hopefully now we can pick and choose good margin business that will allow us to have revenue growth as well as profitability growth going forward.

Sanjay Shah: That is great. Tarak, can you highlight and elaborate on how our international verticals are doing? As you rightly pointed out we have got good orders from Malaysia and all, but how are our subsidiaries are doing Mavag and all and what are the opportunities you see outside India?

Tarak Patel: So Mavag for all of you it is going to do extremely well this year. GMM already started with a very strong backlog, but Mavag has started with even better backlog. Last year I believe they did something like 12 million Swiss Franc to 13 million Swiss Franc, may be slightly lower than that, so this year they have very, very strong backlog.

So you will see significant improvement in both Mavag's revenue as well as bottom line. Many of you know that their breakeven is about 10 million Swiss Franc and we hope for them to perform very, very well because the order book is already on hand. Now it is only execution and they unlike in India have had no lockdowns and you will see in the next few quarters that their numbers will keep improving.

Our parent also continues to do well so like we have seen in India there is a buzz around the world in both the chemical and pharmaceutical industries. Like investment is coming back on Indian shores the same way there is investment that is going back in the US and European markets as well. Many of these countries have realized that they were had over dependence on both India and China, so local capacities are being created.

So I think globally chemical and pharmaceuticals are two industries that seem to be somewhat insulated from this crisis and I think over the next may be three years or so, you will see a good amount of investment in new capacity being added.

Moderator: Thank you. We have next question from the line of Kaushal Shah from Dhanki Securities, please go ahead.

Kaushal Shah: Sir, I had two questions. One was if you can throw some light on the CAPEX that could be required? You mentioned about the fact that DDPSI there could be some investment required for you to streamline some activities or their processes are little different. So what would be the likely CAPEX that could be required in that facility for us to kind of get started in a meaningful way?

And the second question was on the heavy engineering side. When you mentioned about the order book, so if we do the math roughly, heavy engineering has an order book of I would presume in the regions of around Rs. 80 crores, which is roughly let us say two quarters of work. So are we expecting additional orders as we go forward in heavy engineering when you mentioned that we are likely to see significantly better performance in the current year?

Tarak Patel: Right so maybe I will answer the first question. The plant that we bought from DDPSI I think it is important to understand that it is still a good plant, it is a well maintained plant. It is run by a French multinational, so the systems, the quality levels, the maintenance of the equipment is quite high, so I do not see a lot of CAPEX happening there.

I think maybe CAPEX in the range of maybe Rs. 8 crores to Rs. 10 crores over the next three years right, so that is something it is mainly in terms of just getting the plant painted, cleaned up, some new small equipment, small cranes and things like that. So no major CAPEX will go in and the numbers that we have planned currently are without a new furnace. There could be a possibility that if the markets are conducive, the markets are growing, we might even add a new furnace in Hyderabad.

That is something that we have not taken a call of right now, but may be in the next six months to one year we will take a decision on that. There is space available to add new furnaces and then really ramp up the production capacity there.

In terms of heavy engineering, yes, you should understand that business is good, but however, some of these items are long lead items. So even though we have a good starting backlog may be Q2 might not be at the same level, but for the year definitely you will see a significant improvement in the HE production and the output. There are capabilities we still have capacity available for Q3.

There is a shortfall there by a few crores, but in Q2 and Q4, I think we have booked solid. So for this year we are now done, so now we are focusing on the booking business now for the next financial year again having a good backlog to start the year will again help us grow further in this business line.

Moderator: Thank you. We have next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir, on the pharmaceutical side, if you can highlight how has been the order inflow or enquiries because what we have been hearing and what the government has been planning the incentives that they are planning to give for setting up API or intermediate plants in India, like there are big incentives coming in. If you can highlight how has been the enquiries and have the enquiries started getting translated into confirmed orders and how will this impact both our GLE business and any of the business that we have on the proprietary side?

Tarak Patel: Yes, so I think that is a good question. If I were to be honest with you, it is still going to take some time even though there is a lot of talk, there is a lot of government pressure, it is too early for it to translate into actual orders on the ground. Having said that, there are smaller players intermediates who supply to the bigger guy who have started now investing in new capacities. So I have said that the tier-2 pharma guys, we have seen a traction there instead of them buying one or two equipment like they have been doing for the last five or six years, now they are buying 8 to 10 equipment.

So they are definitely adding capacity and that is probably a reason because Indian companies are now saying that why do not we have more local supply, so that is happening at the ground level. However, to see a big change in let us say Dr. Reddy's or Sun Pharmas or Ciplas and Lupins of the world, I think that will take some time.

There is a clear shift in policy for sure, like you mentioned that the government is encouraging manufacturing players. We have heard from customers like even the specialty chemical the customers that there is direct contact from central government to ask them to look at manufacturing intermediates locally, so all this is happening. The government has also identified three clusters for intermediate and pharma manufacturing.

One of them like you know it is Pharma City in Hyderabad, but again to translate it to on the ground I think that will take some time. I think it will take a couple of quarters. Pharma City is still may be a year-and-a-half, two years away may be even more. But I think now the government will definitely push to move that a little bit faster, so that over the next few quarters we will see some traction there.

In the meantime, the chemical business still continues to remain quite strong, so we still do have some time where business is not a problem if the market continues to grow and by the time the pharmaceuticals picks up we will see that then we will have additional capacity as well. Just one more point here, I think for you to understand is that pharma plants especially the older ones in Hyderabad have now reached their lifecycle.

People are looking at upgrading these plants. Now with FDA issues coming in, people are looking at re-ramping many of these plants. Not only demand from new investment, but even demand from replacement business will pick up in the coming quarters.

Ankit Gupta: But have you started the enquiries from some of these large companies? I think we have already supplied to them, so any additional enquiries from large companies like Divi's, Dr. Reddy's or Ciplas or they have not even started enquiring?

Tarak Patel: So I would not compare Hyderabad Pharma with Mumbai Pharma. So Heteros, Aurobindos or Divi's have always invested every year; they have projects. Hetero recently invested, Divi's recently invested and they will continue to invest. So that is the continuous businesses. Aurobindo also is very bullish, however, Sun Pharma also recently did a bit of investment, but their investment is more in terms of operational improvements and efficiency improvements.

They are revamping their old facilities and really trying to extract as much efficiency. So there are different strategies that play for different customers. Many of these also have the different products and markets, but overall I think you will see a shift of intermediate, I think you know that is something that the government is very, very strong about that they believe that our dependence on China is significant and that is something that we should reduce over time.

Ankit Gupta: How much of our current backlog is from pharma and how much from chemicals? If you can give us the broad breakup?

Tarak Patel: So about (+50%) is from chemicals, 55% is from chemical; about 30% to 35% is from pharma (+/-5%).

Ankit Gupta: Okay and this was almost a year-and-a-half back? Like we know pharma used to contribute more compared to chemical?

Tarak Patel: Yes, exactly so we are pretty much at the same level still.

Moderator: Thank you. We have next question from the line of Deepak Mehta, Investor. Please go ahead.

Deepak Mehta: My question is that as we have seen good momentum in first time in the heavy engineering, so we have added any new capacity or it is from our existing capacity?

Tarak Patel: No, it is all from our existing facility in Gujarat. We have two sheds already available and we have not added any additional capacity in heavy engineering.

Deepak Mehta: Okay and what is the order book right now for heavy engineering, sir?

Tarak Patel: Like I mentioned the total order book on the end of the first quarter was Rs. 330 crores for the entire GMM Pfaudler, out of which half is for glass lined and half is for non-glass lined. So if you calculate that it will be 25% for the two product lines that are not part of the glass lined business.

Deepak Mehta: One more question that we are already doing great as a company, so we can see due to Atmanirbhar Bharat, so I think there would be some good push for our company as well.

Tarak Patel: So yes, there are definitely opportunities. I think that you know having a significant competitor leave India and not compete with us for the next three years as part of his agreement of purchasing this acquisition and this land in Hyderabad that will be a significant advantage because we are indirectly now the only quality and technology glass lined equipment brand in India.

Everybody else is not a global brand, they are all local players. So we definitely now have a differentiation in market the leadership, so that is something that is going to be beneficial to us. Like I mentioned that our ability to have access to this facility by the first week of September is also very important because right now the need of the day for us is to reduce our backlog and to give faster equipment, faster supply to our customers that will help us.

In both the other businesses, the proprietary products and heavy engineering businesses we already have pretty much a backlog that takes us to the end of this financial year. So, we all only have to now execute. Financially we are stable, materials are not a problem. Our factories are now working at full capacities, so we are in a good situation.

My only hope is that this virus does not the result in us having to close down, I do not think that is the case because we have a lot of SOPs and precautions that we have built in, but you know you never know with this virus, but it seems that things are now opening up and things are getting better. So I believe that you will see better performances from the company in the coming quarters.

Moderator: Thank you, sir. We have next question from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: Just two questions from my side. One question is as on 1st of April we started with order backlog of about Rs. 350 crores, what we disclosed in Q4 conference call and now we are saying Rs. 330 crores, does it imply that the inflow of orders have been lesser than what execution has been?

Tarak Patel: No, I do not think so. I think while we have executed, we have also booked as you will see some small changes between every month, but the trends continue to remain strong. One or two months of poor orders because of the pandemic like I mentioned April would have been a very slow month, but things are picking up again, but nothing alarming because we have enough orders to take us at least for this financial year.

We probably had some capacity in Q3 and Q4 for certain product lines, but that is something we will very easily if we maintain the same run rate of order book, we will meet those numbers very, very easily.

Hasmukh Gala: Okay. Sir, on proprietary products, I think which includes this Sudarshan Chemicals business how that is fairing?

Tarak Patel: That is doing also quite well. I think overall we have a very strong backlog in the proprietary orders the business, however, our Pune facility was shut for a little bit longer than our Gujarat facility. So that is something that we will make up, but yes these orders are of good quality and high margins and I think this is one product line again that you will see a good amount of growth. You will see a significant improvement in profitability because like I mentioned we are now focusing on high margin business not the standard product that some of our competitors make.

We have been able to differentiate ourselves here. And we have a good amount of order book from our subsidiary in Switzerland as well, Mavag, which manufactures most of the components here locally in India because there is a cost advantage, has also seen a good upsurge in orders, which has translated into more business for us.

Moderator: Thank you. We have the next question from the line of Sriniwas Iyer from Rockford Consulting. Please go ahead.

Sriniwas Iyer: Now in the last con-call you told that the gas furnace imported, two gas furnaces, are going to be installed by June-July. So, have they come? Or it is yet to reach your site?

Tarak Patel: Right, so they have now arrived at Indian shore. They are now under Customs Clearances and they will be soon be moved to our factory in Karamsad, in Gujarat. And we should now see them operational in the next couple of months. And there has been no further delays or anything like that. We will now get them operational as soon as possible.

Sriniwas Iyer: Okay, my next question is, because the low floating stock, the share trading in our comfort is very low, less than 20,000 every day. So, why do not you consider a liberal bonus, so that there can be increase in the floating stock and FII and institutions, the participation will be more?

Tarak Patel: Sure, you know, we are always looking at ways of increasing the free float. I think both the Patel family and DBAG, who are the other promoters, have spoken about this in the past and keep speaking about this. We definitely want to add more visibility and higher quality of investors as well. And if there is an opportunity to do so, I am sure that we will do it.

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

Dhavan Shah: I have a question on the GLE segment. So, out of this Indian GLE market of roughly Rs. 600 odd crores, how much comes from Hyderabad and Telangana? And what is our overall market share for this market?

Tarak Patel: I would say, about Rs. 100 plus crores would come from Hyderabad and Telangana. We still have a market leadership position there. We would be in the excess of 50% easily. It has not changed. The benefit now with this new plant is obviously that we can increase market share. We can also save on transportation costs.

We spend a sizeable amount of transportation cost every year by sending equipment from Gujarat to Hyderabad. So that can be completely eliminated. And then, obviously being closer to our customers, we can even go after the smaller customers that had been missed out now. So, we can definitely look to increase market share in Hyderabad.

Dhavan Shah: So sir, out of this, I mean you mentioned this Rs. 100 odd crores, what kind of opportunity size do you look at in the next two years? What kind of, the potential for this Hyderabad, Telangana, if the replacement demand comes up like you mentioned that many of the pharma plants are old so the more replacement demand are going to come. So what kind of market potential do you see from this Rs. 100 odd crores? Can it reach to Rs. 200 crores in next two years, or three years?

Tarak Patel: Yes, so Rs. 100 crores is only our market share. There is also local players and some other players who also cater. So I would say the market size could be in the range of Rs. 250 crores. So one, we can still go after market share. Our Rs. 100 crores can increase to Rs. 150 crores or Rs. 200 crores by taking market share.

Like you know, the only reason some of our key customers do not give us business currently today is because they had issues with the timelines and deliveries. So if we can maintain and make sure that we can deliver on time, a lot of that business will come to us automatically.

We must also understand one major player has left India, right? So there is a vacuum that is going to be created. That market share is up for grabs. Somebody has to grab it. And since that player was a technology leader, it is very difficult for a value player or a low-quality player to take that market share. That market share will automatically come to us.

But yes, looking at Hyderabad, looking at new capacity being added, because of Pharma City, looking at new replacement capacity, I do believe in the next two to three years you will see definitely demand going up in pharmaceuticals. There is going to be investment in new pharmaceutical facilities.

And one of the other things important to keep in mind is when people build plants today, they do want to build world-class facilities with the FDA issues. Most of these customers are international players. They have audits all the time. People no longer want to save money on equipment. They want peace of mind. So they usually want to go after branded and high quality products.

Moderator: Thank you. We have next question from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, what is your view, what is Government is doing for this chemical industries and pharma industries which need shifting some business from China? First question is that.

Tarak Patel: Right, so Government has been saying a lot of things. A lot of people have been talking about it, but we again need to see actual decisions at a ground level. I think lot of pharmaceutical players want to do and manufacture locally, but the Government has to support them with SOPs or some kind of leniency in terms of taxes or power, etc. Some additional benefits have to be passed on to these manufacturers.

Because business is there and most of these guys can make things locally. The only reason they buy them now from China is because the Chinese cost structure is much, much lower than India. So if they can keep some amount of subsidies coming in to Indian markets, then you will see a lot of Indian companies putting up plants very quickly. And then taking advantage of that. So again, Government is talking and making all the right noises. However, we need to see actual decisions at a ground level.

Ravi Naredi: So do you think such, this noise will convert in reality?

Tarak Patel: So, I have seen recently, last week may be, there was some decision where the Government has earmarked about Rs. 10,000 crores for API intermediate manufacturing. But again, I think it is too early to state. I think this is a push of this Government. They have been saying for the last I think three to five years, even before this pandemic, and even before we had issues with China, that our dependence on China for intermediates was very, very high.

I think now you will see real action on the ground in the coming months, because the Government is now pretty certain that they will have to do this to safeguard our interest, national interests.

Moderator: Thank you, sir. We have next question from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: You said that the order book that you currently have is around Rs. 330 crores. So out of that, how much would be the advances that we get?

Tarak Patel: About 30% approximately. It depends on product lines. In some products you might get higher, some products you get lower. But the advances would be around 30% or so, in general. I do not have that data, but I am just giving you a kind of a rule of thumb.

Moderator: Thank you, sir. We have next question from the line of Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: Sir, I wanted to carry forward the question somebody asked on Proprietary Products. The profitability there has been elusive in the last six, nine months. Then we already had the couple of new product launches there. So, how will you see that panning out? When do you really see the new products or the higher margin products start contributing meaningfully?

Tarak Patel: So you know Salil, we had actually seen a lot of traction here. We recently launched a product called the spherical dryer, which is a world-class dryer, which in the past we have launched this product may be four or five years ago. And we have actually sold may be two equipment in the last five to seven years. However, this year we sold close to seven of them, right? So these are very high value, high cost dryers but really show a significant improvement for the customer.

There are specific products that the customers make, and one example is a product called valsartan, which has a drying time of close to 36 hours. We have seen that this product reduces that by about 50%. So when a customer has a high value product like valsartan, and they could reduce the drying time by 18 hours, that is a significant improvement in batch time. And we have seen a lot of traction in that product line.

We also see that customers are now more interested in being a complete system, rather than doing just individual equipment. So they want us to add instrumentation, piping, heating & cooling, automation and stuff like that. So that is something that we have been working on, and we are really going after, and differentiating ourselves from being just an equipment supplier.

Salil Desai: I see. And second is, many congratulations on the DDPSI completion of the acquisition. We hear, how was staffing? Do you inherit the people there or do, will they have to manage, do the whole staffing again?

Tarak Patel: Yes, so Salil, I think we spoke about the capital allocation in the past and obviously I think this is a really a nice way of allocating capital for us. Because it is something that we know quite well. We have, over the last three or four years, really excelled at the execution at GMM in the Gujarat facility. So the idea is to very easily just cut-paste what we have done there, and move it to Hyderabad.

The good and the beauty of this deal is that we do not have to take a single person. We can pick and choose who we will take. So our cost structure in Hyderabad will be significantly lower than that in the Gujarat facility. As per the agreement with DDPSI, they will retrench and terminate all their people. And then we have the ability to take whoever we want, depending on what we need. So there is no liability on us going forward.

So it was just an asset purchase transaction. We get the factory, we get the building, we get the plant and machinery, and we get a three year non-compete. And then we can choose whoever we want once all the employees are terminated.

Moderator: Thank you, sir. We have next question from the line of Apurva Shah from Phillip Capital. Please go ahead.

Apurva Shah: My first question is on GLE. So out of Rs. 330 crores of order book, is there any revenue from our parent or partner? And is there any incremental order or enquiries have you seen in from that segment? And what is your view for orders from parent?

Tarak Patel: Okay, so on the GLE segment we do not have any new orders from the parent company. Like I said, our focus is on India. The Indian market is booming, but something, just to let you know, we have got two very large orders for glass line equipment from Taiwan and from Malaysia. This will be in the range of may be Rs. 10 crores to Rs. 15 crores, which will be high value and high margin business as well. So export is something that we are working on.

However this export would not have been possible without the support of our parent. So we worked on it as a team. So that is something that we continue to work on. And the parent itself is more open to using GMM in certain markets where the competition is higher or the price range is lower.

So that has been something that is a positive. And in terms of other export business, we do see a lot of traction with the parent when it comes to the non-glass lining business; Heavy Engineering and Proprietary as well. So that will continue to grow over time.

Apurva Shah: And sir, my second question is on Heavy Engineering. So in last two, three quarters, your commentary seems very optimistic for the Heavy Engineering segment. So, is it the right understanding that you see Heavy Engineering as a next growth driver? And if that is the right assumption, then over next three to five years, what kind of revenue contribution you envisage?

So currently it is around 10% of our revenue. So can that go up to 30% to 40% in may be next five years' time? And if again the answer is yes, what can be the revenue profile in that scenario where your revenue mix changes from GLE to non-GLE from current to may be 60:40 or 50:50?

Tarak Patel: Right, so you know, every year we say that GLE will slow down and we expect all the other businesses to do better, but every year GLE surprises us. I still believe, for the next three years GLE is going to be one of the most important and the biggest part of our businesses, is also the highest margin business for us. So, we can never lose track of GLE.

And now with the new facility coming up in Hyderabad, plus the two new furnaces, you will see growth in the GLE segment. Both, if the market grows, as well as for market share improvements. So that is going to be a focus for sure.

HE is something that, yes, we have built capabilities over the past. We now have a very strong Sales team, who have been working very, very hard to get us accredited, approved by different vendors like TATA project, by like TOYOs, like EIS, like L&Ts of the world. I think that you will see a good amount of traction there.

And the Proprietary Product range also continues to grow because that is one more area where the Indian customer is now looking for high technology products, looking at cost savings through either power saving, batch time improvement, more efficiency.

So all in all, all product lines are growing. I would not say that one will replace the other. But I do not see a drastic change in terms of the product mix over the next three years. I think glass line will still be in the 60% range, and that will continue to grow. Yes, 60% to 70% range.

And then the Heavy Engineering will grow probably at a faster rate because their starting point is much lower. And this year will be the first year where we will have significant improvement in revenues in Heavy Engineering and you will see also a good amount of improvement in the Proprietary products segment as well.

Moderator: Thank you, sir. We have next question from the line of Sandeep Tulsiyan from JM Financials. Please go ahead.

Sandeep Tulsiyan: Just have a couple of questions from my side. Firstly, if you can highlight the client profile difference between DDPSI and GMM, how complimentary were they? And which are the new customers where you can possibly make an entry through this acquisition? That is my first question.

And second, I wanted to understand one of the comments that you had made during the previous con-call that there are some companies which are moving production out of China is what you hear from the Pfaudler's Global network. If you have any update or any examples that you can share on that front?

Tarak Patel: Right, so DDPSI and Pfaudler are the global leaders in terms of glass-line equipment. Both are recognized and have the same reputation when it comes to high quality, high technology products. In India as well, if a customer was comparing GMM with somebody, they would first compare us with DDPSI.

So very complimentary set of products, very similar. Obviously, their only limitation in terms of the Hyderabad facility was the size. They could go up to only 16,000 liters because their furnace does not allow them to do more than that. GMM Pfaudler obviously has a size range up to 80,000 liters, so there is significant difference in terms of capability.

But all in all, I think when we bring our efficiencies into this facility, we can really ramp up quickly because their production cycle is very different from ours. They were obviously bringing a lot of components from Europe as well, which was affecting their cost structure. But here in India we make everything locally. And again, economies of scale will also play an important role in terms of improving profitability.

When we are buying more steel, when we are buying more glass, when we have more gear boxes, motors, all that thing will add value as well. So, DDPSI in that terms will be something that we will keep our cost structure in Hyderabad much, much lower.

And in terms of customers, I would not say that there would be a significant amount of customers that we would add because we anyway know all customers in and around India. There could be a few small players who would be buying from DDPSI only and we would get those customers back. But, otherwise I think that most customers are well known. Our sales teams are very strong. Our market share across India is quite strong. So, winning new customers is really not an important part of this transaction.

And then lastly, on the Pfaudler network, like you mentioned, we are seeing traction again. The traction is more talk right now. People are seeing this. It will take a few months to see actual, you know, it actually happening at a ground level. But most countries, most Governments, have a bit of negative connotation towards China. I think that will play through and you will see investments, local investments, picking up across the world.

Moderator: Thank you, sir. We have next question from the line of Jason Soans from Monarch Networth Capital. Please go ahead.

Jason Soans: You had mentioned about your exposure to pharma and chemical sectors. How it has changed over the years. I just wanted you to repeat that, if possible?

Tarak Patel: Sure, so historically pharmaceutical would have nearly account for about 55% to 60% of our total revenues. Now today, the chemical sector, which includes the agrochemical and specialty chemical sectors would account for nearly 50% to 55%, right? So that is which has happened. And pharmaceutical has reduced to about 30% to 35%. There have been some reasons for this.

There has been, obviously pricing pressure for pharmaceutical companies in the US. There have been FDA issues here locally. And there has also been issues relating to manufacturing capacity and approvals.

So, having said that, we have not seen a lot of investment in pharmaceutical over the last five years may be and the growth that has come for us has been really driven by chemical. The chemical, when I say chemical; chemical, agro and specialty. Because of the pollution control norms and the slowdown in China, a lot of that production has moved here.

So our growth over the last three to four years has come from the chemical industries. However, going forward, there seems to be somewhat of revival in the pharmaceutical at a ground level.

However, for us to see a complete revival, I think that will take some time. Maybe a few quarters, depending on Government policies as well as local manufacturing. I think that is something that we hope to see in the coming quarters.

Jason Soans: Sure, and sir, about orders with respect to pharma and chemicals, any differences between margin profile of the revenue potential between these two sectors, if you could highlight some?

Tarak Patel: So, not really. You will find high margin business in both sectors. The equipment size in pharmaceutical is much smaller. The equipment size in chemical is much larger. So the, may be the order value size could be significantly higher in chemical. The reaction itself in our chemical plant is much, much more intense. It is more corrosive. While in pharmaceutical, it is a little bit easier.

However, having said that, pharmaceutical has a lot of controls like FDA and audits and things like that. So there, quality levels also are quite high. So in both businesses, it is very similar in terms of quality. It is very similar in terms of technology. There could be more add-ons and bells and whistles in the pharmaceutical segment, while in the chemical the sizes would go much, much higher.

Moderator: Thank you, sir. We have next question from the line of Anush Mehta from Dalal & Broacha. Please go ahead.

Anush Mehta: Sir, I had two questions. My first question pertains to the number of manufacturing facilities where the parent is actually having as of today? Because there were a lot of news that the parent has shut down quite a lot of their facilities globally. That is one of the question. And second question sir, in Heavy Engineering, what are the, is the sector that is driving the growth is same as compared to GLE?

Tarak Patel: So, I did not understand the first question. Sorry, were you asking about the Pfaudler factories around the globe?

Anush Mehta: Yes.

Tarak Patel: So they have not seen significant shutdowns anywhere except in China. China, we were moving to a new facility which was then pushed back by a few months, has now recently started. But in Europe, most factories were running across the entire pandemic. US also was running, so nobody has seen any shutdowns. There was some shortages with terms of supply chain and things like that, but no material adverse impact in any of those facilities. And the second question, sorry was?

Anush Mehta: Was the sector that the driving growth for Heavy Engineering is same, i.e., in the sectorial breakup is same as that for the Glass Line equipments? Or there are different sectors driving growth for the Heavy Engineering?

Tarak Patel: There is definitely growth coming from chemical industries. There is definitely growth in that sector. However, there are also new sectors that we are focusing on like oil & gas and petrochemicals, which will also add to the normal legacy sectors of chemical industries that we are catering to.

Moderator: Thank you, sir. We have next question from the line of Kirti Jain from Sundaram Mutual Funds. Please go ahead.

Kirti Jain: Sir, how will our capacity addition will happen? This unit I believe, will add 600 units on equivalent basis. With the two furnaces, along with our base capacity, what will be our exit monthly capacity available at the end of FY21?

Tarak Patel: So at the end of FY21, we would have capacity in Karamsad at the range of let us say, 2,300 to 2,400, with the new furnaces. And in Hyderabad, we will have starting capacity of about 400 EU. So, a total capacity of about 2,800 to 2,900 units. Just keep in mind that in Hyderabad we have already lost six months, so we only have six months of production available. And with these new furnaces in Karamsad in Gujarat, we will keep adding more and more smaller initiatives of re-organization, some small equipment, which will then add more and more capacity without really adding new furnaces.

Kirti Jain: Okay, so we will be at the level of 250 per month in the March, right sir? In terms of the production availability?

Tarak Patel: Yes, so we should be up to 225 now in the Gujarat, and you would do another 40 or so in Hyderabad. So yes, on a total basis, around 260 would be something that is very much possible immediately. And then going forward, we would look at ramping that up as well.

Kirti Jain: Sir, Hyderabad maximum we can do only 40, sir, with the available factory?

Tarak Patel: So right now, for the first year it is 400 units. If you divide 400 by 12 or whatever you get, you will get about the 40 to 50 per month. But as keep going in and re-organizing and working our efficiency, we will see that improving over time.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Tarak Patel: So I think a lot of questions and a lot of answers. Hopefully they were clear. So I think we look forward to having you on our next call as well. Just to give the closing remarks. We are very happy with our performance in the first quarter. We believe that we have created a very strong foundation to help us achieve our targets for this financial year. And looking at the current backlog that we have and the markets that we cater to we do not believe that there is anything to worry about.

The next three quarters are something that we have in our control and we will continue to perform well over the coming months and hopefully our numbers and our results will be something that will be positive for the market. So thank you very much and I look forward to speaking with all of you at a later date.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of GMM Pfaudler Limited, that concludes today's conference call. Thank you for joining with us and you may now disconnect your lines.