



GMM Pfaudler Limited Q2 FY20 Earnings Conference Call

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PFAUDLER LTD.
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MR. JUGAL SAHU – CFO, GMM PFAUDLER LTD.**

Moderator: Ladies and Gentlemen, Good Day and welcome to GMM Pfaudler Limited Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Binay Sarma from Christensen IR. Thank you and over to you, Sir.

Binay Sarma: Thank you Inba. 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, uncertainties and other factors. It must be viewed in conjunction with our business risk that would cause future result performance or achievements to differ significantly from what is expressed and 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 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. So 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 gone past 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: Thank you Binay. Just to give you all a quick update on the current quarter so we continued our momentum. We had a strong first quarter and we continued with that momentum and we had a good and strong second quarter as well. As most of you must have seen our revenue increased by 37% basically from 99 crores to 136 crore on a standalone basis and in terms of profit we showed a significant improvement in EBITDA margin as well. Our EBITDA increased from 16.1 crore to 26.7 crores which is an increase of 66% and as a percentage of revenue, our EBITDA went up to 20% as opposed to 16% in the previous quarter same time last year. Both PBT and PAT are up.

This quarter was significant because the improvement in EBITDA came from a few different areas. One is that there has been definitely a price increase that we have been able to pass on to our customers because of the increased demand. There has also been a greater flow through to the absorption of our fixed cost is far greater which has resulted in the increased profitability and lastly there has been a large export order which also accounted for better margins.

On a half yearly basis, we are again way ahead of what we had done in the previous year. We are closing the half year at 266 crores versus 192 crores in the previous half last year which is a revenue growth of 38%. EBITDA has also increased from 31.4 crore to 50.7 crore which is an increase of 61% and EBITDA as a percentage of revenue has grown by 3%, 16% versus 19% this half year.

Both PBT and PAT are also up. We continue to maintain a very strong backlog. The order book continues to remain strong and what is endearing for us is that the order book is evenly distributed between glass line, heavy engineering and proprietary products. This quarter as I had mentioned on my last call, some of the heavy engineering products did start making a contribution as well. Some of you may remember that Q1 was not a very good quarter for heavy engineering but going forward we still believe that heavy engineering will add a lot of growth as well and looking forward we have a large backlog in heavy engineering as well as the other product line.

With that I would like to open up the call for questions and we would be happy to answer any of your questions. Thank you.

Moderator: Thank you. Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Nihil Parekh from Dhanki Securities. Please go ahead.

Nihil Parekh: So my question was more on the outlook for the three segments. We have done absolutely superb in all the three segments, so if you can just share with us especially on the heavy engineering and the proprietary products kind of what went right for us in Q2 and how do we see the next let us say one year or two years. On the GLE business how do we see let us say for next two years or so because we have already doing great performance already, so are we kind of picking there or we are anticipating the order momentum to continue?

Tarak Patel: So let me just break that down to a couple of different areas. First let us talk a little bit about Glass-Lining. Glass lining is obviously the biggest chunk of our business and is the most profitable one. We continue to maintain a market share of about 60%. Glass Line is continuously growing as there is a surge in demand by industries, basically chemical, pharmaceutical, etc. The demand is still very strong. Everybody even our competitors are quite busy as everybody has a very large backlog. Unfortunately we have not been able to keep pace with their investment and everything we invest our capacity runs short of the market demand. So now it is probably time to look at the next set of investments to increase capacity. As you know we have a fourth gas furnace which will come in line this month hopefully that should be able to expand our capacity, but my personal belief is that we would probably have to look at some more expansions to keep up with the pace of investments and market demand. I believe that India is going to continue to invest in both the chemical and pharmaceutical sectors even fine chemical is going to pick up. So I am quite confident, I am quite bullish on the India story and even if there were to be a slowdown there is obviously an opportunity to grab market share of competitors that we can target. Currently market demand is so high, we cannot meet the delivery timelines that the customers want and therefore, they had to by default then give the business to somebody else. So there is that piece of business also available. So I am quite bullish, and I believe I we will continue to grow at the same pace as we are growing currently.

Talking about heavy engineering that has always been part of our growth strategy to grow this business. In terms of the manufacturing capabilities we have invested in infrastructure and in resources which are finally paying fruit. During my last call and the call before that, I had mentioned that our starting backlog for the year was not what we would have liked it to be, therefore, first quarter was a bit slow and then making up the loss of revenue of the first quarter is always tough. However, luckily for us now next few quarters look good in heavy engineering plus what is really enduring is that for Q1 of next year we already has a large order book of heavy engineering. So we can then start next year with good amount of heavy engineering products going through and we believe we can have a much better year when it comes to heavy engineering.

Our proprietary products also have seen a significant improvement. We actually improved our production capability, our quality levels, etc. Customers are looking at us now as an option for proprietary products. Something that I have talked about in the past quite often is acid recovery that is something also very exciting for us. We are working on three or four projects which should get finalized in the near term if those come through that will be something that we can also look forward to. So, all in all, business is good. We are on track in terms of backlog and are on track for shipment, so there is nothing more that we need to book for this financial year. Most of the order booking that we will do now, in the next four to five months will be to create a backlog for FY21.

Nihil Parekh: If you can just also share the IMSD division that we acquired where has that segment meaning that business been put it is a part of and what was the number if you can share for Q2 in the IMSD?

Tarak Patel: So I mean compared to all the other businesses, mixing business is a small business. I do not have the exact numbers of Pune, but between Pune and GMM Pfaudler manufacturing facility we have enough capacity to get anywhere between 75 to 100 crores. However, this business is something that we are still in a nascent stage. It is going to take some time. We just had a brand launch. To see an exponential growth in this business line will be difficult. However, it is clear that we extended or increased the pie so the size of that business has already increased because we have added in one more business to ours, but we will see growth coming not as fast as Glass Line or as in heavy engineering.

Nihil Parekh: Sir, in the heavy engineering and proprietary products we have had margin improvement because that is visible in the numbers. So how do we anticipate these two segmental margins to move going forward?

Tarak Patel: So we have always said that we have internal targets in terms of both these business lines. We tried to meet that balance by doing domestic work, by doing export work, sometimes doing carbon steel, sometime doing different materials, different thickness. So, it is a right combination the right balance that we have to find. Obviously, our efforts are always to do business at good

margins and hopefully we can continue doing that considering the backlog that we have in terms of both domestic and export orders.

Nihil Parekh:

And one last question sir if you can share the GLE volume number for Q2?

Tarak Patel:

Volume number I think is around 1,010 EUs something on those lines approximately that is what we are at.

Moderator:

Thank you. We will take our next question from the line of Dhavan Shah from ICICI Securities.

Dhavan Shah:

I mean you just highlighted about the strong demand which you are witnessing for the GLE equipment, so can you please share some more thoughts on the CAPEX on the ground I mean for the next two to three years if we look at the chemical, the API players I mean the current run rate should be around 6,000 odd crores and of that around 8% to 10% should be coming for the GLE players. So given that you are having around 2,800 unit kind of capacity plus your closest competitor has around 2,100 units. So maybe I mean including De Dietrich next year shipment should be around 5,500 to 6,000 odd units for the industry size against around 4500 right now, so what your overall outlook for the segment if we look at for the next three years and you have also highlighted about the CAPEX, so how much capacity addition can be there for the segment if you can share thoughts on that?

Ashok Pillai:

In reply to your first question and the growth for the chemical business and pharmaceuticals business looks very strong. I do not have the numbers that you just mentioned in front of me, but yes, we see that most of the specialty/pharma companies are investing strongly. We also know that the pharma companies are planning for expansion, some of them have expanded. We are expecting more of the Hyderabad base pharma companies expand a lot more now. So yes we do think that the story for the next three years for Glass Line equipment and for that proprietary equipment that goes into pharma and the chemical sector is going to be strong for us and we would make sure that we have the capacities we are looking at that we can exploit that demand better.

Tarak Patel:

So just to add to that the normal CAPEX for investment is anywhere between 15 to 20 crores, so it is not significant. Furnace is the biggest cost. A furnace costs anywhere between 4 to 6 crores and then obviously a factory shed and things like that. As Ashok mentioned that the market size itself will also continue to grow if you look at the per capital consumption of chemicals, pharmaceuticals or fine chemicals in India there is still a lot of scope for that to improve. There is a lot of imports that are coming in from outside of India. So, I think lot of Indian companies will look at indigenizing some of these chemicals and make them locally here in India so that will be a further push plus the China slowdown. People are looking to de-risk the China strategy, China slowdown as well. So I think from whatever the customer that we are speaking to a lot of them are already planning for major CAPEX. They will continue to invest,

and they see at least next three to five years is being very critical in terms of improving and increasing their growth stories.

Dhavan Shah: So this 15 to 20 crore CAPEX will add how much unit of equivalent capacity for GLE business?

Tarak Patel: So just to tell you we have not really thought about it right now, but we were just discussing this today in the board meeting, but we will come back to you maybe later but again it is also we need to figure out what do we want to manufacture there. There are certain items that we are saying 'no' to the customers right now because of the capacity constraints. So we will come back to you on CAPEX. There could be Glass Line pipes and fittings, columns, tanks and things like that where we can look at kind of premium from capacity within GMM Pfaudler and moving it to the other plant. So we do not have the exact numbers right now, but we will be taking a decision on this shortly in the coming week or maybe in a months' time.

Dhavan Shah: Yeah and one more question is about the overall market, so given the strong demand you are witnessing and there may be a capacity constraint from the GLE players like you and your closest competitors, so will it be a seller market like you have also witnessed some price increases for your end product, so how should we look at for the next two to three years because your carbon steel I mean that format has also come down and you have witnessed some price increases, so that has may be laid at some improvement in the EBITDA margin for Glass Line for this quarter around 22% odd, so what should be the peak margin for the Glass Line equipment if all this things is in favor to you?

Ashok Pillai: Margin may continue to be more or less what we have got for this quarter. We do know that the demand is going to be stronger and we are in a good position in terms of market share in terms of our products itself. So we believe that the market is going to stay buoyant. We do not want to comment on whether it is the seller markets or not. I do not think we can talk about that but like I said we can cater to the demand that market requires of us then we would continue to be in strong position that we are now in and continue to get both the market share and revenue volumes..

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

G Vivek: My question is about the opportunity size for our product range including GLE and the other product range ANFD will also I believe we are there and how is the opportunity size in terms of crores of rupees for the different segments we are operating in and does it sustainable and does it increasing?

Tarak Patel: So I think we can talk about the market size the way the market is growing which we have just discussed and few questions that we did answered already. The chemical and the pharmaceutical market is expected to be strong. We are about 60% market share in Glass Line, so you have a sense of what is the market size today. We know that in the next three to five years all the investments are going to be coming in from the chemical and pharma industry and it will reflect

into a strong demand for the Glass Line product and as a downstream to the Glass Line product it will also be reflected in the proprietary products as well. In the proprietary products of course our market share is not as strong or as large as the Glass Line. So the opportunity for us to go there could be larger, but there is a more competitive market for us for those products. Apart from that we do not have numbers so we can't specifically talk about the market size in each of those businesses.

G Vivek: What is the opportunity size for ANFD component and one of our major competitors the change in promoters have recently happened so is the competition intensity going to increase now with the new promoter coming in who might be having increased fire in the belly taking the market share away from us or is the big enough for everyone?

Tarak Patel: So we cannot comment on what the promoters will do, but obviously if they bought a company I think this is actually not recent I think it maybe two or three years since they have taken over, but obviously we are the market leaders and is always difficult to scale up to the levels that we have already scaled up. We have been in this business for 50 years it is not a product that you can easily just scale up your quality standards, your welding channels, your productions, procurement, engineering standards all have to also scale up simultaneously. So it is easier said than done. I think it is going to be difficult up to a certain volume. Every incremental volume after that it becomes difficult. The aim of the business is also something that is growing the market size we do not have the exact number, but the ballpark number is about 400 - 500 crore somewhere around that, but that is an area where we do not have a very large market share and maybe as customers are looking for more vendors and the demand is increasing and that somewhere we can find and improve our market share as well.

G Vivek: Sir, growth rate which we can expect for our product range another factor as a whole from India approximately?

Tarak Patel: So I think the Indian chemical and pharma industries are growing at 15% that is what we always keep saying and something that we would expect to at least meet and probably improve on that, but right now we have visibility and you know that last couple of quarters the rate that we have been growing at we will continue growing at those rate for at least the foreseeable future.

Moderator: Thank you. Our next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: So two questions two parts GMM has already it is obvious to have started this new chapter with the brand name Mixture I believe that this should be the world class facility from your end, but if you can just elaborate a bit on this and what sort of developments do you see going ahead with Mixture?

- Ashok Pillai:** So this year the new brand that we launched for mixing system and we feel that it is going to be very strong brand. Customers in India and later on overseas will look on to Mixion as the brand that they will think of when they need the mixing solutions. So for that we are planning to have a world class manufacturing, we are planning to have labs where we can do trials, where we can do research works these are all things that we have in plan and they will come over a period of time. So we have identified mixing as a key business for us where we will infuse technologies from within our own resources and if necessary from outside and use that to grow the business in a very strong way.
- Rohit Ohri:** So is it fair to assume that Mixion would be related to the IMSD that we had which we took from Sudarshan Chemicals and is it fair to assume that you can do at least three to four times of the investments that you have made in IMSD?
- Ashok Pillai:** So yeah the Mixion itself is a combination of the manufacturing and the engineering capability that we have in Karamsad in Gujarat and the same application engineering and manufacturing that we have in Pune is going to be a combination of both of those things. We are going to take and leverage those spends that we have in engineering and products and the markets to scale up and to make it a world class mixing solution segment for us. Yes, that is what it is going to be.
- Rohit Ohri:** So probably a long short from me three or four years down the line, do you intend to merger this division with MAVAG?
- Ashok Pillai:** No, they are not connected and MAVAG will remain a subsidiary outside India. It is nothing to do with MAVAG at all. Mixing belongs to GMM will be typically based out of India itself. We have a brand for the first time for one of our product and we want to see how that brand is accepted by the market.
- Moderator:** The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.
- Amandeep Singh:** Sir, you mentioned about visibility for FY21 the back of current order backlog can you help us with the order book split between GL and non GL segments?
- Tarak Patel:** So I think the order book for the current year probably in the range of 60-40. I would think 60 with Glass Line and 40 will PP and heavy engineering.
- Amandeep Singh:** And sir in Q1 concall you had mentioned that pharma players in Hyderabad and Telangana started investing, so sir any update on that?
- Tarak Patel:** Yeah so there have been a one-off investment, companies Divi's, Aurobindo, HeadPro, MSN Labs have already looked at and have already placed orders. There is a talk of further investment. There is no real movement except the fact that some clearances were received for the Pharma City, but hopefully soon that will also start showing some traction and maybe some investments there and companies will then need to look at procuring equipment from us.

Amandeep Singh: And lastly sir in the previous quarter you had mentioned about some moderation in pace of order inflow on the back of slowdown in auto industries, sir was that just a one-off or you feel that order momentum has again gained traction?

Tarak Patel: So yes, I would say that I am not sure with the one off it definitely not at the levels, but we have been managing to maintain the order backlog. There is visibility out there so every time I take a conservative view then the market shocks me. I do not know really what to say, but I mean Q3 and this last couple of months have been good in terms of order booking.

Moderator: Thank you. Our next question is from the line of Yash Batra from ICICI Securities. Please go ahead.

Yash Batra: Sir, my question will be regarding the non GL market I want to know that what is the market size and what is the market share that we are targeting?

Ashok Pillai: So, non-Glass Line business consists of heavy engineering & proprietary products. Heavy engineering is where we are actually cracking on the surface of the domestic heavy engineering market potential and we have market potential even overseas. So with the type of qualification, accreditation that we have for heavy engineering we believe that we can move into the both the domestic market as well as international markets by actually choosing the orders that we want to do not competing with the local fabricators, but looking at the high quality players both in India and abroad and we have now the Pfaudler network helping us for export orders so that is on heavy engineering. Our market share from that point of view is really meaningless to talk about because the market size is extremely large, and we are at this point of time a very small player. In the other product lines we have products that actually follow or surround the Glass Line equipment which are basically filtration and drying engineer system, mixing system are three main divisions that go along with the proprietary. Each of this places are market size is relatively small, it is in the double-digit so it will be in 10%, 12%, 15% not more than that and we think that there is a good potential for us to grow in those markets as well.

Yash Batra: And sir how do we intend to compete with the other heavy engineering players the other engineering competitors which we have?

Ashok Pillai: So we have the advantage over others that we are one of the smaller companies in terms of size, but we have all the capabilities that big companies have. For example the type of accreditations and certifications that we have are like companies with the size of Larsen & Toubro, Godrej or SGS L has. So we have those capabilities in terms of accreditations and certification with engineering but we do have the flexibility of handling smaller ticket size orders as well. So these companies would not take orders in the range of 10, 20, 30 crores but they will take orders i of 100s of crores of ticket size. We believe that we have the appetite to handle much smaller orders of 10, 20, 30 crores and give the customer same level of proficiency in terms of technical engineering support as well as manufacturing excellence.

Moderator: Thank you. We will take a next question from the line of Kiran Karthik from Table Tree Capital. Please go ahead.

Kiran Karthik: Couple of questions from my side one we are seeing a lot of NGT the national green tribunal kind of picking actions across multiple states you know Gujarat, Karnataka, Maharashtra, Andhra Pradesh, so just wanted to kind of get a sense from you if you are of course we are seeing a lot of order book lot of demand, but are we seeing a slightly reduced order book order demand given that your customer are not picking up affluent or slowing down the order pace given the NGT hangover?

Ashok Pillai: So NGT does bring a certain amount of bump in some way. Some of the orders that we are expecting have been delayed, but our recent understanding is that the issue of NGT have been pronounced, people are finding ways to deal with it, and complying with the requirement of NGT and yes continue the expansion. So while we believe that this will probably slowdown some of the order finalization process in the medium term but that will not be much of a hurdle.

Kiran Karthik: Right now we are probably seeing a 5%, 10% kind of reduction, but it will normalize over the medium term is that a good sense?

Ashok Pillai: That is right.

Kiran Karthik: Sir, second question that I have is around proprietary equipment so when we say proprietary equipment I am assuming this is filter and dryers and MS equipment, so if you could just give us a sense of let us say we sell one Glass Line reactor would be selling one filter and one dryer or for three Glass Line, is it one filter one dryer I mean just a sense because I do not understand that bit of the market much, so if you can just help us explain that angle?

Ashok Pillai: So the reaction is done typically in a Glass Line reactor and it combines with stainless reactors that handle post the main reaction some of the other mixing and then typically following that at Glass Line itself or stainless steel the production flows into a preparation of a liquid solid separation device which is a nutsche filter that we make and centrifuge which we don't make, following that is typically a dryer. So for a typically for 4 or 5 reactors you probably have one ANFD.

Tarak Patel: But it again it also depends on the industry of chemical and also the pharmaceutical would have different requirement as Ashok said two or three reactors to dryer probably was the likely scenario.

Moderator: Thank you. Our next question is from the line of Subham Goswami from Stewart & Mackertich. Please go ahead.

- Subham Goswami:** Sir, I need to understand the last quarter or during the last few quarters we have been paying the pharma sector has been in a slowdown and not a much investment is happening and in this quarter we are seeing about pharma sector is growing and growing at a rate of 15% odd so, so how is that outlook change and is there a new recovery or green shoot in the pharma sector is that you are looking?
- Tarak Patel:** No, we did not see that I just said that basically we expect chemical and pharmaceutical to grow at around 15%. So specifically I cannot clearly tell you and what growth rate pharma is growing right now I do not have that information, but we have seen in the last couple of quarter that there are big Hyderabad players have invested in increasing the capacity from what we have been hearing the plan to put further capacity as well. The people like Aurobindo a little bit in terms of Dr. Reddy, MSN Labs. There has been some traction there people like Lupin, Cipla, Sun Pharma have been acquiring companies. So it really depends it is more about bring their own internal issues, people who got and acquired companies outside, people who have FDA issues or maybe slower than people who are only focus on bulk drugs and have gotten them out of FDA issues those are the guys who were expanding, but I think that pharma has been acquired for some time as we definitely believe that over the next three, six months or slightly more than that they will look at investing and growing their portfolio both from a capacity point of view, but also maybe from a product point of view.
- Subham Goswami:** Sir we have saying about heavy engineering margins also scaled up and how much in terms of capacity or in terms of targets how much scale up can do in heavy engineering and proprietary business?
- Tarak Patel:** So in heavy engineering we definitely have capacity available. We recently invested we had one shed dedicated now we have two shed dedicated. So our capacity from the factory is anywhere between 150 to 200 crores that is the output that we can achieve obviously to hit high end of the number we will find the right balance between the materials and the prices and values, but that is probably what the factory output can be. Proprietary product point of view again depending on the product that is included anywhere between 100 and 150 crores should be possible.
- Subham Goswami:** If I am going to ask you about the ticket size of this non GL segment what is the typical ticket size are we looking?
- Tarak Patel:** So it depends, a heavy engineering would be around 10 to 20 crores proprietary products would be maybe a crore to two crores. Yeah the ticket size of one order in proprietary product would be in the range between 1 or 2 crore.
- Moderator:** Thank you. Our next question is from the line of Alisha Mahawla from Avendus Wealth. Please go ahead.
- Alisha Mahawla:** I believe earlier somebody did ask the volume that you have done in GLE, can you repeat that I missed the number?

- Tarak Patel:** It is 1,000 EU.
- Alisha Mahawla:** In H1?
- Tarak Patel:** Yes in H1.
- Alisha Mahawla:** Sir, the expected run rate in H2 is expected to be higher because otherwise the overall volume growth at the end will be similar to what we did in FY19?
- Tarak Patel:** So there is a combination here in terms of both the volume and the size of EU is increasing. So this will not be a direction correlation between the number of EU and also what we did last year. So there is a slight change maybe we can take that offline, we can have a discussion on that, but having said that Q3 and Q4 are definitely better quarters. Q2 usually because of the monsoon has a slowdown in the Glass-Lining process. There are chances of moisture content in the air increasing which affect the Glass-Lining process adversely. Q3 and Q4 will definitely make up for the short fall.
- Alisha Mahawla:** And another clarification is that I believe in Q1 also there was some price increase taken by you so you are saying that you all were able to take a price increase in Q2 also?
- Tarak Patel:** So the price increase is constant, but however we have seen a reduction in raw material prices. So probably depending on the situation and the customer probably now is the time where we will have to maintain prices we do not want to scare people away and you know many of our customers have been with us for a long time. So after a point it becomes very difficult, but when the demand is as strong as it is right now there is always an opportunity to pass on some of the pricing to the customer.
- Alisha Mahawla:** And lastly can you just share the average price for you currently?
- Tarak Patel:** I think around 15 lakh.
- Moderator:** Thank you. Our next question is from the line of Riya Mehta from Anand Rathi. Please go ahead.
- Riya Mehta:** Sir, in terms of order book could you guide us a what would be the growth as compared to YoY growth or something like that since we do not have a much of closing the number in terms of EU if you could help with that?
- Tarak Patel:** So the only thing I can say here is that we are pretty much booked for the year. So this year outlook is in line with the growth that we have shown in the first two quarters and we will continue with that. So we are now closed for new orders, but this financial year maybe the small order for making system or something we can take. Now the goal is to basically build the backlog for Q1 and Q2 of next year so that is what I can share with you right now.

Riya Mehta: And for the whole year as a whole we are guided that by FY20 considering all the new methods of outsourcing and all being done. We can reach 3,000 EU so are we still on that guidance or because of the increase in the size of the EUs, we are reducing the total amount of EUs guided?

Tarak Patel: So the EU guided even though there will be an increase in terms of revenue the EU sizes and the value for EU has both increased. However new furnace will come through and we will look at pushing out more product in the factory. The other thought process was that we would once we get the new gas furnace we would switch off the electric furnaces however with a backlog that we have currently I think it is important that we reduce the backlog so we will continue to use both electric and gas furnaces. So definitely try and reduce the backlog, but yes in terms of guidance in terms of 3,000 would probably be a number that is probably not possible we would be closer to maybe 2,400 - 2,500 markets right now with the size increase of EU.

Riya Mehta: Since you telling on both electric and gas furnaces are utilized earlier we were factoring the power cost saving by around 2% to 3% of the total cost, so with the electric furnace also working or that would not come into place or how will that work out?

Tarak Patel: So you have seen already the electric furnace has been already working with last quarter you already seen the improvement in profitability is much higher than what we have planned with the increased flow through the absorption is obviously much better. The gas furnace will definitely help reduce cost further, but the gas rates have also reduced. So it is a combination of everything I do not believe that we can say that there will be no further improvement in profitability I think there is scope of definitely improving profitability for the Glass Line segment in the coming quarters.

Riya Mehta: Sir, the last question for heavy engineering for this quarter the YoY margins have decreased, so could you help us with how do we see the margins in this business and going ahead what is the prospect?

Jugal Sahu: So we would say it was 12% last year and even current year half yearly basis it is about 10%. As we had lower revenue in the first quarter where we have margins about 3% and we have a 12% margin in this quarter, so on a half yearly basis it is about 10%, but as volume increases our margins will substantially improve.

Riya Mehta: Sir, last year in September our EBIT margins were around 16%?

Jugal Sahu: It will be better on a yearly basis if you see last year full year margin of heavy engineering was 12%.

Tarak Patel: So I think what Jugal is saying is that basically the first quarter because of the low shipment, the absorption and the volume increases you will see some better flow through. So you see that improving as we continue to produce and ship out heavier engineered product.

- Riya Mehta:** So the current order backlog whatever is said the margins are of the same range as per this quarter or as per the average which has been like the 12% of the last year?
- Tarak Patel:** No, it will be similar to this there is a good combination of export; domestic there is some good margin business in there as well. So we will definitely see some improvement there.
- Moderator:** Thank you. We will take our next question from the line of Dhavan Shah from ICICI Securities. Please go ahead.
- Dhavan Shah:** So can you please share your order backlog for Q2 and Q1 in terms of equivalent units and also you shared that first half shipment was around 1,000 so this quarter shipment should be around 450 something and if I calculate the realization it comes around 18.5 lakh something and you are highlighting 15 lakh, so is there any maintenance revenue also included in the GLE and what kind of maintenance revenue run rate per year if you can share?
- Tarak Patel:** You are right this GL number includes also spare parts and service which is about on a half yearly basis anywhere between 15 and 20 crores. So that gets added on plus the margins in spare parts are definitely higher than OE equipment so that is what probably the differential is.
- Dhavan Shah:** And the order backlog if you can share for Q1 and Q2?
- Tarak Patel:** Order backlog as of Q1 and Q2?
- Dhavan Shah:** I mean what was in Q1 and what is right now in Q2?
- Tarak Patel:** So we do not share backlog numbers as I mentioned we have orders on hand that will take us through for this entire financial year and we are now looking at building a backlog for Q1 and Q2 of next year.
- Dhavan Shah:** And one last is you are manufacturing three types of GLE equipment A, B and C and your closest competitor is not into B, so just wanted to understand our revenue mix between this three verticals because I suppose we must be having higher realization because it is having some higher volume number I mean the liter capacity so if you can share the revenue mix between this three?
- Ashok Pillai:** While we do not track revenue separately on these categories. The BE is not the difference in size but the difference in technology. It typically have the removal of Cryo-Lock® agitators built into the reactor and that hi-tech type of equipment's that many customers are now finding. So that is what the difference between BE and CE, but for us we do not keep specific track of the close numbers about the bifurcation in the three types.
- Moderator:** Thank you. Our next question is from the line of Anand Jain an Individual Investor. Please go ahead.

Anand Jain: My first question is that on both quarterly and on six month run rate, we are paying some kind of slowdown on the MAVAG, can you just explain what is explaining there?

Tarak Patel: So MAVAG the guidance has obviously at the first quarter I had mentioned that MAVAG is not going at the rate obviously GMM Pfaudler standalone is going ahead. However, Europe has seen some slowdown. Having said that they are comparatively compared to previous year are on the same run rate. We have done about 6 million Swiss franc worth of business, the profitability has improved and for the year we expect the second half to be around the same number slightly better than that. So MAVAG obviously is not going to be growing at the double digit range that we have been growing at least for this year, but now I believe they are now looking at building up their backlog as well for the next financial year.

Anand Jain: The second question that I have is more in terms of I know you are not going to give me order backlog number you do not want to do that, but can we assume that this quarter backlog is higher than what we had last year or is it come down a bit?

Tarak Patel: They are in line with the last year same time.

Jugal Sahu: Order backlog is in the same line as compared to preceding quarter but compared to the corresponding quarter it is up maybe by 40% to 50%.

Anand Jain: Last question from my side I think there was a question asked in terms of you know what is required reactors plus a proprietary products in terms of filters and dryers, so one thing that I wanted to understand is that you said for this 3 reactor we will probably require one filter, one dryer, one mixer and that kind of stuff, so I just want to understand it moves from a value perspective that you know if we have a reactor and how the entire system works the rest of them in terms of value?

Ashok Pillai: See that is very difficult to generalize because different companies requires different types of equipment for example many companies will require Glass Line and they may require a stainless steel filter dryer in which case value proposition or value differentiation between the Glass Line and stainless steel is in one direction or we may require the filter dryer made of cast alloy than that of the stainless steel there the combination completely changes, but typically if you take the three of four reactor than this filter will probably be you know it is very difficult to give a number it is not that we can very quickly give you a number on that it all depends on a particular process, the acceptance on the industry and difficult to say with any certainty what would be the breakup between the two.

Anand Jain: Just on the same thing, I just want a numerical answer so from a size perspective industry size perspective for Glass Line and for filters and dryers and for mixers if you can give us some idea?

Ashok Pillai: It is very difficult to give you an answer on this basis that even on a size point of view. For example it has to be a process and design for an application and carry on the customer or the

consultant would try to put the reactor despite the amount of solid that are generated then decide the size of the filter, decide the material of construction and then the whole costing comes in only after that. So it is very difficult to generalize thing that this is what happens. We can give you a general feel for the whole say in terms of typically what happens, but beyond that to give numbers it becomes very difficult. We would not like to extrapolate for example based on any such estimates on that.

Anand Jain: Thank you. We will move to the next question. Our next question is from the line of Kapil Arora an Individual Investor. Please go ahead.

Kapil Arora: Sir, my question is related to the increase in working capital and trade receivables which has been gone up it maybe it is increasing business, or it is a one off thing for this quarter?

Jugal Sahu: On a net to net basis our working capital has reduced. Yes, as far as receivable is concerned we are up by 10 crores which is an increase of about 20% as compared to the same period previous year. However, our business is also growing at a rate of about 35%. If you look at an inventory level our inventory level as at September is in line with inventory level same period last year. So there is a substantial reduction in inventory days. On a overall basis we have seen a reduction in net working capital days.

Moderator: Thank you. Our next question is from the line of Nihil Parekh from Dhanki Securities. Please go ahead.

Kaushal: Sir, just one clarification earlier to earlier question you mentioned this number of 2,400 numbers for GLE, so this was for the current year or for the next year meaning for 20-21?

Tarak Patel: This thing for this year we did about 1,000 now and we expect to do anywhere between 1,200 to 1,400 more in the coming quarter that depends on the size of the reactor. If the new size is changed drastically then that number might change.

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

G Vivek: Sir, this was regarding the sector per se and of chemicals API basically in India are we getting that permission from environment ministry and state pollution control board because I have heard that lot of time is taking place, delay is taking place and do we miss out on the opportunity as the central government, the state government being proactive and encouraging the investment in the chemical API and another sector and API in agro chem are the two engines of growth for us and things like that?

Tarak Patel: So I think most customers already have their plant setup and have additional land and so for them it is very easy. So a lot of the environment clearances have already been received. So people like PI Industries, Aurbobindo, Divi's, and UPL have large facilities. They have land for expansion, so they do not face any problem with environmental clearances. However, new

players green field projects will face a little bit of difficulty, but I think the government now is pro-business they want expansion, they want people to invest, they want to create job. So if you do it the right way if you have the right systems in place and you are not trying to break the rules I think it is probably not very difficult, but at the same time I guess there have been certain cases where customers have found it difficult, but it is not something that we hear a lot from people as a reason why projects are delayed.

Moderator: Thank you. Our next question is from the line of Subham Goswami from Stewart & Mackertich. Please go ahead.

Subham Goswami: Sir, I just wanted to ask from the whatever utilization Glass Line segment right now and how much are we looking to scale up since you mentioned that investment is quite heavy in the segment and from the industry perspective and customer perspective so how much are we looking a way forward, how much are we going to scale up capacity/

Tarak Patel: So again that is a question between scaling up and demand and stuff like that. So again we will be watchful we do not want to over-commit, and we do not want to scale up and build all the fixed cost and then get stuff. So right now we are waiting and watching the current backlog that we have for Glass Line is probably large we need to break that down. So maybe one more set of expansion are to at least add one more furnace in the range of 15 to 20 crore and something that will bring another 30, 40 crores of revenue of every year. So that is something that we could look at and we are still thinking about it and if we decide to do something on those lines we will definitely let you know.

Subham Goswami: Sir, 240 crore revenue what is in terms of EU?

Tarak Patel: So again I had mentioned that I am not sure because we have not run the numbers yet we need to figure out what exactly we will manufacture in the new facility if we are doing tanks and columns is a new concept will be slightly different so let me get back to you on that.

Moderator: Thank you. Our next question is from the line of Alisha Mahawla from Avendus Wealth. Please go ahead.

Alisha Mahawla: Can you give the volume for Glass Line for H1 of last year?

Tarak Patel: H1 about 900.

Alisha Mahawla: And what is the percentage of export currently?

Tarak Patel: About 12% company as a whole GMM Pfaudler standalone as a whole.

Moderator: Thank you. Our next question is from the line of Yash Batra from ICICI Securities. Please go ahead.

Yash Batra: Sir, you had mentioned as 15 to 20 crores of revenue from spares as half yearly revenue, so I just wanted to understand like is this revenue expected to sustain and like what would be the maintenance for a GLE user?

Tarak Patel: You know Pfaudler globally has about 50% of the revenue coming from spare parts and in India it is definitely volume that we ship out every month are increasing. We are shipping out close to 2,000, 3,000 unit and we are doing it for the last maybe four, five years there is a large install base and there will definitely be a demand for spare parts when we these plants are becoming two, three, four years old. For us it is a big push we definitely believe that spare parts is somewhere that we can grow our business. We also believe that now all the FDA issues and as company become more professional most companies will come back to the original equipment manufacturer to buy authentic and authorized spare parts. So we believe that this business will grow growing forward.

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

Riya Mehta: The question was regarding CAPEX these are incurring CAPEX for the new facility, so how much amount have been spent and how much is pending like if you can guide and also for FY21 number of EU we are guiding for like for inspection?

Tarak Patel: So it is too early to talk about FY21 I will get back to you within Q3 or Q4. Right now there is no additional CAPEX that has been planned if we do plan to add one more facility or one more furnace there has been a range of 15 to 20 crores. However, currently we are in the process of commissioning our 4th gas furnace which will be ready soon, but no additional CAPEX has been planned for this year. However, we were thinking about expansion if the order backlog continues to remain strong as well as continues to improve.

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

Tarak Patel: So thank you very much everybody for your questions and your interaction. We again reiterate that we are in a good position right now; our backlog continues to remain strong through all our product lines. We are quite confident that we can use the next four to five months to build a backlog for the coming years. As I have mentioned a couple of times it is important to start the year with a strong backlog so they will be not playing catchup throughout the year and we are pretty confident that we can do that. The industry segment that we cater to the chemical and pharmaceutical industries is key to invest. We believe that some of the China slowdown, the kind of de-risking of China as well as too much reliance on import will drive some growth in the Indian market. So hopefully we will continue with this performance for the coming quarters. Thank you very much.

Moderator: Thank you. 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.