



“GMM Pfaudler Limited Q4 and Full Year FY20 Earnings
Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the GMM Pfaudler Limited Q4 and Full Year FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Diwakar Pingle from Christensen IR. Thank you and over to you, Mr. Pingle.

Diwakar Pingle: Thank you, Nirav. Good morning 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 risks that could cause actual results, performance or achievements to differ significantly from what is expressed or implied in such forward-looking statements. Please know that we have mailed the results, the press release and also the outcome of the board meeting, and the same are available on the company's website. In case you have not received the same, you can write to us and we would be happy to send the same over to you.

To take us through the results and answer your questions today, we have the top management of GMM Pfaudler, represented by Tarak Patel – Managing Director, Ashok Pillai – Chief Operating Officer, and Jugal Sahu – Chief Financial Officer.

We will start the call a brief overview of the year and the quarter gone past, and then dive into the Q&A session. With that said, I will now hand over the call to Tarak Patel. Over to you, Tarak.

Tarak Patel: Thank you, Diwakar. Good morning everybody. I hope everybody is safe and healthy. Let me give you a quick update on our yearly performance as well as quarterly performance. On a yearly basis, on a consolidated revenue, we improved consolidated revenues by about 18% compared to previous year. So, we had good, strong revenue growth across all our business lines. On a standalone basis, we grew about 23% over the previous year. We did about Rs. 418 crores in the previous year and this year we closed at about Rs. 516 crores.

As you know, and most of you have seen already, the quarter four numbers are below expectations. This is due to the fact that we had about 12 to 15 days of shutdown because of the Coronavirus crisis. Our supply chains were affected, our ability to ship out ready equipment was also affected, and we lost close to about Rs. 300 million of revenue because of that. All in all, we were tracking towards the target that we had internally planned. However, this unprecedented situation actually affected us. And being a manufacturing company, March ending is always a very strong month for us and this was affected.

So, on a standalone basis, as I mentioned, the revenue grew by 23% and our EBITDA increased by 52% year-on-year. So all in all, obviously a good year for us. But having said that, we were

tracking to actually better performance. And then unfortunately, because of the situation, we were not able to maximize the shipment in the last 10 - 12 days of the month.

Coming to the quarter performance, as many of you know, we still managed to maintain our revenue growth. So our growth were actually down but the revenue numbers were not far behind. The revenue was down by about 6%. And the profitability, the EBITDA margins, however, improved by about 19%. Mavag also did okay. Mavag also lost a couple of days and also some shipment from GMM Pfaudler which was supposed to be sent to Mavag was not allowed to be shipped. But however, both GMM Pfaudler and Mavag are starting the year with a very strong backlog.

Many of you have asked us to share backlog numbers, and this is the first year that we will be starting to share backlog numbers. So I am happy to report that we have an opening backlog on April 1st of Rs. 350 crores, which is about 40% higher than previous year. Mavag itself also has an opening backlog of about CHF 12 million, which is the same amount of production and revenues that they had built for the previous year. So we expect Mavag also to improve considerably this year. The last month or so also has been very strong for order book. The industries that we serve, mainly the chemical and pharmaceutical industries have been insulated by this crisis.

We have seen a lot of traction as well as interest in new projects & new products. Many customers are now asking us to prepone deliveries. We also believe that the China slowdown and people are now looking to find alternatives to China which will have a positive impact on both chemical and pharmaceutical industry as well. We have been hearing that a lot of Indian pharmaceutical companies have been dependent on intermediates and supply chains from China. Many of these companies will now look at building capabilities in India itself, so their dependence on China will reduce.

As many of you would know also, we have also received an in-principle approval from the Board of Directors to set up a second facility in Hyderabad. Most of our customers in the pharma space are located around Hyderabad and the Vizag area. With Pharma City coming up there, it is important for us to be there before the investment starts. We are already in advance talks with the Telangana Government. They have rolled out the red carpet for us. They are quite excited by the fact that we have German multinational company coming over there, and they actually having the Telangana Formation Day in the first week of June where they will announce this partnership as well.

We also have two new furnaces coming into our glass lined facility sometime in July. We expect that to be commissioned in a month's time. So around August, September, we should have that up and running. That would also increase the output for the year.

So basically for the year, I would say that we have reasonable visibility in terms of orders for the targets that we have internally set for ourselves. Now the focus is going to shift on execution. As many of you know, and have seen in the past, we have a very strong track record about execution. One more heartening point is that our factories have been able to ramp up quite quickly. Even though we lost about 15, 20 days in April, most of our workers are local, they are from the surrounding villages, we don't depend heavily on migrant labour. So many of these workers, even though many of them have been working for many years, did make a lot of effort. And we actually were running our factory much before many other factories started.

Today we have about 600 people already at the factories in two shifts. We have taken all safety precautions, and we believe that things are now returning to normal. Our supply chains as well have returned to normal. And I believe that even though Q1 will be a little bit subdued, I believe Q2, Q3 and Q4 can make up for the shortfalls. And in terms of top-line growth, we are expecting at least a minimum of 15% revenue growth year-on-year. We will focus on improving profitability as well, but we are being a little bit conservative there because there will be new expenses that we probably have not considered because of Coronavirus. But having said that, we are quite bullish, and we expect to continue with our growth story going forward.

So with that, I think I will open it up to Q&A session. And I and the rest of the team will be happy to answer any of the questions that you may have.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of HR Gala from Finvest Advisors. Please go ahead.
- HR Gala:** Tarak, congratulations for a really great set of numbers and a very promising outlook that you are giving for the company. Just a couple of questions. This Sudarshan, how much revenue have we accounted in our consolidated results? And in which segment it is included.
- Tarak Patel:** So the Sudarshan numbers have been categorized under the mixing segment, so it falls under the proprietary products and together with both GMM and the Sudarshan mixing segment its around Rs. 55 crores to Rs. 60 crores.
- HR Gala:** 60 croes. That's the total amount I think.
- Tarak Patel:** Yes, that's the total.
- HR Gala:** No, I mean Rs. 55 crores to Rs. 60 crores, that is out of Rs. 186 crores which we have reported under proprietary products, right?
- Tarak Patel:** Yes, should be around that. Jugal, can you correct me if I am wrong, about Rs. 50 crores to Rs. 55 crores would be the right number for the mixing segment, right?
- Jugal Sahu:** Correct. It is between Rs. 50 crores to Rs 55 Crores

HR Gala: My second question pertains to, you have already given the revenue visibility for FY '21. Now on field, are you seeing actual movement in the API segment and those who are manufacturing intermediate and specialty chemicals to take up some sizable CAPEX? Which again we will be feeding that because of this Chinese factor which you described.

Tarak Patel: Yes, Mr. Gala. So I believe that pharmaceutical, which had been very quiet, and normally pharmaceutical accounts for nearly 50% - 55% of our total glass line revenue. However, for the last may be 18 to 24 months, we have seen that fell to about 30%, 35% because chemical has been really driving our growth. However, having said that, most of the CEOs we are speaking to, most of the owners we were speaking to, Laura's Labs, Aurobindo, and even some chemical companies, they all are looking at setting up some intermediate facilities. Because people realize that they had so much dependence on China and when the supply chain stopped, they were put under a lot of pressure. Not that these people cannot make these intermediates, the cost structure in China is very different. But now with Pharma City coming up and what we have heard is the Government of India, the Central Government has approved three clusters for API and intermediate manufacturing. The first one that is supposed to come through and be announced is the Pharma City in Hyderabad and one of the options that we have been presented with by the local government there is to set up a facility in Pharma City, even though nobody else has been allocated land, they are talking to us and even offered us a small plot of land in Pharma City. So we are right in the middle of the action, if and when we decide to ramp that up and start that facility.

HR Gala: Okay. What kind of CAPEX we will have on that Hyderabad city plant when we come up?

Tarak Patel: So that will be about Rs. 50 crores, and that will be paid by our internal accruals. As many of you know, we are sitting on cash, we are debt free and setting up plant in the short term with a cost of about Rs. 50 crores, land would be about Rs. 15 crores to Rs. 20 crores and the rest would be plant and machinery.

Moderator: Sir, line for the participant dropped, we move on to the next participant. Next question is from the line of Ankit Gupta from Bamboo Company. Please go ahead.

Ankit Gupta: Tarak, if you can talk about what kind of opportunity do you see from the pharma segment emerges? And especially when we have land available at our existing plant and we are already expanding by putting up two new furnaces, so what was the need for setting up a plant at Hyderabad Pharma City, if you can briefly talk about that? I mean, what kind of incremental demand do you see from the pharma segment?

Tarak Patel: Right, so good question there. So, currently our backlog in glass lined is more than about 1,000 equivalent units. That is something not desirable, we need to bring that down to about 600/500 units so we can turn around these equipment quickly for our customers. One of the other benefits for us is the transportation cost, whenever we ship anything from Gujarat down to Hyderabad to

Vizag, that is an additional cost for us which our competitors don't have to face. Plus, we have two local competitors in Hyderabad, not very big, but being closer to our customers is something that we have thought of doing for quite some time. And actually on announcing this, we got a lot of goodwill generated from a lot of local customers saying that you should have done this maybe two or three years ago, however better late than never. And I think being there, being closer, being able to understand the market and being right in the heart of the action, I think that is something that we believe is going to be important. Now, the growth that we envisage from this facility, when Pharma City comes up in the next maybe year and a half, two years, two and a half years, that is going to be sizable. So all these companies cannot move all the equipment here, they will scrap their work plants and the kind of land that they have been allocated, and I believe it's close to 14,000 acres of land has been allocated for Pharma City. So there are going to be mega plants being set up there. And that growth itself is going to be significant. Plus, if the growth were to slow down, then obviously market share is something that we can go after. We are still losing business because we can't ship in time to a lot of customers who want to give us the business but are forced to go to our competitors. That is something that we can go after. And the furnaces that we have added in Gujarat right now are going to improve productivity and output as well. But I am saying that with that investment, plus this Hyderabad facility, and please also understand that Hyderabad, we can also look at manufacturing other products. Even though we start with glass lined, there are a lot of additional smaller products that we can make there. And having a setup in Hyderabad will definitely help us in the long run.

Ankit Gupta: Sure. So, any ballpark numbers that you can give us about the opportunity which can emerge from the pharma segment over the next two, three years? Based on your interaction with the industry leaders of pharma companies.

Tarak Patel: So, in terms of numbers, maybe it's a little bit early for me to say. Maybe Ashok, if you have some thoughts on this, you can add something here please.

Ashok Pillai: On the numbers that will go to the Hyderabad companies?

Tarak Patel: Yes. So he is saying that basically what do you think the investment from pharmaceutical would be, I mean, how would the market growth be for glass lined equipment in the next two to three years?

Ashok Pillai: If we look at the fact that many of the companies are expanding even today, and the whole Pharma City is coming where all the major companies have significant interest expressed in land in the city. We expect to be very, very high level of investment, which primarily will be for API and all of that will lead to requirement of glass lined product. So, we are seeing the requirements in the existing plants with expanding like in Divis and Hetero, they are putting up a new plant. But we also think the Pharma City to come up in the big way, its right now very early to say the number of equipment that comes in, because even the pharma companies themselves have not expressed and not have not been allocated land. So those details are yet to come. But the potential

is there. The urgency and the drive from both the state government as well as the central government is very strongly felt. And so the opportunity and the timing is right at this point of time.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi investments. Please go ahead.

Ravi Naredi: Tarakji, any margin prediction will you tell for the financial year 2021?

Tarak Patel: Yes, Raviji. The way that we are looking at it, we want to maintain the same margin levels that we have for this year. We do expect some increase in costs and expenses because of Coronavirus. But we are guiding that we will at least maintain or improve slightly on the current margin levels that we have currently.

Ravi Naredi: Okay. And sir, in media so many news are coming from China regarding shifting to India, any such things will you want to comment something that is happening?

Tarak Patel: Right. So I think that we all are hearing about people looking for alternatives to China. Even in Pfaudler network when we speak to the other Pfaudler factories, a lot of European companies and American companies are also moving some production out of China and India because they really felt when India stopped exporting hydroxychloroquine and paracetamol and things like that, they were actually caught unguarded. So they actually felt that we need to move something back. In the same manner, a lot of companies are now looking at India with more interest as an alternative to China. I think there is a lot of, how do you say, negative kind of thoughts about China, people are going to look at other opportunities. However, having said that, we need to ramp up and get producing, because like you all know we have been under lockdown now for seven to eight weeks, and many factories have been closed. Luckily for us, we have been able to start up and manage at the local because we are in a small town. But many of the bigger factories are still shut and still kind of getting back up and running. So if we don't start producing now, even if people want to come to India, they will not be able to and they will be forced to go back to China. So, as a country, I think we need to be aware that we need to start producing as soon as possible so that we can cater to the interest that the world is now looking at India for.

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

Kirti Jain: Sir, with regard to heavy engineering, how is our backlog? And we had earlier planned for growing heavy engineering at a faster pace. So, were there significant difference in the dispatches in the heavy engineering side?

Tarak Patel: Right. So, again, last 10 days of the month we had some very large orders in heavy engineering that we could not ship out. They were actually for the Middle East through the Pfaudler network, so that was something that was ruled out. However, we will ship that out in the first quarter of

this year, so that will give us a little bit of benefit. But having said that, I am very happy to report this is the first year that we have an order backlog which is in line with what we want. If you all remember, last year we had a low shipment in Q1 and Q2 and it was difficult to make up. But today we are happy to report that heavy engineering has a strong backlog and we will meet the target numbers that we are planning.

When I talked about the Rs. 350 crores backlog that we had on April 1st, that was nicely divided between glass lined, heavy engineering and proprietary products. It was evenly distributed. So it gives us visibility in most product lines for at least three quarters, in some cases even pushing into Q4. So now the focus, like I mentioned, is on execution, ramping up quickly and making sure we ship out as much as possible, and then slowly start picking up some new orders which will help us meet the revenue targets for Q4, some parts of Q3 and Q4.

Kirti Jain: Sir, with regard to your opening statement in Mavag, you had highlighted that we have the full year order book, that was the thing you highlighted, sir.

Tarak Patel: Yes, so we have a very good start for Mavag. We have a very strong order book and they are actually booked out for the year. If they execute all their orders, they will have a significant growth over previous year. And just to give you an idea, European activities have not been affected by any lockdowns, Mavag has not lost a single day of production. However, they have lost some shipment that is coming from GMM Pfaudler, but from that point of view, they have not had any lockdown or downtime at the factory. So yes, Mavag is expected to do well. I think Jugal can add, we closed this year at about maybe 12.5 million or so, we would at least expect a sizeable growth from there, if not more.

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

Amandeep Singh: Firstly, can you help us understand whether you are still on track to reach Rs. 13 billion revenue by FY '25, as mentioned in your strategic plan, Udaan? And further on asset recovery, you have been highlighting about materialization of couple of orders in this segment in near future. So any update on the same?

Tarak Patel: Sure. So the Udaan plan is not changing at all. The numbers for FY '21 will change slightly, but nothing significant. But with the new furnaces coming in, with the new factory that we are going to set up in Hyderabad there are some other opportunities that we are looking at. We believe that the 1,300 mark is something that is quite achievable and there is no change on that. Sorry, what the second question was?

Amandeep Singh: Sir, on the asset recovery.

Tarak Patel: Yes, so on asset recovery, yes, we have made some traction, we are very close now. However, because of the lockdown people have not put pen to paper, but I believe by the time we have a next call, we should have our first order in our hands.

Moderator: Thank you. Next question is from the line of Rohit Rohri from Progressive Shares. Please go ahead.

Rohit Rohri: Good to know that you started looking at market share. That is what the companies actually do, I am quite glad about that. Well, knowing that the containers and the equipment's which are like slightly larger size, we have done one of these projects last year. So are there any large ticket size orders which tend to fetch higher margin, which you would like to mention? Because you have already spoken about Aurobindo, Divis and Laurus. So any timeline?

Tarak Patel: Hi, Rohit. So yes, so we do have a big ticket orders. We have very large customers who place most of their orders with us, people who are still expanding, companies like PI industries in the chemical space, like I mentioned, the Divis Lab is somebody who only buys from us, Dr. Reddy's as well. Aarti is somebody who only buys from us. So yes, we have received orders from these companies in the last maybe month or month and a half. People are planning for the future. I know specifically that PI itself is planning for further expansions in the foreseeable future. Companies like SRF have also started talking to us for their next order. These are not yet materialized. So the visibility is definitely there. We are not seeing any kind of slowdown in terms of inquiries, maybe the finalization is taking a little bit longer, but a lot of people are trying to use this crisis as an opportunity. Indian companies and Indian entrepreneurs are good at making most of opportunities. And I think we can come out quite strong if we play our cards right. So I think the demand will continue. And I think that both chemical and pharma will continue to invest. I am sure many of you have also invested in the chemical space, and I think currently it's one of the few industries that has actually done very, very well.

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

Kaushal Shah: Tarak, can you share some thoughts about the competitive scenario in the GLE industry? We have heard some news about the possibility of one company, one peer DDPS if I have to mention, the possibility of it kind of getting closed down or not accepting orders. So, has the competitive landscape kind of become easier for us and therefore are we looking at a slightly better demand scenario in the forthcoming future?

The second question was on the greenfield plant. So, the CAPEX for that, will it be staggered or how are we planning to do it? I mean, is it likely that we are going to spend the entire Rs. 50 crores in the current year in FY '21 or it will staggered over two years?

Tarak Patel: Right. Thank you. So on the DDPS front, as far as we know that they have been losing market share consistently since they bought Nile India in 2008 or 2009. And the latest information that

we have is very similar to yours, they have stopped accepting orders. I think they have been making losses at the Indian Hyderabad facility for quite a few years now. And they have finally decided to exit India. I don't know what the current status is. However, we have actually picked up some of their people who have left them, and they are now going to help us set up a new facility. So from a manpower standpoint, we have actually got some good people who will be ready to run our new plant and at least take that project forward. In terms of the spend that you spoke about, Rs. 50 crores most likely will all not be spent this year, maybe some of the money for the land upfront will be spent, depending on when we finalize that. Hopefully I am targeting the next couple of months for that, but maybe there will be some spillover definitely into next year as well.

Moderator: Thank you. Next question is from the line of Dhaval Shah from ICICI Securities. Please go ahead.

Dhaval Shah: So, you mentioned somewhat around Rs. 350-odd crores the order backlog for the entire segment, entire business. So, can you share the Y-o-Y numbers, how is the order book in glass lined equipment, heavy engineering and crop products in terms of the Y-o-Y growth if you can mention? And the breakup up also if you can mention among these three segments?

And you have also mentioned somewhere around Rs. 30-odd crores the deferral revenue. So, can you share it among three segments, how much has it differed between all these three? And we also have seen some operating margin improvement in the glass lined equipment during this quarter to around 26% odd, so what led to such an improvement in the segment this quarter? If you can share thoughts on that.

Tarak Patel: So like I mentioned, I don't want to go into the breakups right now, but Rs. 253 crores was our opening backlog last year, today it's about Rs. 351 crores. We have also booked another maybe Rs. 60 crores, Rs. 70 crores of orders since the start of the lockdown since April 1st. The only area where I would like to give you some visibility is last year when we started we had about Rs. 28 crores, Rs. 29 crores of HE backlog, today we have close to about Rs. 86 crores to Rs. 87 crores of HE backlog, right. So, you can see, like I was mentioning earlier, how we are having an important starting backlog for HE, so important to have a good year. So there is a significant improvement there. And your second question was sorry, what again?

Dhaval Shah: Margin, this deferral of this Rs. 30 crores revenue.

Tarak Patel: So I remember what you said. So you must understand that manufacturing industry in the past we have tried to stabilize this as much as possible, so we don't have big ups and downs between quarters. But March ending and Q4 is usually a kind of a mega month for manufacturing industry. So I would just be, I mean, I don't know the exact details, but I think all in all, all product lines would see a similar kind of reduction, because many equipment that get ready and tested have come for final inspection in the last 10, 15 days, that is how it's done. So I would not

say there is one specific product that did not get shipped out. But there was one large order in heavy engineering that definitely did not get shipped out that we know about.

Moderator: Thank you. Next question is from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: Just the first question, you have talked about the inquiries that you have seen in the pharma segment, can you just talk about a little bit on the chemical side also, in the last couple of months or quarters have you seen any increased inquiries from the chemical segment as well?

Tarak Patel: Right. So, as I mentioned, we did receive a sizable order from PI industries recently. We are now discussing with SRF who have floated a new inquiry and want to finalize it very soon. We have another large customer in South India called Deccan Chemicals, they are also in the midst of finalizing a new order. People like Aarti have also finalized, I believe Transpek is coming up, Meghmani is putting up an Epichloro plant, and besides, Ashok, any other chemical companies that you want to speak about?

Ashok Pillai: DCM Shriram is putting up again another Epichloro plant, that's the other one. Then there are smaller agrochemical companies that are putting up big master plan, doubling the capacity. So there is a bit of activity taking place in the chemical and agro chemical space.

Dhruv Bhatia: Sure. And on utilization because of the social distancing norms, will it hamper your capacity utilization for the entire year?

Ashok Pillai: We would hope not, even though social distancing is already implemented in our factory, but you have to understand that these are big manufacturing plants with very high ceilings, a lot of space for workers to socially distance each other. So, there is no space limitation that has any constraints on our manufacturing process. So, I think from that standpoint not really. The only area where we are seeing a little bit of difficulty and what we had difficulty with was, obviously, getting the local permission to start up and then with obviously supply chains. But both have seemed to have been kind of revived now. People are coming in, and I think like most companies we have to learn to live with COVID. There is no two ways around it, so I think that is something that we are working on. Hopefully, the open air factories that we have, plus the heat in Gujarat now is close to 48-49 degrees. So, if there is any science that says that yes this virus cannot live for very long in such high temperatures that would definitely be helpful for us.

Moderator: Thank you. Next question is from the line of Harshad Kapani from JM Financial Limited. Please go ahead.

Harshad Kapani: So, on the capacity addition front, the 500 EUs that you all are planning to add is coming up entirely at Hyderabad?

- Tarak Patel:** No, so let me just give you some background on EUs, Harshit. So we had about 2,000 units or EUs that we shipped out this year. Our current capacity if everything went as per plan would be somewhere around 2,300 to 2,400, depending slightly on the size. With the two new furnaces coming in August and September, we could probably add another 400 to 500 EUs in an entire year, but obviously this year we will have only half of that. So, about 2,700 to 2,800 would be our actual capacity at GMM Karamsad. And then we would add another 500 or so EUs, about Rs. 60 crores to Rs. 70 crores worth of revenue in the first year of operation at our Hyderabad facility.
- Harshad Kapani:** Okay. So, the Rs. 50 crores doesn't include the investment of the gas furnaces, right?
- Tarak Patel:** No, so the Rs. 50 crores is not inclusive of the gas furnaces. The gas furnaces which are coming in Karamsad have already been approved and orders placed. The new Rs. 50 crores will go for new furnaces, plant and machinery, crane, factory shed and land at Hyderabad. But it's comprehensive, Rs. 50 crores means that a Rs. 50 crores investment will generate about Rs. 60 crores to Rs. 70 crores worth of output in the first financial year of operations.
- Moderator:** Thank you. Next question is from the line of Shiva Kumar from Rockford Advisors. Please go ahead.
- Shiva Kumar:** My question is, we have three gas furnaces and three electric furnaces, are we using all of this?
- Tarak Patel:** So right now we are mainly using our gas furnaces and one electric furnace. But once we bring in and commission our two new gas furnaces, then all our dependence on electric furnaces will stop. And as you know that gas is definitely more economical than electricity, so that should help us improve some kind of profitability as well.
- Shiva Kumar:** Second question, recently Gujarat Government has amended labour laws and improved working hours to 12 hours per day. Are you able to utilize our labour optimally?
- Tarak Patel:** Yes. So we are working with the labour unions. I mean, the unions have been very supportive, people want to get back. Even for our new facility, many of our glass lining experts were willing to take a team of people down to train people. So, we have very good people who work for us, our unions and our workers are very supportive. So I am sure we can find common ground where we can find the right balance between safety and productivity. And we are in discussions with them to get as much output as possible.
- Moderator:** Thank you. Next question is from the line of Rokav Vora from OHM Advisors. Please go ahead.
- Ronak Vora:** With the Rs. 50 crore CAPEX that you are planning in Hyderabad, what will be the maximum revenue that we can generate?

- Tarak Patel:** So about Rs. 100 crores is something that we are targeting. There will be startup difficulties and things like that, but as we see the demand grow, the way that we will design this plant is that we can keep adding small, small, small equipment that will obviously improve productivity. But with about Rs. 50 crores of investment, about Rs. 75 crores to Rs. 100 crores of revenue is something that should not be difficult.
- Ronak Vora:** So, basically our 2x fixed assets turnover?
- Tarak Patel:** Right.
- Moderator:** Thank you. Next question is from the line of Jason Soans from Monarch Network Capital. Please go ahead.
- Jason Soans:** Most of my questions have been answered. Just want to know, our company is basically dependent on the CAPEX cycle for our end use industry such as specialty and pharmaceutical. So, is there a thumb rule by any chance of whatever CAPEX, you know, so for example, say Aarti or anyone, like PI or a pharma major puts in, is it a thumb rule that a certain portion or a certain percentage goes to glass lined equipment or something like that we can work with?
- Tarak Patel:** Yes. So it really depends. But generally if you don't consider, let's say, civil cost and land cost, if you are just looking at plant and equipment, and particularly kind of piping and wiring and automation and stuff, I would say anywhere between 20% to 30% could be equipment that they could buy from GMM Pfaudler. This is not related to only glass lined, it could include like drying, filtration, heating and cooling and stuff like that. So, besides that, plants really don't have a lot other kind of equipment. They have some boilers and some utilities and things like that, but the equipment does form the major parts of any kind of new CAPEX. Some chemical companies are more dependent on glass line because they work with certain chemicals. Some companies can use stainless steel and other metals because they don't have a specific set of the chemicals. But more often than not, chemicals, agro chemicals and most pharma, they will require glass lined equipment.
- Moderator:** Thank you. Next question is from the line of Shriram Rajaram from Ratan Traya Capital. Please go ahead.
- Shriram Rajaram:** Sir, so the Parma City which is coming up, what is the current status and if you could provide some timeline of the project, that will be helpful.
- Tarak Patel:** Right. So Pharma City is something that is still some years away, I would think we had actually visited them, the roads are being built, the land acquisition for most of the land has been completed. However, the idea is not to cater to Pharma City today, the idea is to be ready that when Pharma City starts we have established production facility in Hyderabad which can cater to the demand. There is enough demand right now even without Pharma City for us to generate Rs. 75 crores to Rs. 100 crores of revenue from the local Hyderabad market.

- Shriram Rajaram:** But is the land allotment completed or is it still in progress?
- Tarak Patel:** So, I think yes, for the land allotment, people have made their bids, so companies have put down how much land they need. Lnd allotment maybe has not been discussed and finalized yet. But like I mentioned to you, somebody was mentioning to me from the government that the Government of India has approved three clusters for pharmaceutical and API manufacturing, the first one being Pharma City. So everything is working, and it's under progress. We are now just expecting clearances. And I think that once everything settles down, I think we will see some movement here. Because as you know that we have to reduce our dependence on China and people will probably fast track these projects.
- Shriram Rajaram:** So that would take one and half years to come, right?
- Tarak Patel:** I would say one and a half to two years. But in the meantime, there is definitely enough business in Hyderabad alone to take care of the factory that we are putting up.
- Moderator:** Thank you. Next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** A couple of questions. First, you mentioned you want to bring down the delivery time, 500 -600 units for the backlog. So that could mean how many months of delivery time?
- Tarak Patel:** Yes. So ideally, Dhaval, about four to five month period is something customers can live with. And sometimes in terms of urgencies as well we can cater to those urgencies, sometimes there are mishaps and fires in plant where customers need large reactors, large quantity of reactors very quickly. Right now if you go and tell somebody that, 'listen, you need to wait nine months', that's something that we are not very happy doing. So our first focus is to reduce our backlog and make sure that deliveries are down. Once deliveries come down to a respectable level, there is nobody else in terms of competition who can handle the kind of volume that we can handle. So definitely price premium is something that we can also expect, as well as more customers giving us business. Like I had mentioned earlier, people are wanting to buy from us, unfortunately, we have to turn them down because we don't have the capacity right now, even though if they are willing to pay the price, they are kind of forced to go to somebody else because the timelines are rather long. But having said that, all our competitors are also quite busy, I think they also have a strong backlog. So I don't think there is any one specific player who can give quick deliveries right now. If anybody is capable, probably GMM because we have two new furnaces coming in. And if we can ramp up our production much faster than our competitors, then there is definitely some upside to be taken there.
- One thing that I have heard also from our competitors, I mean, I am not sure about this, but it's that their employees, because they have not been working with them for very long, are not being as loyal as our guys, have made it a little bit harder for them to start up because like the government had told most labourers and people that you can sit at home and you will still get paid and you will not lose your jobs. So our guys being loyal and having worked with us for so

many years, did make a lot of effort to start the factory up as soon as possible. They have been coming actually from the first week of April, actually April 6th or 7th the glass lining departments have been running, and slowly, slowly we have ramped up to a point where today we are nearly back to our full capacity where many of our competitors have not even managed to start up. So hopefully that will help us in the long-term, hopefully that will help us put in a decent Q1. And then the amount of catch-up that we have to pay for the next few quarters will be reduced.

Moderator: Thank you. The next question is from the line of Alok Ranjan from L&T Investment Management. Please go ahead.

Alok Ranjan: My question is, first on the margin mix. So currently we have, as you mentioned, the pharma mix has slightly decreased compared to the previous year as well, right now it is somewhere around 30%, 35%. Going forward, like putting up a capacity in Hyderabad and there has been a bit improvement in the pharma segment based on the approvals that has come, how is the margin difference between the chemical supplying glass equipment to a chemical company compared to pharma? Maybe the sizes are different. So can you just clarify that part?

Tarak Patel: Right. So just two or three points here. One is that when we build the Hyderabad facility, we will make sure that we don't build a footprint that is not necessary. So like you rightly mentioned, the sizing requirement in pharma is much, much smaller. And once you have smaller furnaces, you will require a smaller crane, you will need a smaller manipulator, you will need a smaller footprint. So all in all, the cost will be reduced. Even though if some customers would want some large equipment, we can still ship those from our Gujarat facility. Having said that, both of these sectors, the premiums, I would again say depend on customers and requirements. Definitely what is happening in pharma is there is a definite change of mindset. And I mentioned this a few times, nobody wants to save Rs. 10 lakhs, Rs. 15 lakhs on an order of few crores. I think that point has definitely gone, the second generation that has come in has seen world-class factories. Most of these customers now have international clients. They send their people down for inspections regularly. So I think building world-class plants with top quality equipment has now become a standard in India. It's no longer the L1 or the lowest cost. And with such critical equipment like glass lined that if you have a fault or a breakage, means your entire factory shuts down. I think people are not willing to take that risk anymore.

Secondly, FDA has also clamped down, so the quality of the glass, the quality of the equipment becomes much, much more significant. And again, when people are now replacing old plants, 10 year, 15 year old plants, they are now putting up really world-class facilities with the best practices and best type of equipment. So I don't see a lot of the customers being driven by price. I think most customers are now driven by quality, brand and service and support. Similarly for chemical, I think it's important to note, the reaction in a chemical company is definitely more severe. Pharma is consumed by human beings, so the reactions definitely don't require as much acid, heat, chemicals, gases, chlorination, stuff like that. While chemical is definitely more

severe, and the quality levels required for chemical are probably more stringent. Plus, the size has increased drastically. So, as the size of a glass lined reactor increases, the chance of failure also increases significantly. So again, in the chemical space, again we have created kind of a niche for ourselves where again the big players, the strong players like PIs, Deccan, SRFs, UPLs, they would generally 90% of the times buy from GMM Pfaudler. It's not really a decision on cost, it's more the decision on quality. Maybe, Ashok, you want to add something here?

Ashok Pillai: No, I think you have covered most of it. The fact that companies now rely more on quality and that is evident from the way those pharma companies are dealing with glass lined equipment. Because the pain that they had felt during FDA approvals was so immense, and the support that we gave some of the companies to ask for it at that time, has stood in good stead for us. And we realized that the backup in terms of both knowledge, as well as in terms of service and support capability far exceeds what the other companies can do. So I think that is really what is going to be the differentiator and driver as we go along. And the fact that we have a new facility in Hyderabad will extend our wings in terms of having a better footprint, right where the customer's center of gravity is. And therefore that allows us to take much better market share than we do even today.

Alok Ranjan: Got it. Sir, my second question is related to the order book that we have, close to around Rs. 350 crores. We have seen a good traction in agro and pharma, but apart from that, there are several chemicals which is used in other segments like auto, polymers, aerospace, those sectors are not expected to well in the recent time. So is it some kind of exposure we have from those companies where we can see some order delay or something?

Tarak Patel: Yes, there could be some amount of reduction, but all the new businesses we are dealing with are mainly for export. And the consumption in the export market still continues to be strong. And now with the slowdown in China, some of that production will have to move in India, because people are looking at alternatives. So maybe there might be a reduction in internal Indian consumption, but globally I think the kind of move away from China would then result in more products and more buying from India.

Moderator: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Tarak, I just wanted a clarification. In Hyderabad, are we planning two facilities?

Tarak Patel: No, just one.

HR Gala: So it is only the Pharma City what we are talking about?

Tarak Patel: No. So we have seen multiple land parcels, they have offered Pharma City to us, which was quite nice to hear. They have also offered us some land in Genome Valley. So for us, location is not very important because wherever we are, we will be, maybe, an hour, hour and a half away from

our customers, and Vizag may be an overnight drive. So location in and around Hyderabad doesn't matter. The only thing to keep in mind is that we cannot build anything within the city limit, that is inside the outer ring road, because that is the government policies with NGT and things like that. But we are now working on visiting these land parcels now that things have opened up and trying to find the best one. Pharma City looks very attractive, but then we also need to see what is the other infrastructure that is available, how are the roads, how is the electric connections, how easy it is for workers to stay there or come there, how easy it is for an employee to travel there. So, we will take a call depending on what is the best solution.

Moderator: Thank you. The next question is on the line of Rudra Mehta from Aditya Birla Capital. Please go ahead.

Rudra Mehta: I just wanted to understand what is the replacement order of the total Rs. 350 crores of the order book we have? And secondly, because we lost some of the days in Q1, how do we plan to recall the overall FY '21 numbers, because our utilizations are already at 90% plus?

Tarak Patel: Right. So, a couple of points here is that, in terms of recouping the production, obviously, once we are ramping up, we do have and we have made some improvements in the processes, plus the two new furnaces coming in. And like I mentioned to you last year, we didn't have sizeable business in the HE segments. So this year, even though we have lost 20 days, there is lot of work in progress that has been created, there is lots of work that has already been done. So we will use heavy engineering as one area that we can probably show significant improvement. And the second question was, sorry, what was that?

Rudra Mehta: Of the total order book which we have, Rs. 350 crores odd, what would be the replacement order, that is the replacement of old equipments, and what are the fresh orders?

Tarak Patel: Yes, so I think most of these orders, about 90%, and Ashok please correct me if I am wrong, are new projects that are being put up. Replacement business for us is still something that does not account for a lot of business, but we have seen old plants, we are now coming to a time where Hyderabad when it started 17, 20 years ago, these plants have now reached their age. So there could be some further kind of positive investment opportunities where these old plants are converted to new plants. We have seen that specifically with the case of DRL in Hyderabad, we have seen that recently in Sun Pharma, in their facility in Hallol as well, where they have scrapped old plants because they are just too old and they have just put in new equipment and built really new world-class facilities. So, replacement demand should pick up. Having said that, India is not a big market of replacement, they would rather use, use, use and then junk, and then just buy a whole new project at the same time.

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

- Anupam Agarwal:** My question mainly is to Jugal sir, it's on the consolidated balance sheet. Sir, if you can just give a sense of what the loans and others are, because the figure has risen quite substantially for about Rs. 35 crores to Rs. 77 crores.
- Jugal Sahu:** Yes. Loan is about Rs. 11 crores.
- Anupam Agarwal:** It has gone from Rs. 8 crores to Rs. 17 crores, so basically I am talking about the bottom three figures in your consolidated balance sheet under current assets.
- Jugal Sahu:** One second, I need to check that.
- Tarak Patel:** While you check that, let me just add that we are debt free. Only this last quarter we took a Rs. 10 crores of loan from HSBC and we put it into FD, just in case things were not going to improve for the considerable future, we just wanted to keep some safety buffer with us. And that was it. There is no other specific loan that we have. Maybe Jugal can add some light on that.
- Jugal Sahu:** No, no other borrowing as such.
- Anupam Agarwal:** Which loan you are talking about?
- Jugal Sahu:** We have Rs. 11 crores of borrowing in the books. We have taken a loan of Rs. 10 crores from HSBC, and Rs. 1 crores is the overdraft balance with SBI.
- Anupam Agarwal:** So, basically the difference is mainly the loan and that is in the bank deposits?
- Tarak Patel:** Yes, it is in FD. We took a loan of Rs. 10 crores just to make sure that if there was this crisis were to continue for the foreseeable future, we would have some. And we got it at good rates as well, so it's not something that is a huge cost to us. And once we have some visibility with cash flows, we will then just return it.
- Moderator:** Thank you. Next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain:** Sir. My point was like, like you are continuously struggling with expanding capacity and all. And the capacity expansion again is of size of 400, 500 equivalent units. So don't you think if the plan was a bigger one or is there any scope for further expansion in this particular location immediately?
- Tarak Patel:** Sunil, I think two expansions are coming up, which I think are significant. We have two new furnaces coming in Gujarat, plus this new plan which will pretty much give us another 1,000 vessels capacity. I think it's important that we wait and watch and see the demand, because again expanding and then not having the business and then going after market share to fill your factories at low price, then your margins will take a hit. So I think we are a little bit conservative, we like to wait and watch. But at the same time, we are aware that there is an opportunity and

we will try and cater to. But I think these two investments that we are making, the two new furnaces which are coming in Hyderabad plant, will put us in good standing at least for the next year and a half, where we will have some time to review and see how the market behaves before taking the next action in terms of expansion.

Moderator: Thank you. Next question is from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.

Tanush Mehta: So I had a few questions. First one is regarding what was our exports during the year? And what is outlook for the next year? Secondly, if you could share us your revenue contribution industry wise in total? And your market share in GLE for the full year.

Tarak Patel: Sure. Okay. So in terms of export business, our export numbers were around the 10% to 12% across all our business lines. Most of it does come from heavy engineering, we do see our current backlog as well being quite, there are some nice export orders. The Pfaudler network, like I mentioned to you, has taken a lot of interest to our heavy engineering product line. So that is something they are pushing all across the world. We are also now having a specific kind of initiative where we are trying to grow our export business in heavy engineering and propriety products. So that is something that we are working on. And the other two was what?

Moderator: Sir, we will move to next participant. Next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.

Karthikeyan: I was actually on the same question. Can you talk a bit more about your Pfaudler network? And also about how orders get allocated, as in whether if there is any component of imports and trading in the portfolio? Or is it entirely locally manufactured? Thank you so much.

Tarak Patel: Right. So Pfaudler and us have improved our relationship quite significantly, since DBAG, the parent organization's the private equity fund has come in, they have brought in their own CEO and CFO and a lot of new people who we get along very well with. We are working together for many, many projects where Pfaudler International is packaging a lot of different products from all its product line and giving customers the options based on price, on cost, and even a lot of sourcing from India. So that relationship is growing. In the same way, they have also shared with us a lot of technology. Like that the acid recovery technology, the sealing technology that Pfaudler has acquired recently has been shared with India and we are making a good amount of traction as well. Just speaking, I just remembered that on the last question there was some question in terms of the industry segment. So, just to mention on that, 55% comes from chemical which includes agro chemical and specialty, about 35% comes from basically pharmaceutical, and the balance comes from, let's say, oil and gas, petrochemical, fertilizer and dyes and paint stuff. But otherwise, I think the relationship with Pfaudler continues to grow. We are looking at more and more opportunities of working together across the world. There is an opportunity for

GMM to even cater to Southeast Asia now. And I think both Pfaudler and GMM together can definitely form a very strong partnership.

Moderator: Thank you. Next question is from the line of Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: Sir, again on this Hyderabad plant. You mentioned that you are still probably looking at some other land parcels. So it's not a done deal? And secondly, are there any M&A opportunities available instead of doing a greenfield plant?

Tarak Patel: Yes. So there was an M&A opportunity available there, however, it didn't work out. And then we kind of realized that M&A opportunity was also not in the best kind of in terms of what was available. It wasn't very well planned in terms of flow, nor were there a lot of opportunities to really expand and scale up from there. So then we felt that building a new factory for maybe slightly lower price and buying that facility would probably make more sense. So that is why we decided to go for the Hyderabad facility. In terms of the land, we had actually come close to finalizing something and then this crisis hit us. We have met with the chief secretary there, Mr. Jayash Ranjan, who has been very, very helpful. Like I mentioned that they also had a big initiative of bringing in German companies. They also wanted to start a flight from Frankfurt to Hyderabad. So being a German multinational, GMM Pfaudler was very well placed for this opportunity. So they have actually rolled out the red carpet, they have given us a lot of options that many other companies don't get. And like I mentioned that they are having a Telangana Formation Day in the first week of June where they are going to probably have the management of GMM Pfaudler, maybe even the management of Pfaudler to do a little bit of a launch in terms of what their plans are in terms of bringing companies to Hyderabad. So I don't see it as a problem. We have to find the right location and the right piece of land. But I am quite confident that we can close that very, very quickly.

Moderator: Thank you. Next question is from the line of Ashwini Sharma from Anand Rathi Shares and Stock Brokers. Please go ahead.

Ashwini Sharma: Sir, my question is that on the GLE, our run rate has been 25%, 30% revenue growth. How confident or what is your outflow going ahead? What kind of run rate we can see next year or maybe after that?

Tarak Patel: So glass lined is something that keeps surprising us, even though we believe that at some point it will slow down, but it keeps surprising us. Now with the new movement of manufacturing from China to India, maybe that will be something that will again drive growth. And like I mentioned that if we have capacity available and the market was a bit slow, then market share is something that we can go after. So all in all, I am also again for this year, like I mentioned a 15% growth over previous year across all our product lines should be achievable. Glass lined is

definitely something that we have most confidence in and most comfort in manufacturing. And it is an opportunity to grow faster in that market, then we will definitely take that opportunity.

Moderator: Thank you. Next question is from the line of Rakesh Roy from Intel Securities. Please go ahead.

Rakesh Roy: My first question is regarding, when will this Hyderabad plant start?

Tarak Patel: We would at least target or 9 to 12 months from now, nine months in a very optimistic scenario. But I am probably thinking that by the time we finalize the land, maybe sometime by July, August, if we can, and then maybe seven, eight months from there, we could probably have the first reactor leave the facility.

Moderator: Thank you. The next question is from the line of Manish S. from Fidelity Capital Advisors. Please go ahead. Sir, the line for the participant dropped, we move on to the next participant. Next question is from the line of Anil Desai from Turtle Capital. Please go ahead.

Anil Desai: Just one question. So I think the whole industry, we are in a very sweet spot and a lot of CAPEX happening for our end use sector. So I understand the graph growing up in terms of revenue and margin both, but do you foresee a possibility where when this CAPEX takes time to kind of get utilized and if there will be a lien period or a silent period and there is not enough replacement demand, so we falling off the cliff in terms of revenue and margin? From management perspective, do you consider the scenario and what are we doing to take care of such eventualities?

Tarak Patel: Right, Anil. So I think good question there. I think one of the areas where we are focused on, which is the Indian market, is dependent on a lot of other external factors. If you believe in the Indian story, I am sure India will continue to grow. I think with the right kind of governance, we still have at least the next 10 years of good times still ahead of us, maybe even more. But at the same time, we would like to diversify out of chemical and pharmaceutical, that is why we moved into heavy engineering. So that gives us access to new industry segments like oil and gas, petrochemical, fertilizer. We are also looking very, very actively to export markets. So if India were to slow down for a couple of quarters, then the export markets could make up for the shortfall. And then lastly, we are also working with Pfaudler to see if there are any other M&A opportunities which gives us a little bit of more penetration in new regions and new geographies. That is something if we can tie up and base some of our output in these new regions, then that would give us some kind of comfort that if India were to slow down, then we obviously still have these other regions where we can make up for the shortfall. But yes, that is something that we think about quite often. I don't see any of these demands falling off the cliff for the foreseeable future. Medicine and chemicals are something that the world does require, glass lined equipment technology has been around for more than 100 years, so there is no other new technology that is going to replace it. And the way that we are seeing the market behave and compared to many other industries, which I believe will be in a lot of troubles because of the

current crisis, chemical and pharma will kind of shine through this bad time. So I don't see that. But yes, as a risk, its something on the top of our head. We are trying to mitigate that risk by either looking at new region through Pfaudler or even through direct M&A opportunities, as well as diverting our product portfolio.

Moderator: Thank you. Next question is from the line of Aakash from BOI AXA Mutual Fund. Please go ahead.

Aakash: I wanted to understand, why is it that your cash flow from operations on a consolidated basis has been more or less flattish over the last five-odd years in spite of the revenue doubling? And the second is on the ROE bit, could you talk about where can this trajectory shape up over the next two to three years?

Tarak Patel: Yes, so maybe Jugal can take that. But I think we have been investing most of the cash from operations back into growing the business. But maybe Jugal, you can spend some time on that.

Jugal Sahu: Yes. So cash generated from business is actually putting back to inventory receivables. And we also keep investing on CAPEX. You would have seen, continuously last five years we have been investing about Rs. 20 crores every year.

Tarak Patel: This is pre-CAPEX operating cash flow from operations.

Jugal Sahu: Right. So most of that cash generated from the operating activities of the Company is going into trade receivables, inventories. Our inventories have gone up. Five years back, if you look at our financials, it was about Rs. 50 crores and this year it reached to about Rs. 110 crores. Similarly, receivables was about Rs. 25 crores, now it is about Rs. 60 crores. So cash generated from the operation is being invested in working capital to grow the business.

Moderator: Thank you. The next question is from the line of G. Lakshman, an individual investor. Please go ahead.

G. Lakshman: Shall I know why is there steep decline in the heavy engineering space in this quarter?

Tarak Patel: Sorry, I could not hear you. But if you are asking about heavy engineering in this quarter?

G. Lakshman: Yes, why is there a steep decline.

Tarak Patel: Yes, because of the shipment that were held up for heavy engineering this quarter, we were not able to complete the jobs. And obviously, if the revenues are not there, then the absorption rates will drop, and hence the profitability will reduce. But that is not a trend or it's not about anything in the business, it's just about not having the ability to ship out the equipment and complete the manufacturing in the last 10-15 days of the month.

Moderator: Thank you. Next question is from the line of Bhavyanik Shah, individual investor. Please go ahead.

Bhavyanik Shah: Sir, can you please guide us on how long will it take to reduce the backlog, or you can use any timeline on that?

Tarak Patel: So, it depends. Now that we have started manufacturing activities in a staggered manner, we are ramping up and we want to, at least for next month in June, we are targeting at least 200 EUs, which is like basically back to normal. So, hopefully that can continue and there are no further lock downs, which I believe that I don't think industries can deal with more lockdown. So that is something we will have to go through. But I believe that in the next couple of months, at least by the end of Q2 we should have our backlog down to a more respectable level. Plus, with the new furnaces coming in in August, September, that will help us as well.

Moderator: Thank you. Next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: I wanted to know about how the year has been for the industry in terms of number of units? Our market share? And which are the other players? And their number of units sold, etc.?

Tarak Patel: So, I don't have that data Sujit, unfortunately those numbers are not out yet. We are usually the first people who come out with numbers. But like I mentioned to you, I am sure their Q4 numbers are not going to be very strong. I think the Q1 numbers will also be affected. We have been lucky enough to ramp up, but I know local competitors in Hyderabad who had a tough time getting employees back to work. Being in a big city also, there has been a more intense lockdown. Plus, I think they depend quite heavily on migrant labour as well. So I am not really sure, but I think any manufacturing company, if you understand the market, 10, 12 days of production loss is quite significant. I think as an industry in general, you will see now the Q4 numbers probably coming out are not that great. You will probably see Q1 to be a little bit worse off in most industry segments. Luckily for us, one of the things to consider is there are not many good opportunities available in terms of good companies and good industry segments, so as investors you also need to be aware about, yes, some of the real life difficulties, but at the same time the outlook and visibility for the industry segments that we cater to, right. So it's a combination. But all in all, I mean, I would not say today that we are in a bad situation, I would not. I am kind of excited that, yes, there is opportunities coming, yes, we have lost some time, we have lost some, but now the option is about how quickly can you ramp up, how quickly can you get that to normal and take advantage of the opportunities that are available.

Moderator: Thank you. Next question is from the line of Shiva Kumar from Rockford Advisors. Please go ahead.

Shiva Kumar: Even though your fundamentals are so strong, not many institutional participation is there. So, are you considering any bonus share so that there can be increase in the floating stock or any QIP for the institutional investors?

Tarak Patel: Right. So, we had considered both bonuses and split, we talked about it quite a lot. We would have thought that the end of a five year strategic plan which ended on March 31, 2020, we would have liked to give back to shareholders. However, the situation obviously right now is not conducive to take any decisions on this matter. The focus is to maintain business continuity to conserve cash, as well as make sure that we come out of this crisis without much difficulty. But at the same time, we completely understand what you are saying. There is definitely both the promoter groups, which is the Patel family and DBAG realize that owning 75% is something that probably will deter a lot of investors coming in, a lot of financial investors coming in. We are definitely looking at ways of increasing the free float so we bring more robustness to the stock price, more volumes as well. So that is something that we are considering and we are talking about, no decision on the matter has been taken place yet, but we are aware of the fact that the market would like more free float and more volume so that we bring in a whole different set of investors. But having said that, you must have seen, or I don't know if you can see or know, but our institutional investors have increased over time. And the volumes also since we listed on the NSE have also increased. I don't know if many of you know, but we are now also part of the MSCI Index from June onwards. So hopefully that will also increase the visibility in the international markets.

Moderator: Thank you. Next question is from the line of Rakesh Roy from Intel Securities. Please go ahead.

Rakesh Roy: Sir, my question is, what is CAPEX for FY '21 whole year?

Tarak Patel: So, currently we have only CAPEX plans of about Rs. 10 crores on the new furnaces that are coming in, plus we have normal maintenance CAPEX of about Rs. 15 crores to Rs. 20 crores. The exact CAPEX, even though we are thinking about Rs. 50 crores for Hyderabad, the final number will be decided once we finalize the land. But I don't expect it to be more. And all of that capital, like I mentioned earlier, will not come in this FY '21, some will spill over into FY '22.

Moderator: Thank you. Next question is from the line of Saurav Ginodia from PhillipCapital. Please go ahead.

Saurav Ginodia: I just wanted to understand whether there is any further levers to increase the gross margin either by improving the mix or by increasing price, given the robots order book? Thanks.

Tarak Patel: Sure. I mean, pricing is something that we always try to improve upon. But again, we have to find the right balance. There is a market, there are competitors. And at the end of the day, we have very strong relationships with our customer. So taking advantage is something that we don't like to do. But at the same time, we are always looking at internal ways of reducing costs as

well. There will be some benefits coming out of the reduction in travel, SG&A, cost, power and fuel costs, things like that will help definitely. But definitely when it comes to competition, being a financially stable company, having the ability to finance some of the orders as well, maybe we can extract a little bit more margin from the customers.

Moderator: Thank you. Next question is from the line of Vishay Vora from Ambit Investment. Please go ahead.

Vishay Vora: Thanks for taking my question. And I hope everyone in the GMM Family is healthy and safe. My question will be kind of a repetition. You mentioned that the heavy engineering has suffered an operating loss which is primarily due to the shipment that could not happen, so I wanted to ask, whether the shipment cannot happen that is because of the Mavag plant or it is the Indian side of it?

Tarak Patel: No, heavy engineering is nothing to do with Mavag, it's only to do with the local business as well as the business that we do with Pfaudler. There was one large order which was ready, but could not be shipped, this was for the Middle East and it was an order received through the Pfaudler network, hence we could not complete some shipment because the last 10-15 days all the logistics were stopped. So having said that, if we had made the additional revenue then the numbers would have looked more attractive.

Vishay Vora: Alright understood. I just wanted to confirm that this is different from the case that you mentioned that shipment to the Pfaudler network could not be done, these are the two separate cases, right?

Tarak Patel: No, it's the same case. So heavy engineering was an order received directly through the Pfaudler network for a customer in the Middle East. So there was this shipment plus a few other local shipment that could not be completed because of the last 15 days of lockdown.

Moderator: Thank you. Next question is from the line of Jyoti Roy from Angel Broking. Please go ahead.

Jyoti Roy: Congratulations on a pretty decent set of numbers, given the circumstances. So my question is, predominantly, again, I think someone has spoken about this now. 55% of your revenues come from chemical, both basic and agro chemicals. So my question is, is there a possibility of some deferment in CAPEX on the basic chemical side, given that these are not essential commodities and a significant portion of it is dependent upon other sectors like automobiles, aerospace, maybe paints, consumer durables, infrastructure, constructions. So, is there a possibility of deferment of CAPEX from this side of the business on basic chemical? And whether the orders from agrochemical and pharma space would be more than able to make up for this deferment in possible CAPEX on the basic chemical and oil and gas and other segments?

Tarak Patel: Yes, I would think so, you are right. There could be some shortfalls in some of these consumer chemicals, like you mentioned automotive, construction and things like that. But again, when

we were really looking at our specialty and agrochemical focus, very little of that went into these consumer chemicals like paint and construction chemicals. It was mainly agro chemical and specialty chemicals. So I really don't see a drastic reduction there. If anything, I would see an improved kind of traction because a lot of the other products that were not be made in India now will be looked as opportunities that will come to India, say that China is somebody that we don't want to deal with, hence, can we look at moving some more molecules and products to you? And that's what we are seeing and that's what we are hearing from some of the industry leaders that there is a lot of interest in dealing with Indian companies now.

Moderator: Thank you. Ladies and gentlemen we will take the last question from the line of Apoorva Saha From PhillipCapital India Private Limited. Please go ahead.

Apoorva Saha: Sir, it's good to hear encouraging commentary for most of the segment. My only apprehension is towards the crude prices. So do you feel this current crude prices and looking at the foreseeable future that can impact any particular segment or maybe the heavy engineering segment?

Tarak Patel: Yes, that could happen because, as you know, oil and gas is something that is dependent on crude prices. However, saying that, our exposure to oil and gas is minimal. Most of the orders that we have in heavy engineering also are really going to chemicals, specialty chemicals, fertilizer, and maybe some petrochemical, oil and gas. But in that terms we have not got any cancellations, nor have we got any kind of instructions from our customers to hold or slow down their orders. I think what orders have already been placed will probably go through, maybe the new investments will probably slow down a little bit.

Moderator: Thank you. That would be the last question for today. I will now hand the conference over to Mr. Tarak Patel for closing comments.

Tarak Patel: Yes. So, thank you very much, everybody, for your questions. It's nice to see so many of you participate. I know I remember when we started we had like 40-42 people. And today, I believe we have about 350 people who have logged on for this call. So thank you very much for that.

I mean, again, we are trying to give you a very transparent picture in terms of what we believe the outlook is. Q4 was something that we did not expect and hence the guidance was obviously not in line with the actual numbers that came out, because something like a global pandemic is not something that we had planned for. Q1FY21 is something that we are working hard to get back on track. There will be a little bit of subduedness to that Q1 numbers. But I believe that the team at the factory has done an incredible job. We are motivating them. The morale levels are very high within the companies. We paid all salaries; we are paying all the performance incentives for previous year. People are very happy to go back to work and people are willing to give a lot more to make up for the lost time.

So I think a company like ours is in a good position to leverage this opportunity, as long as the market continues to be conducive, and as long as the virus does not account for any more

lockdowns, I think we are in a good situation. And hopefully, I can come back to you all with better results in the next few quarters. But like I mentioned, the heartening part about our business is that we have visibility for nearly 70% of our revenue target, which is significant considering what the situation around the world is. Our focus is now on execution for which we are planning to put all our strength behind. And then whatever additional orders need to be booked, I am sure we will manage that. So thank you, everybody. And look forward to talking to you again next quarter.

Moderator:

Thank you very much. On behalf of GMM Pfaudler Limited, that concludes this conference. Thank you for joining us. You may now disconnect your line. Thank you.