



# “GMM Pfaudler Limited’s Q2 FY’21 Earning Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the GMM Pfaudler Limited Q2 FY'21 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' than '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you Mr. Pingle.

**Diwakar Pingle:** Thank you, Janice. Good evening, good morning to all participants depending on where you have logged in from.

Before we proceed to the call let me remind you that the discussions may contain forward-looking statements that may involve known and unknown risks, uncertainties and other factors. It must be used in conjunction with the business that could cause future results performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements. Please note that we have made the "Results" in the Press Release and the same is also available in the company's website. In case you have not received or you are not in our mailing list, please do write to us and we will 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 Mr. Tarak Patel – Managing Director; Mr. Ashok Pillai – COO; Mr. Jugal Sahu – CFO and Ms. Mittal Mehta – the Company Secretary.

We will start the call with a brief overview of the quarter gone past and then get into the Q&A Session.

With that said, I will hand over the floor to Mr. Tarak Patel. Tarak?

**Tarak Patel:** Yes, good evening and let me just give you a brief update on the quarterly performance on a standalone basis. So we had a very strong this quarter where our revenues grew by about 18% from Rs.130 crores in the previous quarter to Rs.154 crores in this quarter. The EBITDA also increased significantly from Rs.24.3 crores to Rs.36.7 crores. As a percentage of sales, the EBITDA margin on a standalone basis grew from 19% to 24% and the net profit also grew by about 53% from Rs.16.4 crores to Rs.25.1 crores, in terms of the percentage of sales from 13% to 16%. So all in all, we had a very strong performance at GMM Pfaudler standalone basis. As I mentioned last time, our Q1 performance was also strong, gave us a good foundation in spite of having 25-days of shutdown because of COVID, we were able to ramp up the operations very quickly and building on that we have a very strong performance for this quarter as well.

Looking at the consolidated revenue, we had an increase of about 21% from Rs.153 crores previous quarter to about Rs.186 crores this quarter. The EBITDA also grew by about 43%, Rs.27.5 crores to Rs.39.4 crores, as a percentage of sales it increased from 18% to 21% and net profit increased by 40% from Rs.19.2 crores to Rs.26.9 crores and in terms of percentage of sale increased from 12% to 14%.

So we are very happy with the performance. We expect the performance to continue going forward. There has been a significant improvement in profitability. I will probably shed some light on why the profitability has increased so drastically, but we expect that going forward we will maintain a similar level of profitability and might be able to even improve it slightly. The reason for the increase in the profitability margin has come from three or four different areas; one is because of the incremental revenue, as we grew from Rs.136 crores to Rs.154 crores, the additional revenue came in. There was significant amount of which flew to the bottom line. There is also some amount of credit that goes to the product mix. This quarter we had a large amount of glass lined sales that accounted for higher profitability and within glass lined sales itself we had a good distribution between reactors, tanks and the spare parts business.

We also had some savings in terms of the raw material cost both in terms of carbon steel, stainless steel prices but also in terms of power and fuel. Now that our two new gas furnaces have also just come online, we expect margins to improve further because we can now finally switch off our electric furnaces and have all our production in Gujarat are they coming from the gas furnaces.

Besides that, we also saw some improvement in terms of the other costs; so in terms of operating leverage there was some improvement there as well. And then lastly in terms of the export business and the proprietary business that we get we have been able to kind of implement the strategies that we have been planning to; one is to go after high value critical equipment rather than the run-of-the-mill standard equipment. So that is something that is now the bearing fruit. And going forward with the backlog that we have we expect to close this year out in a very strong finish.

A couple of other updates that I would like to also give you is that since yesterday or day before rather, our Hyderabad facility is now producing equipment, today was actually the first glass lined reactor that got completely glass lined and has now come into final assembly, we should be able to ship that equipment out in the next week to 10-days or so. So Hyderabad is up and running.

From an order standpoint, we have a very strong order backlog, I think close to about Rs.350 crores, which is an improvement over Q1 and this order backlog is spread quite nicely between glass lined, proprietary products and heavy engineering.

We have had a good amount of export business also in Q1 and Q2 of this year. So hopefully over the next six months when we ship these export orders out, we will see a further improvement in margin as well.

Glass Lined business is booming. We have more than about 1,100 equipment in backlog. We do see that the industries that we cater to in glass lined continue to invest; both pharmaceutical and chemicals are looking very-very strong. With the kind of enquiries that we have, I think we can go ahead and go after market share because we have now capacity available in Hyderabad plus

with the new gas furnaces coming in Gujarat, I think we can go after and improve our market share as well.

Besides that, the Pfaudler transaction is something that we still are working on. We have completed our anti-trust filings. The FDI filings are now underway. We expect to close the international transaction sometime by the end of this calendar year and hopefully be able to consolidate the numbers by January 1st of next year or by Q4 of this financial year.

Besides that, I also want to spend a couple of minutes and give you a quick update on the OFS. We have managed to really change the profile of the company. We have increased the public shareholding from about 25% to about 45.05%. We have brought in high quality investors. This will bring a lot of stability to the stock as well, long-term investors who believe in the long-term story and they will obviously support us in the way that we have planned to grow our business and then obviously also the way that we will bring about change in the international business and use India as a low cost source.

So overall, we have been very happy with the performance. We are quite bullish on the outlook of the company.

And with that, let me now open this call for Q&A, we would be happy to answer any questions that you may have. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

**Sanjay Shah:** In this quarter, we have grown very good in glass lined, even our margins have improved and it has really shown a good growth and you have charted out the reasons of growth, what are the benefits which had occurred. So, can we expect this type of margin growth to continue or there are one-off in this glass lined business? And my number two question was in proprietary, in standalone, we have really grown very good on both the fronts; top line as well as EBIT margin. But when we see the consolidated number, the growth is absolutely muted. So there is good top line growth of around 38% but absolutely very low growth on EBIT side, maybe around 10%. So can you elaborate on that?

**Tarak Patel:** So, a good question, Sanjay. So on the glass lining front, at least for the next two quarters with the order backlog that we have, we can expect a similar line of the performance. Like I mentioned to you, with the two new gas furnaces kicking in, we should be able to further save some of the cost, so that should also result in improvement. Our Hyderabad facility also will now start shipping out equipment in this week. So we can move some of the production there and open up some more backlog. If we have capacity available that means that we can go after market share and when we can deliver quickly, we can definitely get a pricing benefit from the customers. So all in all, at least for the next two quarters and the guidance we are giving for the rest of the year that we should be able to maintain a similar level of profitability that we have shown in this quarter. We are quite confident that we can and we think with this new synergy that will come

into play in the coming quarters, we might be able to even improve on that. Regarding the proprietary business, like you mentioned, the India business has done extremely well. We have had a good share of export business. But we have also focused on really high-end equipment like spherical dryer, we have also gone after very critical equipment which require a lot of process engineering and other equipment. So that is something that we are focusing on. And we have also been able to supply quite a bit to our Swiss subsidiary. Now specifically for the results of Mavag for this quarter, yes, even though they have had a top line growth, they have not had a very good bottom line growth. This is something that is expected to change over the next two quarters. This is the first time in the history of Mavag that they have order backlog of close to CHF20 million which is unheard in their kind of small areas that they operate. They are pretty much full till about August of 2021 which means that most of the manufacturing will move to India. And even though this quarter's profitability is not that great, we expect them to be back at the same level for the entire year. So there is nothing specific to worry about over there. They had a couple of low margins orders that got shipped out this quarter, but that will be made up in the coming quarters. But Mavag is doing extremely well. In terms of order backlog, they have a very-very strong order backlog. So we expect this year to be very-very strong and we also expect next year, they can definitely start the year with a very strong backlog and then build on that going forward.

**Sanjay Shah:** Great sir. After long, we are very confident on Mavag side.

**Tarak Patel:** Yes, so what is happening, Sanjay, is that even the European and US markets have been slow, but now because of the COVID pandemic and people looking at alternative to China, government in Europe and USA have been mandated to clear local redundancies. We are also seeing a similar kind of thing happening with the Pfaudler network as well. People are now talking of setting up small facilities. Investments are coming back in Europe. So that is something that will help us, also, with the Pfaudler transaction. They also have currently a very strong order book and if they can go after market share and get more business that will put them in a very strong position.

**Moderator:** Thank you. The next question is from the line of Aditya Kondawar from JST Investment. Please go ahead.

**Aditya Kondawar:** I just wanted to ask you this question. We saw in the news recently that SEBI has initiated some inquiry like the sorting of the GMM stock before OFS. So, is it possible to get some color on that?

**Tarak Patel:** So officially we have not heard anything from SEBI and we would be more than happy to assist SEBI or any regulator with any information that they would need, but as of right now, there has been no communication from SEBI at all.

**Moderator:** Thank you. The next question is from the line of Jason Soans from Monarch Network. Please go ahead.

**Jason Soans:** You know we have an indirect play on the pharma and the chemical end user industries. Just wanted to know that in terms of the demand and the order backlog, could you break it up between new and replacement demand over the long-term because obviously equipment also needs to be replaced. And I believe in an earlier con call you had mentioned that whenever any CAPEX is done by a pharma or a chemical firm, 20% to 30% of the cost obviously excluding land is glass lined equipment. So just some picture on replacement demand and new demand?

**Tarak Patel:** Most of the demand that is coming through from pharma and chemicals is mostly driven by new demand. There is a very small amount of replacement demand that is in the mix right now and the number of projects that have been put up for adding new products, for expanding capacity of the existing product line of these companies is still going very strongly and that is what is driving our demand right now. Of the other question that you asked about 20% of the CAPEX being on glass lined, it is not 20% on glass lined, that is a percentage of all the products that GMM manufactures that can be sold to those customers who are putting up plant because as you probably know apart from glass lined, we also make other products that are downstream and ancillary to the glass lined equipment itself and therefore also go into the chemical and the agrochemicals.

**Jason Soans:** So any number possible if you could give between new and replacement demand whatever the demand is coming through, say, it is 80 new or replacement 20 or something like that?

**Tarak Patel:** Yes, 85:15 is probably the typical mix that you could think of; it is probably right now replacement, but the replacement numbers will go up because many of the supplies that we have made to many of the big companies in the pharma and chemicals are aging; they are over 7-10 years old. So we can see a replacement cycle starting soon. So that in turn again also fuel demand.

**Jason Soans:** So a replacement cycle generally last for seven to 10-years, is it?

**Tarak Patel:** Typically, yes.

**Jason Soans:** So my next question is you had mentioned in the last call that your Italy and your China and Germany facilities also are improving within the Pfaudler network. As in glass lined equipment or glass being a breakable item, and you also mentioned that you are looking as a long-term strategy to do most of the fabrication work here in India and then ship it to this location, right, so as to save cost and it helps you in margin improvement as well. So just wanted to know how do you take that call because glass is also being breakable and transport also might be an issue at some time, so how do you take that call to probably make it locally or get a lot of the fabrication work done here in India and then ship it to the onshore locations?

**Tarak Patel:** When we said shipping we did not say shipping glass lined vessels, we said that we would do the metal fabrication here but we still need local glass lining because the quality level and at the end of the day the local factory will have to do the glass lining. But right now for the time being where most of the arbitrage really comes from the labor intensive activity which is really the

fabrication, the welding, the nozzle welding, that is something that we can do very easily in India but we can do the glass lining locally at those facilities.

**Jason Soans:** So metal work is basically done in India, the glass lined is done locally. Right, that makes sense. And sir, after this DDPS acquisition what will be our market share approximately? I think before DDPS it was around 55%.

**Tarak Patel:** So our market share currently is around 50% to 55%. I cannot put a number to it but if we can ship out what we plan, we can increase our market share by another 10% -15% percent very easily. DDPS currently was at a 10% level and if we just had to replace them and take their 10% market share away and we probably are going to be a little bit more aggressive and try and take because now that we do not have a similar competitor who has the same level of international technology, we are pretty much the only guys here in India who have a technology advantage compared to the other manufacturers.

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

**Ravi Naredi:** My question is some bitter scene in the company. When OFS come before announcement, some player used SLB method of stock market and do some hedging. Are you aware of the same because same strategy some did who has knowledge of this OFS, and you come on back foot and gave so many explanations, please mind, it create so much bad name to our image and did you know this?

**Tarak Patel:** I am in the same position as you are. Whatever I know about it through the newspapers and media articles, now I cannot control what people do outside of my company and if people do something they do something, I cannot control it, I have to just live with the fact. It is unfortunate that it happened but at the end of the day we are going to focus on what we are good at which is taking care and running our business and what happens externally I cannot control it, so I really cannot spend too much time to loose any sleep over it. But like you rightly said whatever I have heard and whatever you have heard has been through the media channel and that is all I know about it.

**Ravi Naredi:** Because whatever OFS activity was going on, someone has leaked the information, or something has happened because such things never happened in the history of India without knowledge of management.

**Tarak Patel:** I do not think that is true, I have not studied the history of India per se but I think that unfortunately somebody did it in our case and our name came out and there is nothing we can do about it, we just have to let the regulators do the investigation and see if there is somebody who had any kind of insider information and if they do find somebody, good for them, but again we are not regulators, we are a company and we have to control what we can control which is our business.

**Ravi Naredi:** Tarak, here you must go to the SEBI and ask them to investigate for the goodwill of the company because it creates a very-very bad image. You do not know but you imagine those shareholders have bought the shares in 6,000 and they are seeing 3,500, what bad image comes to GMM, you tell me?

**Tarak Patel:** We have no locus standi to go to SEBI. Again, I am saying that this is very difficult and awkward situation for us. So I think the less I say about this is better, I mean in terms of time, the truth will come out and the regulators will do their investigation. But let us not jump to any conclusion, let us give it some time, if the company's name has become bad for some reason, it will change over time because at the end of the day we believe in what we do, we believe in our ethics and integrity and after a point we have to just go on with life. How much will you sit and complain and cry about what somebody else did? I cannot. I have to focus on business and move on with life.

**Moderator:** Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

**Amar Mourya:** A couple of questions from my side. So first thing is this now we have 1,100 glass lined reactors order book. Now given that this new glass furnace in Hyderabad plant, so how much more glass lined reactors we can deliver in a year versus the existing capacity?

**Tarak Patel:** So our current capacity before we install the two gas furnaces and before Hyderabad was about 2,300 in a full year basis. Obviously, we lost some months because of COVID. So, let us take that as a starting point. On top of that, we can go with the two new gas furnaces in Gujarat to about 2,800 or so over the next two years or so. So we have incremental 200, 250 reactors every year for the next two years to go about 2,800. In Hyderabad we have a capacity on a full year basis of about 400 units. That is without any kind of CAPEX without any kind of changes but we definitely want to bring in some kind of operational excellence, we want to bring in our kind of improvements that we have made in Gujarat into the Hyderabad facility and hopefully we can build on these numbers. But all in all, as it stands today you can take it as about 2,300 in the Gujarat, 400 in Hyderabad and about 250 more this year because of the new furnaces coming in on a full year basis.

**Amar Mourya:** In terms of the margin, you indicated that in glass lined at least you have a visibility of two quarters. So, basically the visibilities on the growth you are indicating, right, that the growth intensity will remain same as it is in the Q2?

**Tarak Patel:** Yes, so our top line growth will probably continue because there is nothing now that will hold us back, the order book is already on hand. Like I told you, we have Hyderabad as well all three product lines are up and running, they all have good backlog, the furnaces are coming online. So I do not see why there would be any reason for us to not grow and build on the Q1 and Q2 performance that we had. So I do expect H2 to be stronger than H1 per se because like I mentioned H1 we did lose about 25-days in April which in H2 hopefully we will not lose, I do



not believe there will be another lockdown, I think things in India are returning to normal. So H2 performance will be definitely better than H1.

**Amar Mourya:** You indicated that the Pfaudler global order book is also increasing and improving. And secondly if you can mention what would be the last two quarters profitability of the Pfaudler global?

**Tarak Patel:** There is an 'Investor Presentation' on our website. I would just recommend that you have a look at it. I would not know it quarterly. I can just tell you that on a full year basis, we have at least given a guidance or that the consolidated revenue will be about Rs.2,000 crores and the consolidated profitability would be about 13%, this is for FY'21 full year basis; however, those numbers will change a little bit because as you have seen the performance here in India, has already improved significantly and we also believe that the Pfaudler businesses from what I am seeing in and the performance that has been happening the last few months, has also improved there. So I think once we consolidate, you will see some improvement from what we had guided in our 'Investor Presentation.'

**Moderator:** Thank you. The next question is from the line of Mudit Kapra from HEM Securities. Please go ahead.

**Mudit Kapra:** My question is what is the purpose of foreign reserve of \$12.4 million which has been shown in our today's board resolution? And when does the company plans to redeem this borrowing?

**Tarak Patel:** So the \$12.4 million is the debt that we are planning to take on the GMM Pfaudler's balance sheet to invest it in the 54% that we will acquire of the international business. The balance will be funded through our internal cash reserves and \$5 million of debt at our Swiss subsidiary. We will probably draw down this debt sometime in December or January when the transaction is closing. And we expect to probably pay back the debt in about a two year period on the GMM Pfaudler debt.

**Mudit Kapra:** My next question is if we look on to the financials, under other expenses, we can see around 250 million of expenses recorded every quarter, but in Q1 we had 188 million. So what kind of expenditure is this which has been decreased and yet again been normalized again?

**Jugal Sahu:** These are all conveyance expenses, security expenses, consumables, power cost and other fixed overheads, etc. So, in the first quarter, we did not have power cost for one month. Therefore, other expense was a bit low in the first quarter.

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

**Amandeep Singh:** In your press release, you mentioned that overall investment by pharma and chemical company is expected to be around Rs.74,000 crores over FY'20 to FY'23. So can you help us understand

if this is based on your interactions with the customers or as per management commentary in the earning conference call?

**Tarak Patel:**

We did not mention this in the press release, we did mention it in our investor presentation but this is basically data taken from the Indian government in terms of what investment will happen in the chemicals and in the pharmaceutical sector. Obviously, we do not cater to the entire chemical nor do we cater to the entire pharmaceutical sector per se. In pharma we only cater to the bulk drugs and APIs and the chemical is mainly agro and specialty. Obviously, there is a lot more investment that is coming. So the number will decrease but we were just basically talking about the two industry segments that we cater to in terms of what their current kind of momentum is and what kind of outlook they have.

**Amandeep Singh:**

Suppose in Hyderabad say that your capacity has increased by around 200 units for the next six months, does this lead to 8% to 10% sequential expansion in revenue for the next two quarters?

**Tarak Patel:**

So the way that we calculated it, we have about five to six months of production, obviously things are in a good situation right now, we have been able to produce, unfortunately there were a few days of very high rainfall in Hyderabad, so we got pushed back by a few days but yes, if you say about 200 equipment in a six months period at an average price of about Rs.15, 16 lakhs, about Rs.30 crores of revenue should be possible. Obviously this is something that we will try for plus or minus 5% to 10% is something because it is a new factory, we need to understand the local rules, regulations, the customs there, the culture there, but however we have our team already in place, we are already working on a lot of improvements, we have already done a lot of the metal fabrication sent it from Gujarat. So, we are in a good situation there. I think there should be no reason why we cannot achieve this number.

**Amandeep Singh:**

As a follow-up to this, we understand that in Hyderabad market, competition from local players is quite intense. So, in that context, can you help us understand the competitive scenario here and you are looking to open an after-sales service center in this market and also if the large pharma players have started giving orders it is still the smaller players driving the sector demand as you have highlighted in the previous call?

**Tarak Patel:**

So I do not think the competition is intense. We are still the market leader in Hyderabad and then with this new facility that gives us a local footing, I think will become even stronger. And like I mentioned in my last or maybe a few conference calls, the Indian customer is also changing, the need for quality equipment is increasing, most of these customers have regular FDA audits, they have regular audits from their customers. So people do not want to compromise on quality. They have understood and realized that GMM Pfaudler stands for technology, for quality. It is very-very unlikely that they would compromise on quality because of price and the local competitors have not been able to really deliver good quality equipment, yes, they might work for a short period of time, but many people have burned their hands. So, I think overall if we can meet deliveries and if a pricing is somewhat reasonable I see no reason why we cannot go and increase our market share in the south.

**Moderator:** Thank you. The next question is from the line of Shrinivas Aiyer from Rockfort Consultancy. Please go ahead.

**Shrinivas Aiyer:** In the previous concall, you told that once the gas furnaces are operational, we will not be using electric furnaces. Since we have huge order book, can we not use electric furnaces also to convert orders into cash and still the assets idle?

**Ashok Pillai:** So yes, we will be left with one 800 KW furnace and a 2400 KW furnace. So the only operation furnace that it could be used on a regular basis is 800. So our constraint is not necessarily always the furnace. So if and when we do require it, we will definitely consider that. But we are trying to exploit first the gas furnaces fully and make sure only when that is fully operational and fully consumed, will we then even consider possibility of using anything in the electric power. So, that is the general philosophy that we will follow and to make sure that that is never a constraint one.

**Shrinivas Aiyer:** Second question is when are we going to start production of Interseal, Acid Recovery Systems and Fluoropolymers in India, do we have plans to offer sealing solution apart from our own consumption?

**Tarak Patel:** Interseal is a product line that we are working on, we are working very closely with industry in Germany, we have the process of developing vendors, developing the right sourcing. Those processes are continuing, and we hope that we will have a prototype that is ready for testing by the end of this calendar year. Once that is tested, is approved by the German company and also by the German statutory authority so that we have certain qualifications that is well recognized, we will start manufacturing. So I would presume that we will be setting up our manufacturing in the last quarter of this year and in this new year we should be able to launch the product for the Indian market. On the Fluoropolymers front, we have been for a very long-time having Fluoropolymers as our product line when we make PP-lined pipe. It is still a business that is used mostly for in-house consumption but we sometimes cater to the customers for special requirements but that is something that we do not plan to expand in any great fashion at the moment right now. We have got our eyes focus on the product lines that we need to focus on right now which is Glass Lined Proprietary and new business of Interseal. On the Acid Recovery, one of the key requirements from customers is the requirement of a process and a test center and we are establishing that in Karamsad where customers can bring the product and we can prove to the customer that we can take his waste acid, purify all the waste elements inside his residue acid and concentrate and make sure that he gets the right output that he is looking for. And for that we are setting of a plan and that again should be ready by January or so of next year. Once that is in place, we will have that being offered to the customers for them to do trial.

**Moderator:** Thank you. The next question is from the line of Surendra B, individual investor. Please go ahead.

**Surendra B:** I wanted to know the revenue from the Pune facility?

- Tarak Patel:** Because of the lockdown in Pune which was kind of extended, I think in H1 we did about Rs.5 to Rs.6 crores of revenue; however they have a strong order backlog and we expect the next six months to be much, much stronger, they have already shown a lot of improvement, but as you know, Pune is a small part of our total turnover, so it will still be something that we can make up very easily.
- Surendra B:** You have already mentioned that we are going to start one more facility in Hyderabad. I think you have acquired some industrial land. Is this project still live or before some time?
- Tarak Patel:** No, this is an option before we acquired the Hyderabad DDPS facility. This is a second option. If we could not acquire that, we would then set up a brand-new Greenfield facility. Now that we have acquired a readymade facility. That plan is no longer required, and we will now focus on shipping and improving the local facility that we have.
- Surendra B:** From the website, I just learned that China facility is on the sixth glass lined furnaces, I think you are one of the biggest facilities founder, how we can expand the facility, the turnover from there?
- Tarak Patel:** China facility, I am not sure about your information, but Pfaudler has recently created a new China facility about 200 Kms away from the old facility to double the capacity that the old factory had and now that China was now operational, you will see a good amount of improvement there; however China in spite of the growth market, we have a very strong backlog. So the first idea is to reduce the backlog, ship out the equipment and then go after new business, but right now we have doubled the capacity that we had in the old Pfaudler unit.
- Moderator:** Thank you. The next question is from the line of Ashil Shah, individual investor. Please go ahead.
- Ashil Shah:** In your recent results, is there any reason why the heavy engineering profitability has dropped so much compared to last quarter and year-on-year basis as well?
- Tarak Patel:** I think it is basically only because of the top line. If you remember, H1 we had a very strong AG order shipment of about Rs.42 crores, this quarter is about Rs.7, 8 crores. Just because of that you will get the operating leverage. In heavy engineering, what happens is some of these projects have very long lead time, so some of them get dispatched together in one quarter, the next quarter is really not a very high where we use to build up WIP and then the next couple of quarters you see. But it has nothing to do with the specific product line. Again, for the full year basis, we will be on target in both revenue and profitability for AG.
- Ashil Shah:** And proprietary products, sudden jump in PBT, is it expected to continue into H2 as well or is this a one-off event?
- Tarak Patel:** No-no, I think the proprietary business is going to grow and continue. Like I mentioned there is a significant amount of business that we will now do with our Swiss subsidiary because they

have a large glass order backlog, the kind of business that we are taking here in India also high margin business, we have got export business as well. So you will see this continuing for this year at least.

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

**G Vivek:** Sir, just wanted to know about the opportunity size of our glass lining equipment, other equipment which we make in India as well as abroad after acquisition, what is the growth rate we expect sir?

**Tarak Patel:** So in India we have been always guiding that both industries that we cater to, pharma and chemicals grown about 15%, that is something that we can easily maintain if not more. Internationally, I think chemical growth is about 6%, pharma growth is about 7%, but again now with the new COVID kind of issues plus people looking at alternative to China, we might see both those rate increase slightly; however, obviously you all know that international markets are not growing as fast as India, that is something that is clear; however, we have to use low-cost Indian sourcing, we have to use operational excellence, we have to use everything else that we have to really grow market share. Luckily for us, our competitors internationally are not very strong, they are also going through a bit of restructuring. Pfaudler has spent a good amount of money over the last two years, close to \$23 million have been spent on two new facilities; one in China, one in Germany, much more cost efficient, they have reduced the number of people. So, all those things will start playing and bearing fruit. What about five, six small companies, those new products will also increase and enhance the product portfolio. So it is not really only a question of market and growth rate. It is a combination of many-many different things where a company can become successful.

**Moderator:** Thank you. The next question is from the line of Punit K, individual investor. Please go ahead.

**Punit K:** I just wanted to understand on an individual level, when do we see the entire set of the subsidiary numbers also embedded in the GMM quarterly results. I missed it.

**Tarak Patel:** We expect from 1st of January we will start consolidating. So in Q4 of this year, you will see it consolidated. We probably expect the transaction to close in the third week of December. And I think just for one week of consolidation it is just too much of an exercise to get the numbers consolidated. So most likely we are targeting 1<sup>st</sup> of January to consolidate.

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

**Sunil Jain:** My question relate to more of overall volume what we can do. You said that Hyderabad we can do additional 200 units. And from expansion again we can do in second half around 200, 250 units, am I correct?

**Tarak Patel:** No-no, I said 200 units from Hyderabad for six months, yes, and I said 250 additional units on a full yearly basis once everything is online. So in terms of the next six months, I would say that

we could probably look at another 100 units from Gujarat facility because the two gas furnaces are just coming online plus we have to do some other work in terms of making space, manipulated and all that. So, I am just giving you a random number, but 100 is probably something that is doable... maybe a little bit more than 100.

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

**Rahul Jain:** Two simple questions. One is how has been order inflow in this quarter and how was it compared to the last year?

**Tarak Patel:** So the orders this quarter are better than Q1 and compared to even last year things have picked up, let me just give you the details' so Q2 of this year was about Rs.175 crores of orders and Q1 was about Rs.150 crores of orders, at the same time last year Q2 was about Rs.100 crores, from Rs.100 crores, increased to about Rs.175 crores.

**Moderator:** Thank you. The next question is from the line of Venkat from 3sigma Financial. Please go ahead.

**Venkat:** I have two questions: One is which manufacturing facilities are included in Pfaudler International? And the second question is are you using IoT anywhere?

**Tarak Patel:** So, yes, we are using IoT in a small way across the Pfaudler group, also in India we are using, something that we are looking at also expanding. In terms of the facilities there are about 13 facilities in eight countries that will become part of the group. Just to give you a broad level; we have one factory in Brazil, one in US, one in UK, one in Germany, one in Italy, one in China, one in India. So India is obviously not covered in that and then we have three, four smaller units that they have recently acquired; Normag, Interseal in Europe as well. So basically all the units in the Pfaudler group will get consolidated, there is nothing else that gets left behind, the entire group is now under the GMM Pfaudler umbrella.

**Moderator:** Thank you. The next question is from the line of Farhan Amlani from SG Enterprises. Please go ahead.

**Farhan Amlani:** I have a couple of questions: First is on the audit side, basically you guys recognize revenue from the long-term contracts on the basis of percentage of completion method. Am I correct?

**Tarak Patel:** Yes.

**Farhan Amlani:** But it is highly dependent on the management guidance and all. So can you please share a word of wisdom or...

**Tarak Patel:** The way that we have here is a \$1 million contract that is within a six month delivery period to the same customer the same PO, is something that we work on; however, this quarter we have actually reduced our POC because some quarters like last quarter we built WIP and we were not

able to ship it out because of COVID and stuff like that; however, this quarter we kind of reduce that amount so that we shipped out more and then at the end of the year, we usually try to come back to the same level of POC that we start with.

**Moderator:** Thank you. The next question is from the line of Ashil Shah, individual investor. Please go ahead.

**Ashil Shah:** I do not have any questions. Just wanted to congratulate you on a good set of numbers and commend you on your ability to focus on the business rather than all of this external noise that is happening because of the OFS. Thank you.

**Tarak Patel:** Thanks so much. Nice to hear.

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

**Dhavan Shah:** I have a question on the GLE segment. So, you mentioned the order book of around 100 GLE equipment. So I think that is almost the same which was mentioned last quarter as well. So just wanted to understand post this Hyderabad capacity comes on stream, do you foresee that to capture that market share, will there be any pricing war for the GLE equipment additional around 200, 250 GLE?

**Ashok Pillai:** I think first of all, last quarter, the numbers were not 1,100, it is probably close to 800, 900 equipment. So actually the backlog has gone up in the last quarter. The rate of what is coming has increased. That is point number one. Once the production streamlines the two new gas furnaces, we will definitely ship out more enabling us to take additional orders. Will there be some amount of attrition in margins? Probably not because the demand is still strong and we do command a good premium over competition. So, we do not see much of that problem but if it comes to that there could be some attrition in market.

**Tarak Patel:** But just to add to that, we are still losing business from our key customers only because we cannot meet the delivery. So, a company like PI, SRF or Divis Labs, who wants to buy from us and just cannot buy from us, those are the customers that we focus on first. So those customers still have and still will give us a premium over the others. And that is something that we will target the low hanging fruit and then go after the low end margin business if we need to, but I do not see that to be a strategic direction for us right now.

**Moderator:** Thank you. The next question is from the line of Rohit Ohri from Progressive Share. Please go ahead.

**Rohit Ohri:** Does the management think that it is time to go for a price hike or are you going to look for another two quarters or so before you go for a price hike?

- Ashok Pillai:** On the price hike of our equipment, so I think the point here is that we should make sure that the pricing is justified and is acceptable to the customer, it is not completely our decision, it has to be subject to the market forces. So as long as we have that understanding, we will do all those acts that are appropriate to the market. I cannot comment on whether we are going to hike prices or not.
- Moderator:** Thank you. The next question is from the line of Ashwini Sharma from Anand Rathi. Please go ahead.
- Ashwini Sharma:** Just a small clarification. So the Pfaudler integration which you are planning to do by Jan next year, so will that be on a proportional basis or you have already given a guidance to a number of Rs.2,000 crores, the combined entity, so now the integration will be what, is going to be a comparative number or will it be a proportional basis, that is what I wanted to know?
- Tarak Patel:** No-no, so entire 100% will be consolidated into GMM Pfaudler. From January, obviously for the last quarter, the three months, but the entire revenue and profitability will flow through into GMM Pfaudler.
- Moderator:** Thank you. The next question is from the line of Jason Soans from Monarch Network. Please go ahead.
- Jason Soans:** Just wanted to know, you said that your margins could improve due to the gas furnaces. Would you like to ascribe a number to that in terms of basis points?
- Tarak Patel:** I think we had said something like 50 bps for the last two quarters. Six months, Jugal, how much would the savings be in terms of using the gas furnaces?
- Jugal Sahu:** 0.5.
- Tarak Patel:** 0.5% around.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** Tarak bhai, while you maintain heavy cash balance in hand, Rs.113 crores and took debt to maintain such high balance, why not you enjoy a short-term working capital limit from the bank instead of maintaining cash?
- Tarak Patel:** So we have some working capital limit also, Ravi, bhai. I think the question was that we had to raise some debt for the international acquisitions and we will use some of the cash on hand as well, but again to run the business we did not want to make it such a difficult situation so we decided to find a right balance between debt and cash and I think we have. But even the borrowing that we are doing in India, right now, is not too large for a company of our size, it is



still very-very comfortable, something that our cash flows which we generate can be very easily paid off in the very short period of time

**Moderator:** Thank you. The next question is from the line of Deepak Thakkar, individual investor. Please go ahead.

**Deepak Thakkar:** Tarak ji, very nice way you are conducting all the businesses in spite of the hue and cry over the market. I would like to just request you that the capital base of our company is too low; Rs.3 crores only and the results are almost Rs.380 crores as on today. So why do you not issue good amount of bonus shares say five shares to each one so that at least the capital base will be around Rs.20 crores or so?

**Tarak Patel:** So, every time I comment on bonus, I think everybody takes my word. So the idea right now is to really focus on creating value for all our shareholders through this international transaction. We want to conserve cash and we want to focus on really transforming the business, really, really turning around the international business which we strongly believe we can. I think shareholders will be rewarded once we consolidate, once we bring in the increased revenue and profitability from the international operations. And like I always mentioned, if the timing is right, and if we believe that there is an opportunity for us to reward shareholders, we will be the first people to come out and say that we will.

**Moderator:** Thank you. We take the last question from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

**Amar Mourya:** Sir, I have two questions. Number one is that, you indicated that Pfaudler global, the order book has increased. If you can indicate that? And secondly, I was talking about the guidance part only. Going by the guidance at least we expect there will be at least good margin improvement at the global level also. So have we seen that kind of improvement in last two quarters, basically the understanding was that?

**Tarak Patel:** So the order book remains very-very strong and the German facility, the Italian facility, the Chinese facility, the US facility, all have a very strong order book. So that definitely bodes very well. And we have seen Pfaudler actually turn around the international operations over the last six months or so. Their profitability has gone from about something like 5% to 8%, is improving now. There are two factories that are currently loss-making, but they have already been turned around; one was the German facility which broke even in March of this year; the China facility because of the relocation, also had a negative EBITDA; however, now that they have moved and they have started operations, that will also turn into positive. So overall we will see a significant improvement in the international business as well.

**Moderator:** Thank you. Well, ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Tarak Patel:** So thank you everybody for joining the call and I look forward to also talking to you again at the end of the next quarter. Overall business looks good. Yes, there has been some noise and negativity around the OFS and the other issues; however, we continue to focus on business and make sure that we keep performing and we keep working on the strategic direction that we plan and our next focus is obviously to turn around the international business, we have some very good ideas and I think that if we put our head down and work hard, I am sure that it is going to be achievable very easily. So thank you very much and I look forward to speaking to you all next quarter.

**Moderator:** Thank you. On behalf of GMM Pfaudler Limited that concludes this conference. Thank you all for joining. You may now disconnect your lines.