



“GMM Pfaudler Q2 FY-19 Earnings Conference Call”

October 25, 2018



**MANAGEMENT: MR. TARAK PATEL – MANAGING DIRECTOR, GMM
PFAUDLER LIMITED
MR. ASHOK PILLAI – COO, GMM PFAUDLER
LIMITED
MR. JUGAL SAHU – CFO, GMM PFAUDLER LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the GMM Pfaudler Limited Q2 FY19 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sardar from Christensen IR. Thank you and over to you sir.

Binay Sardar: Thank you, Melissa. Good Afternoon to all the participants on this call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties, and other factors. It must be viewed in conjunction with our business risks that could cause future result performance or achievement to differ significantly from what it is expressed or implied by such forward-looking statements. Please note that we have mailed the results and the press release and the same are available on the company's website. In case, if you have not received the same, you can write to us and we will be happy to send the same over to you. To take us through the results and answer your questions today, we have the top management of GMM Pfaudler represented by Mr. Tarak Patel – Managing Director, Mr. Ashok Pillai – COO and Mr. Jugal Sahu – CFO.

We will start the call with a brief overview of the Quarter-I gone past and then conduct Q&A session. With that said, I will now hand over the call to Mr. Tarak Patel. Over to you, Sir.

Tarak Patel: Thank you, Binay. Good Afternoon, Ladies and Gentlemen. Just to give a brief on Q2; we had a pretty strong quarter and we have significant improvement in both revenue and profitability. Q2 FY19 revenue was at Rs. 99.2 crores versus Rs. 76.4 crores year-on-year. As compared to Q1 this year, revenue grew by 6%. It was at Rs. 93.2 crores versus Rs. 99.2 crores for this quarter. In terms of EBITDA, the EBITDA has improved by 39% year-on-year, this quarter it was Rs. 16.1 crores versus Rs. 11.6 same quarter last year and EBITDA has also improved by 5% quarter-on-quarter compared to Q1 of this year. The EBITDA as a percentage of revenue has increased 1% year on year so we are 16% right now versus 15% in Q2 last year and we have the at same level quarter-on-quarter at 16%. PBT and PAT are both up by 40% YoY. PBT for this quarter stood at Rs. 15 crores versus Rs. 10.7 crores same quarter previous year and also improved by 8% quarter-on-quarter, Rs. 15 crores this quarter this year versus Rs. 13.9 crores in Q1 this year.

On a half yearly basis, we have grown significantly so our growth in revenue is about 32%. We are at Rs. 192 crores H1 FY18 versus Rs. 145 crores for H1 of last year. Operating expenses have reduced by about 3% because of the incremental revenue and EBITDA has improved by 61% QoQ. We are at Rs. 31.4 crores this year versus Rs. 19.5 crores for H1 last year. The EBITDA as a percentage of revenue increased by 3%, we are at 16% currently and it was 13% previous year H1. And both PBT and PAT have improved by more than 50% and looking at the outlook for the year we are very confident that we would probably meet and / or exceed our internal target for the year. The subsidiary Mavag has also performed well and both GMM

Pfaudler and Mavag continue to have a very strong Order Book and we have a strong backlog of orders. We expect further investment in both Chemicals and Pharmaceutical to drive our growth going forward. I would now like to just throw it open for questions and if you have any questions that you need to ask please go ahead.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. We have the first question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

Bhalchandra Shinde: Regarding our margins improvement, is it largely because our capacity utilization is already at around 90% or it is because of the better product mix or pricing improvement?

Tarak Patel: This is a combination of many items. Last February, we commissioned the new Gas Furnace which is giving some benefit when it comes to Glass Line business. There have also been upsurge in the requirement in the market resulting in pricing advantage. We have been able to improve our pricing over the last few months and we also look to further improve it in the next few quarters. Obviously, some of this have also been eroded because of raw material price increase that have been passed on to the final end-user. But it's a combination, both the incremental revenue plus pricing improvement and some internal improvements in the efficiencies that have all resulted in improvement in profit.

Bhalchandra Shinde: On current capacity how much max-to-max revenue we will be able to generate and by what time will be ready with that 1900 unit capacity?

Tarak Patel: In the last quarter conference call I discussed about the approval from Board to put in an additional fabrication facility because that is the bottleneck right now when it comes to the Glass Line business. To give you a number in terms of what we can probably expect from this facility in terms of revenue without any further CAPEX would be in the range of may be Rs. 500 - 600 crores but that would also depend on pricing and also the mix in terms of what products that we have and also export business.

Bhalchandra Shinde: Is it fair to assume that Glass Lined equipment by ballpark number will be around 5% to 7% of the total CAPEX of chemical or Pharma industry?

Tarak Patel: Yeah, we would say that that's right if you don't include probably the land cost. But if I say Rs. 100 were spent for pharmaceutical or the chemical plant we would say about Rs. 10 would be Glass Lined and other complementary equipment.

Bhalchandra Shinde: Because as per recent data what I've noticed is like there are different projects in Pharma in chemical together, around 1,40,000 crores kind of a project in pipeline which is at different stages like clearance stages or planning stages. So you even if we assume that 30% is related to land cost still the number are pretty big enough. So do we see that kind of opportunity for us and if it is there then will we be able to cater, then how much time we will take to ramp up our capacity if at all that kind of opportunity....?

Tarak Patel: We have two or three points here. One is that when you consider pharmaceutical you should only consider the API part of it not the formulation business because we only cater to the API. Having said that both the industry segments that we cater to for the Glass Line business specifically, the chemical and pharmaceutical both have grown considerably. Last nine months, I would say the growth has been driven by the chemical sector because of the slowdown in China a lot of the production capacity is now moving to India, so that has been the big driver for growth. We have seen also pharmaceutical improvement. This quarter we see Hyderabad and surrounding areas companies are now investing in plants again. So we are quite bullish in terms of the market. Both the industry segments that drive our growth in the glass line business and most of the other product lines will see significant investment in the next few quarters. And when we talk to management of these companies they are also very bullish on the India story and with China slowing down and also we have companies here who used to be very dependent on Chinese made intermediates they are now looking at moving that manufacturing to India. So that's our take on the market and I think for us at least the next few years is something that we can definitely say it's going to be strong in terms of growth.

Bhalchandra Shinde: How was the growth of our order book this quarter?

Tarak Patel: As I mentioned last time we had a record breaking Q1 in terms of order book, Q2 has significantly grown in terms of order book as well by about close to 30%. So the orders are not stopping. We have significant backlog that gives us visibility definitely to the end of the year but also probably to Q1 and Q2 of next year.

Bhalchandra Shinde: Sales mix since glass line equipment and heavy engineering means more related to chemical and pharmaceutical segment wise.

Tarak Patel: I think the question was what is the breakup between our Glass Lined and non-glass line business. I think currently we are at about 70-30; our glass line business has been the main driver for growth. Having said that the other product lines are also growing and the backlog of orders are distributed between all our product lines.

Moderator: We have the next question from the line of Ashutosh Garud from Aventus Wealth. Please go ahead.

Ashutosh Garud: You mentioned you're actually utilizing your capacity at around 90% and you also mentioned that the current capacity without any expansion can do revenue in excess of 500 to around 600 crores, right?

Tarak Patel: I said that there is a CAPEX going on currently. The additional facility is a factory shed that we are adding which will probably be ready by the end of the year or maybe in Q4. I said with that additional investment we believe we can do somewhere around 500 to 600 but it also depends on the product mix, Share of export business, etc.. But I think 500 is something that should be doable from this facility.

- Ashustosh Garud:** What is the current capacity right now?
- Management:** What we are doing now is about 90% of Current capacity. As already shared, we are building an additional factory shed which will support us in achieving the stated target
- Ashustosh Garud:** So in the volume terms if you can share the capacity, do you share that?
- Tarak Patel:** In glass line business we have a concept where we talk about equivalent units and we have shared that data. We are currently at around 170 EUs per month and with this additional facility we would jump that to 200 in the first year and 230 the second year and so on. But this is just the glass line business and for the other two business lines which we basically call heavy engineering and proprietary products that we cannot give you a number of units. But both those factories are also at maybe 80%-85% utilization which we are looking to improve over the next few months.
- Ashustosh Garud:** So this 170 going up to 200 or 230 is related to the 1900 unit capacity which was mentioned...
- Jugal Sahu:** Yes on the Glass lining.
- Ashustosh Garud:** So this is expected to come in Q4?
- Tarak Patel:** Q4 is when we believe we will start getting some action. We are also looking to improve our internal processes and considering a bit of getting some additional production from may be outside for the short-term before the shed comes in line in order to address the strong order book. Having said that currently we are trying to hit at least 170-180 total units every month so that we can reduce our backlog.
- Ashustosh Garud:** What is the difference between the consolidated statement and the standalone one?
- Jugal Sahu:** There is no difference actually. Our subsidiaries products, they fall under proprietary products segment.
- Tarak Patel:** No, he is saying consolidation of Mavag. So right now we don't consolidate Mavag numbers on a quarterly basis but we consolidate only at the end of the year. However, as I mentioned to you our subsidiary is doing well and they will also grow both revenue and profitability and their order backlog is also quite strong.
- Ashustosh Garud:** If I see your historical numbers since FY17 we have seen significant growth coming in, prior to that the revenues were not growing at the similar pace so what is changed in last couple of years?
- Tarak Patel:** Last few years we have obviously changed our mindset little bit in terms of the growth to come from the volume. So, we stepped up the production, the capacity, we also a ramped some internal programs to increase throughput. We diversified our portfolio to include heavy engineering because that is really an unlimited market. We have also added a skill-set in terms of HR policy

and incentivize employees. So it's like really an all-around effort that we have and we continue to be the market leader. Our market share will be close to around 60% at least in the glass line business and obviously the industry segments that we serve have been showing significant growth. So Speciality chemicals, Agro-chemicals have had significant growth in the last few months.

Ashustosh Garud: Seeing the kind of traction we are seeing your growth on top-line, so what is the EBITDA margin guidance you can see going ahead because we have been expanding our margins for quite some time last 2-3 years on consol and standalone basis, so where can we see this margin going in 2 years down the line?

Tarak Patel: So we always definitely would like to improve profitability. There are definitely inefficiencies that we can probably squeeze out from the system. There is definitely improvement that can be done internally that would improve the EBITDA margins. But having said that our focus right now is growing top-line and growing market share and obviously whatever internal efficiencies we can squeeze out we will try and improve. But I think a 16%-17% is what we have planned in terms of EBITDA margins and that's something that we can still maintain.

Moderator: We have the next question from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: You talked about additional capacity coming up that is of 1900 units, so what is the CAPEX there? And can you tell me more about this fabrication facility that you were telling about?

Tarak Patel: What was the last part of the question?

Keyur Shah: About the fabrication facility if you can tell me more about it that you mentioned earlier so I didn't quite get it.

Management: What we said that we are putting an additional bay, a fabrication bay to improve the capacity of the glass line business. That unit will come into stream with all the machinery required for it before the end of financial year so that in Q4 quarter we are going to ramp up the fabrication capacity. We have no other major constraints along the manufacturing route once we have additional fabrication capacity in place.

Keyur Shah: What would be the CAPEX for that?

Tarak Patel: About 10 crores would be the CAPEX for that particular bay with the machinery.

Keyur Shah: For the 1900 units that you have already put up what was the CAPEX for that?

Tarak Patel: Ours is an old Plant. Every year we spend 10 to 15 crores on maintenance CAPEX. This additional investment of 10 crores will help us to ramp up our production by 30 equivalent units per month in the first year and 60 equivalent units in the 2nd year and so on.

- Moderator:** We have the next question from the line of Udit Gajiwala from SMC Global. Please go ahead.
- Udit Gajiwala:** I would just like to ask a basic question that is on your demand scenario like as you said that we are already overbooked with the orders but are we still having the enquiries from the other players of chemical and Pharma companies?
- Management:** Yeah there are still inquiries coming in from other companies and we are keeping our backlog in mind and advising the customers that the earlier they decide on the enquiries the faster the delivery is. So yes we are telling them that this is the current status of our backlog but there are enquiries coming in from customers even now.
- Tarak Patel:** But as I mentioned the Q2 order book itself was significantly higher than Q1 so that's the trend and we don't see a slowdown in terms of enquiries coming in. There are still large project investments that are planned in India in both the chemical and pharmaceutical. I think Pharma is now picking up as well specially in Hyderabad and the Vizag area. So we will see the growth coming from that area in the next few quarters.
- Moderator:** We have the next question from the line of Alok Ranjan from L&T Mutual Fund. Please go ahead.
- Alok Ranjan:** My question is related to the business environment. Could you give some color on what is the total CAPEX that we can see in chemicals and Pharma together or if you can break in specialty, agro and Pharma like that? And what is the target opportunity size for you in that space?
- Ashok Pillai:** It's a very rapidly changing environment that we have seen, the change happening in the last maybe 10-12 months, that change has happened largely because of the China story where they have shut down nearly 49,000 units all over China and that has resulted in a lot of companies here—the existing companies and new companies—putting up capacities for products that they are sourcing earlier from China. So it's very difficult to see the full impact and we are actually feeling the impact of the additional requirement but it's very difficult to gauge what is going to be the future requirement of these chemicals and pharmaceutical companies.
- Alok Ranjan:** So in general when you say that your order book is at very high level especially when you compare with the Q1 what kind of visibility we have? Whether we have a visibility of 1 year or 8 months or can you just quantify in terms of number what kind of visibility we have?
- Ashok Pillai:** Like Tarak Patel mentioned little while ago the visibility is certainly there to the end of the year and large part of the first quarter is also visible and some parts of the second quarter some of the orders are also seen.
- Alok Ranjan:** If I see the EBIT margin especially in the glass line and the heavy engineering that have contracted. But the proprietary product if I see so there the EBIT margin has improved so can you just give some idea on why the proprietary product margins have improved?

- Jugal Sahu:** Proprietary product volume has increased, if you see that last year H1 we had about Rs. 25 crores sales and this year YTD it is about Rs. 35 crores, so that's like higher absorption of fixed overheads and utilization of higher capacity leading to higher profitability.
- Alok Ranjan:** Going forward we will be seeing around 12% kind of EBIT margin in this segment.
- Jugal Sahu:** Currently we are 10%; we might reach to 12% overtime
- Alok Ranjan:** The gross margin we have seen some reduction so this is because of the commodity headwinds or what is the reason for that?
- Jugal Sahu:** In terms of raw material consumption yes there is an increase in cost, however, it has been passed over to customers in a phased manner by way of increase in price. Having said that, there is also better utilization of fixed overheads like higher absorption of fixed overheads for the higher revenue and also about 1% saving coming from power and fuel as last year we have used electric furnace and this year gas furnace is fully operational. At the end there is a net result of about 3% increase in EBITDA.
- Alok Ranjan:** Actually I'm talking about the gross margin percentage so that is around 51% this quarter.
- Tarak Patel:** You are right, what you're saying is true that there have been some increases in raw material costs which will get passed on in the quarter. We always buy raw materials in advance so what we are using today was bought maybe 2-3 quarters ago. But that's right, it will get passed on to the customers. We have already upgraded our price list. There has also been an increase in the gas pricing as well which is a big cost because our majority furnaces are running on gas. But because of the incremental revenue we have been able to absorb the cost and able to improve the EBITDA as well..
- Alok Ranjan:** You mentioned that generally the raw material you take it for 2 to 3 months, so how do you see the raw material pricing moment from here onwards?
- Ashok Pillai:** The two major raw materials that we buy our carbon steel and stainless steel and both of these have been showing an increasing trend in the last several months so we have done what we could in terms of hedging by buying additional material. Typically we buy one quarter material for carbon steel and stainless steel we buy against specific orders but we have purchased additional quantities of carbon steel to hedge against the possibility of cost increases in carbon steel.
- Alok Ranjan:** And generally these are domestic purchases?
- Ashok Pillai:** These are all domestic purchases
- Alok Ranjan:** So Forex impact will not be there, right?

- Ashok Pillai:** No Forex impact.
- Moderator:** We have the next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.
- Ankit Gupta:** Just wanted to get a sense on the healthy margins in the heavy engineering segment in the past 2 quarters. If you can just tell us what exactly do we do in those segments and along with heavy engineering proprietary products as well, so if you can throw some light on what exactly we do and what is the reason for generating such a high margins on the segment?
- Tarak Patel:** I think two stories are here, one is that obviously the heavy engineering is a much larger market and here we don't compete with fabricators who do engineering and manufacturing on a weight basis. Here we try and look for—companies that are looking for established players, need strong engineering and manufacturing company even in terms of the weightages and the thickness we handle are significantly higher than what most fabricators can handle. But the story here is that Pfaudler does not have a company that make heavy engineered products. So one of the improvements in this business has come through the Pfaudler network where we being part of Pfaudler network are able to get a lot of export business because most of Pfaudler end users and the customers who buy glass line equipment also will need heavy engineered products. So the Pfaudler sales network is actively selling GMM Pfaudler's non-glass line business line in the Europe and US markets so some of the growth and profitability is also coming through that. But as the CFO mentioned earlier both these product lines heavy engineering and the proprietary products are growing and incremental revenue is also accounting for a better profitability.
- Ankit Gupta:** Where is this heavy engineering product, any specific industry are they related to chemical or Pharma or these are majorly going into capital goods like oil and gas and others?
- Tarak Patel:** So the markets are traditionally chemical and Pharma but they're also being sold into the non-traditional being the ones that we normally deal with, they are also been sold to the refining and oil and gas sector and fertilizers sector.
- Ankit Gupta:** Sort of this current run rate is around Rs. 30-32 crores of heavy engineering and proprietary products, how much will be the exports in this?
- Tarak Patel:** I would say about 10%. I think as a company our total exports is about 10%-11% which is growing slowly but steadily and we look at probably improving that number going forward.
- Ankit Gupta:** But in heavy engineering and proprietary since you are saying that we also supply to Pfaudler's customers. The proportion of exports will be much higher compared to the glass line business.
- Tarak Patel:** We would probably definitely have more exports in heavy engineering and in the proprietary products lines more than glass lined because 95% of our glass lined business is sold in the Indian market and we also are a source for our Swiss subsidiary. So our Swiss subsidiary buys

fabricated equipment from us which they then repackage and resale in the European market as well. So yes, heavy engineering and proprietary products would have a larger export component.

Ankit Gupta: Since 60% of the market is controlled by us and remaining 20%-30% by one of our competitor so given the market scenario when there is huge demand for glass-line equipment from chemicals and from BBI manufacturers so in case if both of us are not able to serve that demand, is there a possibility that the customers can import these equipment?

Tarak Patel: There is always the possibility of importing but it will not make sense because if they import from Europe so the pricing is going to be very different than what we do and China is not a threat because the quality of glass line equipment that comes from China will not meet the standards required by the local Indian companies. Having said that I still believe that they would prefer to go with an Indian company and GMM Pfaudler is obviously well positioned and hopefully if we can reduce the backlog we will be in a position to supply and meet the demand of our local Indian customers.

Moderator: We have the next question from the line of Sarvanan Viswanathan from Unifi Capital. Please go ahead.

Sarvanan Viswanathan: What's the exports quantum in this quarter?

Tarak Patel: I think it's close to about 11% is our exports in terms of shipment, in terms of orders it's also around 10%-12%.

Sarvanan Viswanathan: And in terms of new business from Pfaudler is that happening?

Tarak Patel: Right now unfortunately the demand in India itself is so strong we have not really got into any conversation with Pfaudler about supplying to them for Europe because the backlog in India and the backlog that we currently have in the glass line business is very-very high so we need to first focus on getting that sorted out and then look at probably building some stuff for Pfaudler.

Sarvanan Viswanathan: As regards Mavag you had mentioned that 10% growth would be achieved in this financial year, does that stay?

Tarak Patel: Yup. I think we are in a good position to maintain that guidance. They have a strong order backlog that will put them in a good position to meet the targets that they set out.

Sarvanan Viswanathan: The consolidated results would be presented from next year; you had mentioned that you have....

Tarak Patel: I think now obviously the CFO has joined but it's going to be required a lot to consolidate subsidiary and it's a large subsidiary for us. So yes, from next year we will be consolidating on a quarterly basis.

Moderator: We will now move to the next question from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: My question was regarding while our top-line has grown very well the employee cost and contract labor cost have not grown at the same pace, so is it a factor that is driving our EBITDA margins and is there anything else in that?

Tarak Patel: No I think this is because more of the product mix as heavy engineering has a lot of contract workers and they are basically given jobs on single job basis so we have not really seen a lot of increase in terms of employee cost because of that. We are growing, we do need to build the additional skill set both in sales and factory and operations point of view so we will be adding people to maintain the growth story and we need to bring in some specialty skill set that we will need to continue growing. So we will be adding to employees but we still are quite confident that profitability will still be maintained at the same level.

Sanjeev Zarbade: Our balance sheet--it's not very significant--but there has been a slight increase in borrowings and some decline on the cash surplus. So is there any increase in working capital engagement because of fast growth?

Tarak Patel: I think there were two points year—it's a good point that you brought up—one is that our inventory has increased because we went and purchased a lot more raw material than we normally maintain in order to maintain appropriate hedge for backlog as our CEO was saying earlier. So a little bit of that has been stuck up in inventory. There is no problem in terms of the collections but that we will see the working capital improvement over the next few months.

Moderator: The next question is from the line of Jay Modi from Emkay Investment. Please go ahead.

Jay Modi: If you could quantify this growth number in terms of volume and pricing growth.

Tarak Patel: The growth in revenue you mean?

Jay Modi: Yeah.

Tarak Patel: I think it's a combination again so maybe 50-50 I would say. There has definitely been improvement in outputs so number of quantity and units going through the factory has definitely improved and there has been also a price improvement, maybe close to half and half I would say. I mean I am just saying out of my head I'm not really sure. But I think at least 50% would come from unit growth.

Jay Modi: And QoQ also there has been growth in our throughput.

Tarak Patel: Quarter-on-quarter yes there has been improvement but as we mentioned to you there is a lot of variables sizes and things like that. But in terms of glass line business yes we have produced

more and obviously Q3 and Q4 are also going to be better because it's a financial year end. If you look at our historical data we usually have, the second half of the year is usually better than the first half.

Jay Modi: So currently since we run at 90% optimally theoretically we can stretch our capacities to 100% utilization on 90% is the optimal capacity that we can reach?

Ashok Pillai: As we said earlier there is an additional bay coming in and once that bay comes in that will free-up some more capacity for fabrication and the other bottlenecks are still to be exploited fully so we think that we can increase the capacity once the thing comes into play.

Moderator: We have the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: I could not really understand how the variables are moving. The gross margin is compressed; you said that you bought a lot of raw material inventory so that you could hedge. But clearly that has not worked and I was just wondering if I place an order today how long does it take for the company to manufacture my order. And based on that, if you can do they can sell what has happened to the cross margins over the last six months and what could be expected over the next six months? I am trying to understand what the lag is between the material prices spiking up and you passing them on and what is the mechanism like tying it up with the lead times and the shop floor work in transit whatever those timelines are? And also somebody asked the question about labor charges and I missed the explanation it has gone down if you could also re-explain that. And the second question is on our revenue side you have mentioned API, agrochemicals, specialty chemicals but if you could go into slightly more detail as to the end-users compounds which are used. So for example where would we see maximum concentration in which particular commodities if you could be slightly more specific are these like high-temperature high-pressure processes where we excel or we are just like basic reactors and what is the mix?

Tarak Patel: Before I let my CFO explain the gross margin just to tell you that basically pharmaceutical, agrochemicals and specialty chemicals all use Glass Lined equipment and companies like Dr. Reddy, Hetero, Cipla, Lupin, PI Industries, SRS, UPL would use these for reactions and these will be used where stainless steel is not compatible with whatever they are trying to mix inside or react inside. So glass line itself is a very popular choice because of the cost. It has a lot of benefits and they are pretty much used in most of these factors. That was question #1. Then he asked about the gross margins I think I will let the CFO talk about that.

Jugal Sahu: About labor charges, most of the projects were being outsourced before and the expenses are being inventoried currently so therefore those labor charges now is part of inventory. Before it was like entire labor charges were going to income statement so that is also a bit of change that has happened this year. And about cost of raw material consumed that is increase in raw material prices which has been passed over to the customers by way of increase in the price of the product.

So if you see there is about 6% increase in raw material consumption you will see equivalent or even more than that increase in the price of the product that is sold to the customer.

Agastya Dave: How long does it take for us to deliver our products as you have said we don't have capacity constraints, if we get an order today how long does it take generally? If it's Glass lining equipment let's say my order is worth 10 EUs, so how long does it take for us to deliver that?

Tarak Patel: In terms of glass lining it also depends on the size of the equipment and the current backlog. So on the current backlog if you say that you need something that the large reactor would take anywhere between 7 to 8 months, for smaller size it could go up to 6 months. Now if we did not have the backlog that we currently have I think we would probably be able to deliver probably in 4 or 5 months because these are still made-to order, each one is specifically made for a specific customer and they can't be made off the shelf. Even though we had made stock orders in the past with the current backlog that we are having there is no chance of making stock orders but most of these orders and the customers are willing to also accept the 6 months delivery, anything more than that becomes a little bit difficult for them.

Agastya Dave: Just to clarify you said generally 7 to 8 months given the order backlog but if you did not have this order backlog you would take probably 4 to 5 months, right?

Tarak Patel: Yeah I would say about 5 to 6 months for the bigger sizes, 4 to 5 months for the smaller sizes.

Moderator: We have the next question from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: Your tax percentage this quarter is quite significantly high, so what was the reason behind it and going forward what sort of tax rate we should assume?

Jugal Sahu: Tax rate is about 33% of our revenue.

Anupam Goswami: In the last year it was not as higher that time so this time it was quite high.

Jugal Sahu: Last time probably there might be some adjustment on deferred tax. Tax expenses should include both income tax and deferred tax.

Anupam Goswami: In your glass lined segment the margin has reduced, is it because of only raw material price hike?

Jugal Sahu: If you refer to our segment results you will find glass lined equipment segment result is about 19% as compared to 18.5% same period previous year. So the margin has not reduced. Rwa material price increase has been passed over to customers.

Tarak Patel: But yes there have been certain increases in gas pricing which has affected this and obviously there has been as we said that we bought material few quarters before. But now this pricing and

the price increase is that we passed on to the customer so future backlog will probably be at higher pricing. But this evens out usually because even though we have a kind of a few months gap between when they buy and when we pass on the price increases it usually evens out for the year.

Anupam Goswami: Your export percentage this time?

Tarak Patel: It's about 11% as a whole of the total revenue.

Anupam Goswami: Going ahead what sort of production equivalent units in the glass line should we look at?

Tarak Patel: We are at 170 and we will bump that up to about 200 from Q1 of next year.

Anupam Goswami: We are targeting also 230 from the next to next year?

Tarak Patel: Yeah, in the second year we expect that to jump to 230 with the additional fabrication facility that comes up.

Anupam Goswami: More of the growth is coming from chemical and agrochemicals sector is it correct or is the Pharma also picking up?

Tarak Patel: Pharma is picking up now but yes last 9 months we have seen significant growth from both agrochemicals and specialty chemicals but Pharma is now picking up the growth.

Moderator: We have the next question from the line of Panush Mitha, an investor. Please go ahead.

Panush Mitha: How big is the team at Mavag now?

Tarak Patel: We have about 38-39 people in Mavag.

Panush Mitha: I've just seen that your intangible assets have gone up from 12 million to 57 million so can you just explain that?

Jugal Sahu: We have implemented a new ERP software which is attributable to increase in intangible assets,

Moderator: We have the next question from the line of Sushil Churiwala from Vinar Integration Limited. Please go ahead.

Sushil Churiwala: At the end of March, we had cash equivalent of about 110 million which now stands to around 6 million, just wanted to know where these funds are deployed.

- Jugal Sahu:** Cash and cash equivalents on a standalone basis was 11 crores at the end of FY 18 reduced to 50 lakhs now. You are right, there is a reduction of cash equivalent as we have invested cash in our working capital basically on inventory and receivables.
- Moderator:** We have the next question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.
- Bhalchandra Shinde:** As you mentioned that inventory which we have built up will it get utilized fully in this year or won't we see any inventory loss kind of a scenario if at all might happen or it is regarding with the order book only?
- Tarak Patel:** I think we didn't understand your question can you repeat that?
- Bhalchandra Shinde:** The inventory which we created is it with respect to the order visibility which we are seeing or existing order book which we have?
- Tarak Patel:** No, with the order book that we have with us is based on that.
- Bhalchandra Shinde:** Do we see any working capital pressure because as you mentioned that the receivables have slightly increased?
- Tarak Patel:** Obviously there has been a month or two of some internal changes resulting in inventory going up but I don't think that will probably continue going forward and its not that the customers are not paying us or anything like that. But we just have to go out and work harder to collect the money. Once inventory comes down to a healthy level will be quite comfortable.
- Bhalchandra Shinde:** Our dividend payout essentially is relatively very conservative, is there any possibility of increasing the dividend payout in future?
- Tarak Patel:** Yeah we have already increased. I think last year if you take Q1 and Q2 we gave 35%-40% for both first and the second quarter this year we have given 50% in each quarter and at the end of the year, the final dividend, if the company does well we will try to improve that.
- Moderator:** We have the next question from the line of Kamlesh Kotak from Asian Markets. Please go ahead.
- Kamlesh Kotak:** Can you give some color about our exports business, which countries we are exporting to and any detail as to how big it can be, what is the scalability in that business if you can help us understand that?
- Tarak Patel:** As I mentioned earlier we will be using the Pfaudler sales network to sell some of our heavy engineered and propriety product lines. We are exporting and we are seeing a lot of traction in the US market so we got some large orders from the US market but we also export into Europe. We have also now hired a dedicated sales person based in Europe to sell our heavy engineering

products so hopefully that will also create some amount of improvement in terms of the orders coming in. We are quite bullish on the heavy engineering export business and we probably hope to grow that over the next few quarters.

Kamlesh Kotak: And not that much on the glass lined equipment?

Tarak Patel: Glass lined as I mentioned but the demand in India itself is so strong that we really don't have any room for production capacity available to supply into the Pfaudler and Pfaudler itself has manufacturing facilities around the world. So they would look at probably filling that. But yes, there have been cases where there have been some exports in glass lined. We recently got an order from France through an EPC contract where we will be working together with the Pfaudler people to supply some glass lined equipment.

Kamlesh Kotak: Any color 2 years down the line what could be size of exports running out of our total revenue?

Tarak Patel: I think it's about 10-11% now. We want to at least grow it to about 15% in the short-term and maybe try and increase it. But again, it depends on the demand in India. If the demand in India continues to be so strong I think that is where the volumes are, that is where the growth story is, so we will have to look at catering to the Indian market first.

Moderator: We have the next question from the line of Aman Vij from Astute Investments. Please go ahead.

Aman Vij: Out of the 133 crores sales we did in Glass Lined Equipment for half year, could you segment-wise it, basically, how much was from, say, Chemicals and Pharma and Agrochem roughly?

Tarak Patel: I think 60% was from Specialty and Agro-chemicals. Maybe 30% from pharma and the balance would be Dyes and Paints and other industries. And usually Pharmaceutical used to accounts for 50%, so as I was mentioning earlier, Pharma has seen a drop. It had gone down to about 20% but it has improved again and with the new orders that have recently come in, a lot of them are going into Pharma. So, over the next few quarters we see that ratio changes.

Aman Vij: Similar number for last year half year was?

Tarak Patel: It was 106 crores in H1 FY 18 versus about 133 crores for H1 this year.

Aman Vij: I was asking for the segmentation of 106 crores?

Tarak Patel: I think last quarter H1 Pharma would have been lower because that was probably at the height of the Pharma crisis in terms of FDA issues and stuff like that, so I would say probably 10% lower and that would be probably made up by Specialty and Agro-Chemical.

Aman Vij: So broadly, and this is for say the next three years, how do you see the volume growth in these three segments, Specialty, Agro-Chem, Pharma and Dye and other stuff.

- Tarak Patel:** I think that both Specialty and Agro-Chemical and Pharmaceutical would be the drivers and from whatever we talked to people and management, they are quite positive in terms of continuing investments. India is a hub for manufacturing Pharmaceuticals. Our cost structure is probably lower than many Western countries and we have an established track record when it comes to Pharmaceutical. So, Pharma is going to pick up for sure and I think because of China and the cost structure that China will come back with it will still be probably better and more lucrative to manufacture chemicals in India as well. So, I think over the next three years we are quite bullish in these two segments and we believe a lot of the growth will come from these two segments.
- Aman Vij:** So, is mid-teens is the good volume number to assume?
- Tarak Patel:** Internally obviously we had pretty much given guidance when we created our five-year strategic plan at about 15% CAGR but I think it's going to be more than that. So, I think minimum 20% volume growth is something that we will see additionally with the change in terms of product mix, export business, pricing strategy, etc.,
- Aman Vij:** The second question is on the Heavy Engineering segment. So out of that, say, we did 24 crores odd sales for half year, so from Pfaudler it would be less than 10%?
- Tarak Patel:** The sales to Pfaudler for Heavy Engineering?
- Aman Vij:** Yes.
- Tarak Patel:** I don't have those numbers at the top of my head but as I mentioned to you since Pfaudler does not have a company that does Heavy Engineering work, a lot of their sales people are now going out actively and selling GMM Pfaudler because it's a complimentary product for them. The same customer who will buy Glass Lined Equipment will also need stainless steel, Hastelloy, columns, etc. So, they are going out and selling it. So, I think the Heavy Engineering component from Pfaudler would be about, I would say, 10-15% probably, I don't know for sure.
- Aman Vij:** Going forward do you think this number can increase substantially via Pfaudler network, I mean Heavy Engineering?
- Tarak Patel:** I mean we hope to and now we also have a dedicated sales person in Europe. He is a French guy who we have hired recently and hopefully if he can also manage to sell some of our products that will definitely grow our export business.
- Moderator:** We have the next question from the line of Anupam Goswami from Stewart and Mackertich. Please go ahead.
- Anupam Goswami:** I see your current borrowings have increased and you have taken borrowings. So, is that a Working Capital borrowing and do we see any kind of pressure in your Working Capital?

Tarak Patel: So, it is all a Working Capital borrowing only, so it's all short-term and it is only because of the increase in inventory where some of our cash has been tied up. But we will try and bring it down by end of the year.

Moderator: Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the conference over to the management for closing comments. Please go ahead.

Tarak Patel: As I mentioned, the Order Book continues to be strong, the backlog we have, visibility till at least the end of the year if not more than that. So, we are quite positive looking forward for the next two quarters. And as I mentioned earlier that usually the second half of the year is always stronger, so we expect to grow at a similar rate and improve both revenue and profitability going forward. Thank you very much. Have a nice day.

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