



“GMM Pfaudler Limited Q3 FY19 Earnings
Conference Call”

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**MANAGEMENT: MR. TARAK PATEL – MANAGING DIRECTOR, GMM
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LIMITED
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Moderator: Ladies and Gentlemen, Good day and welcome to GMM Pfaudler Limited Q3 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you sir.

Binay Sarda: Thank you Stanford. Good afternoon to all the participants on this call. Before we proceed to the call that the discussion may contain forward looking statements that may involve known or unknown risk, uncertainties and other factors. It must be viewed in conjunction with our business risk that could cause further results performance or achievements to differ significantly from what is expressed or implied by such forward 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 question today we have top management of GMM 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 3 and then conduct the Q&A session. With that said I will now hand over the call to Mr Tarak Patel. Over to you, sir.

Tarak Patel: Thank you. To give you a little bit of background for this quarter our revenue increased by 33% YoY. So, we closed the quarter with a revenue of Rs.105 crore versus 79.2 crore in the same quarter previous year. There is also a revenue growth of 6% on QoQ. We closed this quarter with a revenue of Rs 105 crore versus 99 crore in the preceding quarter. We also improved our operating expenses which decreased by about 1% due to incremental volume that we shipped out. Overall our EBITDA increased by 41% YoY to Rs 17.2 crore versus Rs 12.2 crore same quarter previous year and 7% QoQ to Rs 17.2 crore versus 16.1 crore in the preceding quarter. As a percentage of revenue our EBITDA increase by 1% YoY and remained same on QoQ. Both PBT and PAT increase by about 50% YoY and about 8% and 12% respectively QoQ.

So, it has been another strong quarter. We continue to grow and we expect to meet our plan for the year. We also have a strong and healthy backlog. The order booking continuous to be very strong. Both the Agro Chemical and Speciality Chemical companies continue to invest as well as we have seen some pick up in the pharmaceutical industry, especially from the south from the Hyderabad region that is also driving some of the growth that we expect.

So, for the year we are on the target and we also now have visibility for Q1 and a bit of Q2 for next year and we believe that we can continue our growth story going forward.

I would like to, now, open it for question and answer session.

- Moderator:** Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Bhalchandra Shinde from Anand Rathi Securities. Please go ahead.
- Bhalchandra Shinde:** Sir regarding order inflows if you can provide how it has grown in third quarter and now what kind of revenue visibility we have?
- Tarak Patel:** So, the order book for all three quarters has been very strong. However, the current backlog at the end of Q3 is 50% higher than what it was one year ago. The order book in the first three quarters has been around 350 crore. So, order booking has been very strong, and we expect that to continue into Q4 as well with the inquiries that we have been receiving. We believe that large projects are going to be finalized in Q4 by many companies and therefore, we are confident to begin next year with a very strong order book and the good thing is that the order book also is well diversified between all our three products lines. So, we believe to have a good Q1 in next financial year as well.
- Bhalchandra Shinde:** Is still the pace of Glass-Line equipment requirement robust or we see a sequentially slightly subsiding pace?
- Tarak Patel:** No for us, we did not expect Glass-Line to grow as fast as it is growing and the big growth driver for us this year has been the Glass-Line segment. All the initiatives that we have taken over the last few years in terms of improving throughput is now helping us to produce more. We are still the biggest producer of Glass-Line equipment in India especially for the sizes that are now being required and we are definitely the preferred vendor and we do not see a slowdown right now in Glass-Line equipment. We had a board meeting yesterday and the plan is to make additional expenditure to improve and increase our Glass-Line output as well. So, going forward we believe that Glass-Line is going to continue to grow as strongly as it has been.
- Bhalchandra Shinde:** What revision we have done in the capacity additions? Earlier we said around 2500 equivalent units by FY20.
- Tarak Patel:** So, we are looking at investing in a new gas furnace and an additional fabrication facility to build the additional capacity. . As you know Bay-6 was approved last year and will be operational by end of this financial year i.e., by March 31, 2019 and Bay-7 and a new furnace has been planned for the next financial year.
- Bhalchandra Shinde:** It will take our capacity to 2900 you mean?
- Tarak Patel:** Yeah about 3000 EUs is what we could expect in the next financial so which is in FY21.
- Bhalchandra Shinde:** Means it will be available for FY21.
- Tarak Patel:** Yeah exactly.

- Bhalchandra Shinde:** What kind of CAPEX cost will be required for this?
- Tarak Patel:** Maybe around 20 crores would be the CAPEX cost. The gas furnace is about 5 to 6 crores and about 10 to 12 crores plus some equipment like crane that is something will be the total CAPEX requirement.
- Bhalchandra Shinde:** Sir on the profitability front because there were raw material cost pressure earlier that is why probably our margin improvement was not to that extent visible, but do you expect now because commodity cycle is showing a turn down so it may create a good margin improvement in future quarters?
- Tarak Patel:** It will. But it would not be showing up immediately because right now we have plates available which we bought at the higher prices. So, those plates will be used in the next few quarters, but for the future maybe for Q2 or Q3 of the next financial year there could be possibly some improvements in margins.
- Moderator:** The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.
- Keyur Shah:** I like to know how many equivalent units have we sold for this quarter and is the CAPEX that was to come online from next year that is FY20, is it going as per the timeline?
- Tarak Patel:** The equivalent unit for this quarter I really do not have the exact number but it is significantly higher than the previous quarter, but what I can tell you is for the first time in our history we crossed or we touched 200 equivalent units for one month and that was in the December of last year, so that was a big thing for us. But the actual number for the entire quarter was about 500 EUs. So that was something that we can be proud of. And in terms of the CAPEX for this year Bay 6 is on track and we expect to come into production sometime by the end of March maybe slightly before that. So, from 1st April it will be completely operational.
- Keyur Shah:** So, you would be able to manufacture about 200 units per months so that would be the capacity coming online?
- Tarak Patel:** So, we did 200 without Bay 6. You are right.
- Keyur Shah:** So, that was the debottlenecking right.
- Tarak Patel:** So, it was debottlenecking but we touched one month high without Bay 6 so in principle with Bay 6 coming online, we might be able to do little bit more.
- Moderator:** The next question is from the line of Jatin K from Alfa Capital. Please go ahead.
- Jatin K:** My first question is our guidance for this full year was 1800 equivalent units so for 9 months how much have we done will it be possible to share?

- Tarak Patel:** Yeah, I think we have done around 1400 EUs already.
- Jatin K:** And for next year any guidance you would like to share right now?
- Tarak Patel:** No I think that is a little bit premature may be after the next quarter we will be able to share more on what we believe the guidance in terms of equivalent unit will be for the following year and obviously with Bay 6 coming online we believe that we can significantly improve the output as well.
- Jatin K:** How is Mavag done in this quarter and in 9 months?
- Tarak Patel:** Mavag is on track. They are obviously not a very large company and they do not continue to grow as fast as we do. We believe, we will close the year with a revenue of between 15 and 16 million swiss franc as they had planned to do. So, there is no major growth story there, but at the same time there is no problem as well. So, they will continue to do what they had planned to do and they will continue to make the profitability that we had set out for them at the beginning of the year.
- Jatin K:** Sir, if steel prices fall of a lot then do we need to pass on this reduction in prices to our customer or we will have to keep the prices same of our product?
- Ashok Pillai:** Customers are sensitive to the commodity prices. They would of course push us to reduce the prices and we are going to work this out, like Tarak mentioned earlier, we have in our stocks to take us to Q1 at least of next year in terms of stock or at least part of it. So, the softening of commodity prices will start helping out in second half of Q1 and thereon.
- Tarak Patel:** But just to add to that if market is continuing to grow at this rate then I do not think we will have a lot of pressure on pricing because if we are able to supply the equipment in a specified delivery schedule we can still maintain the price levels that we are currently maintaining and the orders that we are booking today which will be, let's say, delivered in Q2 or Q3, they are at the same prices. So, even though we need to buy new material for them so they will definitely be some kind of arbitrage there in terms of the steel prices.
- Jatin K:** And sir there are some rumors that China is easing a bit and so anything we are seeing on ground that China is coming back or is the situation is same in terms of China?
- Ashok Pillai:** I think it is too premature to talk about the China getting back on stream because the decision that they have done to close on many units in entire provinces and going to different area that sort of change will not happen in few quarters. It will probably happen in maybe one or two fiscal it will take for them to come back. We are also expecting that even when do change the location and put a new factory the ones that do come back will be at a different cost structure then what was earlier existing and that will again create a pressure on supplies from China which

will hopefully continue to give an incentive to the Indian entrepreneur to continue investing enhanced capacity.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir, just wanted to check from an industry perspective, last year I think the industry size was around 450 crores which has been increased substantially given the kind of ramp-up the demand that we are seeing. How long do you think this demand will continue to play out and the bump up in the demand that we have seen how long can this continue?

Ashok Pillai: The way we see it now and from what we have talked to business leaders in the industry that we cater to, everybody is bullish for the next two to three years for sure. They are very confident about the type of investment they have planned to make. So, as far as our visibility goes for the next two to three years the investment will continue in the chemical and Agrochemical business including pharma and so the business for us will therefore remain strong for the next two or three years.

Ankit Gupta: Let us say after this incremental demand tapers out, do I expect the pace demand should also increase from annual rate of let say somewhere around 400 to 450 crores to 650 crores once this demand tapers off the incremental demand will taper off?

Management: So, is increment demand taper off what?

Ankit Gupta: So, let us say industry size increases substantially let us say for example 400, 450 crores to 1000, 1200 crores over the next two, three years then if this with the incremental demand reducing do you think the base demand also increase to let us say 600- 650 crores.

Ashok Pillai: It will. In fact, if the total volume goes up then it will be a self-sustaining sort of market. Demand will continue to be there to take care of the replacements and Brownfield projects. So, even if there is a slight dip in the new Greenfield projects be coming up there will be a strong growth we can expect when the market size is about 1000 crores to have a lot of Brownfield projects and replacement continuing.

Ankit Gupta: Last question on our other division's performance how do you see that picking up - filtration and drying product and other heavy engineering segment that we supply, so how is the demand for those products ? If you can just share your thoughts on that.

Ashok Pillai: So, the demand for filtration and drying system is extremely strong. We have grown considerably over last year's number so we see that demand also in many ways following the requirement of Glass-Line. So, we see that demand continuing to be strong and continuing to grow for us. The demand for mixing system also exists. We think that there is a more market share that we need to go after and we have plans to do that. In the heavy engineering business again, the market that we are catering to is really small. We think that the potential for that

business is very large. We need more certifications in terms of approvals from various bodies on which we are working on and we think once we have that, this business of heavy engineering will also become stronger.

Ankit Gupta: And how large can be this filtration and drying product market globally as well as in India?

Tarak Patel: The Indian market itself will be probably 300-400 crores but again here the market is fragmented and maybe all of the market is not something that we want to cater to because it is a very low-priced, low margin business. So, we need to focus on the critical applications where we end up making good return for our product line, but I would just like to add that we are now starting work on our next five-year plan which will take us to 2024. We also have some very good ideas in terms of adding some technologies, products, the system that we believe will help us continue to grow and right now we are still a fabrication, equipment manufacturing company. We have kind of taste in some amount of success in systems, in automation and things like that so that is something that we would like to focus on and bringing in the right kind of skill set to handle those kind of bigger projects. So, that is something that we will work on over the next few years and hopefully that will help us also grow the businesses at a good profitability.

Moderator: The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir can you highlight on the export side. We had opened some sales office in Europe to push the heavy engineering, how that is planning out and what is the scenario over there?

Tarak Patel: It is still early days there. This person was hired maybe four to five months ago. It is going to take some time. So, right now, the export business has been coming from the Pfaudler network. There are lots of inquiries out there, but again it is not something that I would say has done exceedingly well but going forward we will see lot more enquiries and lot more orders. In the Glass-Line business obviously because the Indian demand itself being so high we have had no time to look outside India. Hopefully, for the future if the business is good down there, then we can use the Pfaudler network to do the Glass-Lining business outside India, but right now India the growth story here is so strong that we do not have time to look anywhere else.

Sanjay Shah: Sir how about this project Shakti how it planned out, were we able to ramp-up our output because of that?

Ashok Pillai: I think project Shakti was an eye opener for us because it focused on things that did not really pay attention in the past. We had mindsets on what we can do in terms of fabrication capacity and capabilities that changed dramatically for us after project Shakti. We now do several times more fabrication load we do now than we used to do before. We also have changed from the point of view we look at maintenance of our equipment far more seriously than what we did in the past and even the things that we are now doing as a standard practice has helped in making sure that the equipment and the machinery have higher availability for manufacture than what was there in the past. So, it has helped us considerably and a lot of the throughput improvement

that has happened which is showing up in the result is due to the improvements that have happened during project Shakti and also through the core group of people who are part of what we call 'Project Excellence' who continue to work on improving the productivity of the company, the efforts that they have put in has also resulted in an improvement in throughput.

Sanjay Shah: So, my last question. We were very optimistic about heavy engineering business, but somehow, we could not grow. So how optimistic you are even now and what are the measures we are taking to ramp it up?

Ashok Pillai: So, Heavy Engineering is something that we are still very strongly positive about we believe that potential for that is large and like Tarak mentioned earlier and the fact that we invested in a person in Europe to look for business over there is one indication that we are continuing to push aggressively. Pfaudler also have tuned their old sales people worldwide to look at business for us in the HE space that is the second initiative that has happened. Thirdly, we are getting ourselves recertified by consultants that we used to deal in the past maybe 10, 15 years ago people like EIL and PDIL. So, once we are reregistered with them then we believe that we will have the doors open for business in the refinery, petrochemical and the fertilizer and that will also be good profitable business that we can add to achieve the business.

Sanjay Shah: So, when do you think we can registration of that?

Tarak Patel: In the next few months we are planning to do that because we have bought a new rolling machine where we can roll much larger thickness. It is on its way from Europe. Once it is installed, we will go for the application to EIL and that will allow us to handle much bigger sizes, but again as I keep telling people the skill sets required for heavy engineering is very different from our normal product lines. We are trying to build those skill sets both from a sales and marketing point of view and also from a manufacturing point of view. So, we are still very bullish. It has grown and obviously for next year we believe it will grow at a higher rate than it has currently.

Moderator: The next question is from the line of Maninder Jain from Individual Investor. Please go ahead.

Maninder Jain: The first question in the last one year although we have substantial order and we can see a very strong pipeline, the margins have not moved up the way we had expected them to if you just look at OPM comparative to last one year it is kind of move from 0.5% to 1%, what are the key reasons we are expected it to improve significantly from where it was last year?

Jugal Sahu: As far as raw material is concerned there is a price increase, and which impacted our profitability around 2% of revenue. So, we have savings coming from the gas furnace which was operational in the beginning of this year. So, we saved about 1% of operational cost in terms of power and fuel. At the same time, we lost money on account of rise in the price of raw material.

Maninder Jain: The second question that I have is that so we kind of have around 50% to 60% market share in the Glass-Line business and next to us is Swiss Glass coat. Now have we lost because of the

order being full. Have we lost some business with Swiss Glascoat? How does it work. Is it a price game where we have increased the price and then the business goes to the Swiss Glascoat because of the demand or have we lost to Swiss Glass coat business just because we are not able to cater so we have lost any business to them?

Tarak Patel: No I do not think we have lost any major projects because we still have the largest capacity, we still have the largest capability to supply, large size equipment which are required by Agrochemical, Speciality Chemical companies as I have mentioned before even the quality requirement for Agrochemical and Speciality Chemical are more stringent because their reaction itself is more critical compared to pharmaceutical so people do want to buy a reputed brand name. So, large projects have all come to us and we have been able to pick and choose the orders that we want, the sizes that we want and whatever else that we have refused or did not take obviously has gone to our competitors. Our competitors are also busy but I think majority of their business is coming from tanks and even though the same amount of effort would go on to make a tank, a reactor would give you a higher revenue. So, that is what we focus because the reactor itself has an agitator, has a drives, and all the bells and whistles so it gives you higher revenue for the same size while the tank is just a storage vessels without any kind of bells and whistles. So, they are all busy because the market demand itself is quite strong.

Jugal Sahu: And our Glass-Line business also growing at 35% this year.

Tarak Patel: Yeah, so the initiatives that we have taken, the CAPEX that we have invested in has helped us also grow that business. Luckily, we have been able to do at the right time so we have been able to ride some of this growth that has been happening over the last 9-12 months.

Maninder Jain: Again, going by the annual report so we have multiple time said that a non GLE business is going to be as big as GLE business by 2020. Are we still on that because I do not see that we meeting that kind of target? So where do we see a non-GLE, GLE demand has gone up significantly. Can the non-GLE business can match the GLE demand?

Tarak Patel: It is a good question. When we did make a five-year plan, we did not expect the Glass-Line business to grow as fast as it is growing. We have taken a CAGR of about 10% to 15% but it is growing today at about 30% obviously due to what is happening in China. For the foreseeable future at least for the next year we still believe the Glass-Line is going to grow faster and it will still be a major chunk of our business. So, I would say that may be 70-30 or 65-35 would be the breakup. 65 being the Glass-Line component and the balance being the non-Glass-Line component. But for the long-term, yes, we want to diversify. We want both these product lines to be equal but even looking at maybe the next five year vision we still believe that the Glass-Lining will still probably be a slightly larger component than the non-Glass-Line and that is basically our most profitable business something that we are good at doing, but we will try and grow the other business line but if the Glass-Line continuous to grow as it is, I still believe it will be the biggest portion.

Maninder Jain: So, we did 200 equivalent units in December can this 200 run rate now be considered to be the base run rate every month?

Tarak Patel: I mean I would love it to be but if you ask my manufacturing guys they probably have different ideas, but I think around that is something because we have now changed the concept where we expect performance every month not only at the end of the quarter or the end of the year or something like that and with the backlog that we have there is no reason why we should not be able to. So, the factory is geared up they are motivated and I do expect them to perform well and I would say anywhere between 180 to 220 equivalent units per month should be the standard going forward.

Moderator: The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

Saravanan Viswanathan: As regards Mavag you had mentioned that they are well on track to meet their annual revenues. In terms of profitability also can we expect 10% kind of net margin from Mavag?

Jugal Sahu: So, last year we had about 17% EBITDA. Probably this year as well, it will be in-line with that.

Saravanan Viswanathan: Even on a net basis right.

Jugal Sahu: Yeah.

Saravanan Viswanathan: And profit basis it should be 10%. \$1.5 million type of profits is achievable?

Jugal Sahu: Yes.

Saravanan Viswanathan: And is this the peak revenues from Mavag or do they have their capacities but because of the market they are in. The incremental revenue may not be as exciting as the India business?

Tarak Patel: Yeah, so Mavag I would say with the current set up facility what they have with the sourcing initiative I think they can do somewhere around 20 million CHF if everything goes as was planned and everything works as per plan. So, that is possible but obviously Europe is Europe and they need to have a lot of thing to fall into place at the right time for it to touch 20 million, but you can expect anywhere between 5% to 10% growth for Mavag year-on-year and we are trying to explore new markets where Mavag can bring in additional orders and then use the GMM Pfaudler as the sourcing opportunity to ship those orders out.

Saravanan Viswanathan: In your next five-year plan where you are planning to launch some value-added products are there any products that you are going to going to take it from Mavag's table?

Tarak Patel: So, maybe. See all our Mavag products are already launched in India we do have opportunities because Pfaudler internationally has acquired some companies so maybe some of those products

brought in. There are also local Indian products that we can basically cater to because right now these products are coming from Europe, but if we can localize it, Indianize it and I believe there is a huge market for that as well and that something we are working on now and over the next maybe a year or so we should see some traction on that.

Saravanan Viswanathan: And you had mentioned that since the India business is quite strong, Indian demand is quite strong not now focusing on GLE international sales through Pfaudler because we have done couple of order for Pfaudler because the Indian demand is so good, so you are focusing on it?

Ashok Pillai: See the demand in India is so strong that we do not have time to look for exports. Having said that Pfaudler is working on export business right now which could be direct orders from customers in which Pfaudler is acting as intermediary and so that business seems to be picking up again, but it is still early days and we will know in a few months how those initiatives pan out for us. Again, as I said we are constrained and we have such a good domestic demand that we do not really need the orders from international customers right now because we need to make sure that Indian demand is first taken care of.

Saravanan Viswanathan: Pfaudler's parent company being a PE fund, what is their long-term game plan for their Indian stake through you in your company?

Tarak Patel: So, I think private equity would always like to exit after a few years. They have already completed three to four years, but I think they are very cooperative and supportive of what we are doing here in India and they have seen the improvements that India has done and we are now probably the biggest in terms of revenues and in terms of profits, definitely the biggest part of the group and we have a good relationship with them. But for the short-term I do not think they have any intention of selling. I think if you want to grow the business both in India and globally and then probably look for an exit maybe three to five years down the line.

Moderator: The next question is from the line of Nidhi Agrawal from Angel Broking. Please go ahead.

Nidhi Agrawal: I have one query on non-Glass-Line business. We were expecting some very good growth numbers in this business and we are seeing 15% kind of growth in the first 9 months, so is it going pretty slow but margins have improved. I mean there are challenges in the business you have seen?

Tarak Patel: I think the only fact that even Glass-Line is growing so fast and the other product lines look like they are not growing like as fast as they should. We are going to definitely grow both Glass-Line and non-Glass-Line. I think non-Glass-Line will grow at a CAGR of about more than 20% even though the Glass-Line is growing at 35%. The other product lines are also growing, but obviously these are much smaller and have a market share in those markets are much smaller. So, even though we want to grow faster in these markets, it will take some time especially in heavy engineering where we are now entering the market. We have just entered the market maybe two or three years ago, they are going to find some traction once we get approved by all

these engineering companies. But even the other product lines will continue to grow and we are quite bullish.. So, there is nothing wrong there per se. It is just like Glass-Line is making it look like they are not growing as fast as Glass-Line.

Nidhi Agrawal: So, in the initial phases of CAPEX just to business how they shape up and they are part of the initial CAPEX or they come in the maintenance part of the CAPEX?

Tarak Patel: There was a dedicated manufacturing bay that we had made for heavy engineering so we have added CAPEX to heavy engineering plus we have bought equipment for heavy engineering as well like rolling machines and cranes and the other equipment and that is coming in now. So, we will see some improvement there as well. We have a much higher target for next year and it is not that we are going to revise the guidance for any of these product lines. We still expect these products line to grow at the rate that we had planned.

Nidhi Agrawal: Margins have improved a lot, so is it like we are cherry-picking orders in the non-Glass-Line business?

Ashok Pillai: Yeah for non-Glass-Line business we are cherry-picking is like in filtration and drying we are looking at those customers and those projects that have features, the customer that appreciate the Mavag product features which are higher price, higher value to them. So, we are not picking up the bulk of the business some of them are at very low prices. So, yes, we are cherry-picking to make sure that we get the best price orders from the customers.

Jugal Sahu: And some of the profits they are coming from higher absorption of higher fixed overheads.

Moderator: The next question is from the line of Vinay Gala from Gala Consultancy. Please go ahead.

Vinay Gala: Sir I want to know what is price of an average size of the Glass-Line equipment?

Tarak Patel: We have average size for EUs now and I would say it would be around 10,000 liters which was much higher than what was last year or year before that because now the demand is coming from Agrochemical and Speciality Chemical where they will require much larger sizes. Even the new requirements that are coming are of much larger vessels. So, the average price per EU right now is around 14 to 15 lakhs. That is the average price per EU that we have.

Vinay Gala: So, how much order you have?

Tarak Patel: So, the order backlog we do not break it up right now but right now at the end of Q3 we have the 50% higher backlog than we had previous year. So, it is definitely taking us to the end of this financial year into Q1 and Q2 of next year as well. So, we have a good order backlog which we will be pushed us in a strong position for next year.

- Vinay Gala:** So, one thing I want to know about that the previously I discussed about the laboratory equipment we are going to introduce in the Indian market, so what is the progress just now?
- Tarak Patel:** We have actually received one order, but this is an order which gets shipped from Europe. We do not have any plans currently of manufacturing these laboratory equipment in India and whenever the customers require something, we will source it from Europe and if the business continuous to grow then we can look at having some of the manufacturing or localization happening here in India.
- Moderator:** The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** Well I wanted to know how the pharma industry outlook is because in the last few quarters the pharma industry has been subdued. How is it now and how is it coming back?
- Tarak Patel:** So, you are right the pharma industry has been subdued due to reasons about mostly regulatory in nature with FDA issues. We see a turnaround taking place now especially in the Hyderabad, Vizag markets where we see some of the majors in those areas strongly investing in new capacities for bulk drug and that is showing up in orders that we have got in the recent past really and we think that growth from pharma is now turning around from being very subdued and negative in some ways to now getting to be positive and strong.
- Tarak Patel:** So players like Aurobindo, Divi's, those are the guys who are expanding and from what we have spoken to their management, I mean this plan will be ongoing for the next few quarters and a lot of the growth will come from that, but the pharma players from let say the Mumbai region like Lupin, Sun Pharma, Cipla those guys have been quite they do not really have a plan right now but the Hyderabad, Vizag area is the area investing in new capacity.
- Anupam Goswami:** What would be your current distribution among Pharma, Agri and Speciality Chemicals in revenue?
- Tarak Patel:** So, I think in the Glass-Line business I would say about 50% to 60% still come from chemicals which includes both Agrochemical and Specialty Chemicals, about 30% to 35% would be from pharma and the balance would be from paints and dyes and things like that.
- Anupam Goswami:** So, any guidance on margin. Will be stable to at this level at least current quarter three or are you looking to any improvement or is there any room for improvement because from the last whole year has been improvement in margin so any outlook on that?
- Jugal Sahu:** We maintained our guidelines of 15% CAGR EBITDA on sales. However last year our EBITDA was about 15%. This year it is running at about 16.5% and it may go up to 17%. So, as topline increases probably EBITDA will start even picking up.

Moderator: The next question is from the line of Alisha Mahawla from Avendus Capital. Please go ahead.

Alisha Mahawla: Sir I actually wanted a little more clarity on the CAPEX and capacity that you discussed earlier in the call. So, you currently have a capacity of 2000 units which will go up to 2400 units by either Q4 or Q1 and then the 400 units will come by end of FY20. Is that correct?

Tarak Patel: So, right now we have capacity with Bay-6 that come online for about 2000 units and that will be ramped up. We will add another 400-500 units to that for FY21 with CAPEX happening this financial year.

Alisha Mahawla: So, you are saying at the end of FY20 at the start of FY21 you will be at 2400?

Jugal Sahu: So, currently we have the capacity of about 2000 equivalent units per annum, with Bay-6 coming from first of April 2019 it will add up another 400 units and we have plans to construct another Bay by April 1, 2020 which will add up another 400 units.

Tarak Patel: So, for FY21 we will about 2,800 - 3000 units capacity.

Alisha Mahawla: And for this 400 units capacity which will come in FY20 the last 400 so that the CAPEX is 20 crores which you announced today.

Jugal Sahu: FY21.

Moderator: The next question is from the line of Udit Gajiwala from SMC Global. Please go ahead.

Udit Gajiwala: Just wanted a clarification that since we have been able to grow on our EBITDA level at a margin front annually so is it fair to assume that by 20-21 and going ahead will be able to add 100 basis point annually?

Tarak Patel: So, we would like to increase our EBITDA with incremental volumes coming in, we would see that there will be improvement. I do not know if I can quantify to a specific number per year.

Jugal Sahu: Again, this is repeated question we will continue with EBITDA 15% on a CAGR basis. There are lot of uncertainties that is coming up like material price increases. This year we had lost about 2% of EBITDA because of increase in cost of the material. So, considering all this uncertainty we cannot commit anything, but current year our EBITDA will be around 16-16.5% to 17%. Next year as revenue grows, there are chances of improvement in EBITDA as well.

Tarak Patel: And if you believe that the steel prices would come down and if you can maintain the price level that we are currently maintaining then that would also add to an EBITDA improvement and if the demand continuous then we can definitely hold prices.

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

- Aman Vij:** For the 9 months what was the growth in the pharma Glass-Line equipment and also if you can give the same number for Speciality and agro.
- Tarak Patel:** That breakup I do not have unfortunately right now, but I think the breakup has remained the same as previous quarter. So, sales is remained constant. Pharma still is about 30% and the chemical, both agro and Speciality adding up to 60% and compared to the previous 9 months if you compare with the it is around same as well.
- Aman Vij:** So, Pharma the Speciality and agro has not grown faster than pharma?
- Tarak Patel:** No it has grown so both agro chemical and Speciality chemical account for 60% of our sales revenue in Glass-Line equipment for the last 9 months. It was also for the previous 9 months it was about 57%.
- Aman Vij:** Second part of the question in the proprietary product segment you mentioned some of the sub segments are commodity. So could you give a rough indication for filtration and drying equipment what percentage of the proprietary products filtration and drying equipment constitute and similarly other two, three parts?
- Jugal Sahu:** So, proprietary product is about 15% of our total revenue.
- Aman Vij:** I want to know the breakup in proprietary?
- Tarak Patel:** We do not have the data right now but basically it is broken up into engineer system, filtration and drying and mixing system and I would actually say they are very close to being about one-third, not a very drastic difference between the three product lines.
- Moderator:** The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** I just wanted one clarification on the capacity addition. So 2000 as of 400 at the end of this financial year and then 400 year after that brings it between 2800 and 3000, am I right in that?
- Tarak Patel:** Yes.
- Agastya Dave:** Just on the cash flow statements at the end of the year how much CAPEX will we be seeing on the cash flow statements for this year the year after that and the year after that, so the next three financial year what will be a cash outflow for the CAPEX that we are undertaking?
- Jugal Sahu:** In FY19, CAPEX investment would be between 15 to 20 crores and FY20 it will be about 25-30 crores.
- Agastya Dave:** And this will finish the entire CAPEX?

- Jugal Sahu:** Yes, this will ramp up the production capacity to equivalent units to 2800 to 3000.
- Moderator:** The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.
- Keyur Shah:** Sir we missed on the Mavag side. What was the current revenue in Mavag and what are the EBITDA margin? There was a comment on increment revenue and flow through margins in Mavag?
- Jugal Sahu:** Mavag has about 15 million CHF as revenue last year and has been contributing EBITDA of about 17%. So, it is like after 10 million of revenue, Mavag breaks-even and there after any additional revenue gives about 50% margin.
- Keyur Shah:** So, at 10 million CHF we breakeven.
- Jugal Sahu:** yeah.
- Keyur Shah:** And what is the capacity utilization at Mavag?
- Tarak Patel:** It would be around I would say 90% because Mavag is not a big set up. A lot of the capacity is manufactured here in India and the finishing is done in Europe. So, Mavag in a true sense could have a maximum sales revenue about 20 million swiss franc last year they did 15 million and we expect this year they would close between 15 and 16 million
- Keyur Shah:** I missed it, so last year they did 15 million this year also they should do 15 million?
- Tarak Patel:** Yeah between 15 and 16 million, 16 million was the target so I think there will be somewhere close to that.
- Moderator:** The next question is from the line of Aditya Deora from Divisha Investments. Please go ahead.
- Aditya Deora:** My question is, are we doing something on the ethanol side in the heavy engineering segment because government is propping up ethanol blending units here and there so are we doing something over there?
- Tarak Patel:** We do not have anything to offer in the ethanol space right now because we are not in that technology business and those companies that have some proprietary process knowledge or people who are better poised to do work in the ethanol business, we do not have that technology.
- Aditya Deora:** My second question is like the industries we cater to has grown leap and bounds over last two, three years and somehow, I feel that we are not able to cater to the entire demand going by your comments over last two, three quarters. So, why does not a management think about maybe opening or maybe opening a Greenfield unit in southern part of the country maybe around

Vishakhapatnam, Andhra Pradesh somewhere around that side and maybe utilize the cash that we have in our books for the same.

Tarak Patel: Yeah good idea. I think in the first order of business would be to utilize the land available here because all the infrastructure has already been created in our factory, in Karamsad. We have all the engineering procurement teams there. To setup a new factory completely in Vizag would be difficult. We have looked at options there, but we have land available and putting up Bay-6 and Bay-7 would be the fastest way to cater to this demand. A new factory in Vizag would take us at least another year and year and half to start this would be much faster but we will consider this for the future.

Moderator: The next question is from the line of Harshmit Tolani from Progressive Shares. Please go ahead.

Harshmit Tolani: One question two part, are there any development which are related to Interseal or maybe Normag because I believe that we had this intention of getting some of these product lines to India.

Tarak Patel: So, yes Interseal and Normag have both made small breakthrough in the Indian market where we have been able to sell Interseal about 6, 8 numbers of them to a certain customer here, one Normag system has been sold here. The management of Pfaudler also believes that we should look at localizing and Indianizing Interseal if you can do that, then we can really become much more cost effective and really grow the market, but that is something that we will look at doing over the next maybe 6 months - 1 year and we all are in agreement that would be the right way to handle the InterSteel market here in India. Normag on the other hand, is a bit more complex. It requires glass glowing a skill set that is not available in India right now but that would take a little bit longer, but InterSteel just being component being assembled together that can be very easily done here.

Harshmit Tolani: So, for both of these entities, are you trying to get in the technology maybe it is a technology transfer, or you are going to get some expert or expats which might come from there and might come from there and work over here in India.

Ashok Pillai: So, as far as Interseal is concerned we sent three more people from GMM to Germany and they were there for some time to understand how the whole operations are done, how the assembly is done, how the testing is done, they are back and then now these guys will set up facility to do the same thing that they do in Germany. So, Tarak mentioned before in a six month to a year we should have an operation going on over here to take care of the domestic market with the mechanical seal. Normag is of course a completely different product. It is not easily transferable both from the manufacturing point of view and also from the process engineering that is required to support Normag equipment.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

- Ankit Gupta:** Just wanted to understand on the other engineering segment especially from filtration and drying products, are we also saying the market price for those products expanding because of increasing demand in pharma and chemical?
- Tarak Patel:** Definitely they are complementary products. So, if Glass-Line is increasing these are also going to increase because the same factories will require agitated nutsche filters in filtration and drying equipment so we have seen a growth in that as well, but obviously as I mentioned earlier there are some very low cost competitors who really sell at a very low price so the margin in this business line are not fantastic.
- Moderator:** The next question is from the Anant Jain an Individual Investor. Please go ahead.
- Anant Jain:** We have around more than 100 crores of cash in our balance sheet and we have been talking about acquisitions since last two years so any movement there and secondly China capacity what is the total Glass-Line reactor in China what is the market size there?
- Tarak Patel:** So, on the first part of the question this year I think we feel little bit luckier. Let us hope that this year something happens. I do not know, but we will definitely try and as I had promised before we are still looking for a right company that fits into our product portfolio that can add the right product range or industry segment. Customer segment is bit difficult but if we find something then we will definitely try for that. The Chinese market has probably slowed down a little bit because of all the chemical and Agrochemicals companies moving to India their demand must have slowed down, but it is such large market that there is really a lot of demand there. But Pfaudler our parent is actually increasing capacity in China also they are putting up a new factory. So, the China even though it slowed down there is still a large requirement there.
- Moderator:** The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** I wanted to know what the export revenue was on this quarter.
- Jugal Sahu:** 10% revenue is coming from exports.
- Anupam Goswami:** Sir on a long-term basis when the China you said that the China capacity is going to come back in a couple of years may be. So what is our strategy in terms to catering that how we are going to plan out in that way?
- Ashok Pillai:** If of course China's industry comes back to what it used to be then the entrepreneurs are putting up capacity over here I would figure out what they need to. I believe that they will come back at different cost structure much higher than what they had two, three years ago. So, the Indian companies will still have an edge over the Chinese companies. So, both from a cost point of view as well a strategy point of view the government of India is helping Indian entrepreneurs to strategically develop capacities in pharma especially so that the dependence on China for the

bulk chemical is reduced, but these are all long term plans and we are going to see how it plans out in India, but this is the government objective to do that.

Moderator: Ladies and gentlemen we will take the last question from the line of Aman Vij from Astute Investments. Please go ahead.

Aman Vij: I basically wanted the sale of tanks for us out of the overall Glass-Line equipment?

Management: I do not think we have that number.

Tarak Patel: 80% would be reactor and 20% would be tank that is pretty much our strategy because as I mentioned we had to add more revenue while for our competitors it would probably be the other way round.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Tarak Patel for closing comments.

Tarak Patel: Thank you very much ladies and gentlemen for joining in and hopefully we will have you back next quarter where we plan to continue growing and meeting our business plan that we have planned up for the year and we also look forward to continuing the growth story for the coming year as well.

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