



“GMM Pfaudler Limited Q1 FY’20 Earnings Conference  
Call”

**August 19, 2019**



**MANAGEMENT: MR. TARAK PATEL – MANAGING DIRECTOR**

**MR. ASHOK PILLAI – CHIEF OPERATING OFFICER**

**MR. JUGAL SAHU – CHIEF FINANCIAL OFFICER**

**Moderator:** Ladies and gentlemen, good day and welcome to GMM Pfaudler Limited Q1 FY'20 Earnings Conference Call. As a reminder, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' 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:** Good evening to all the participants on this call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risk that could cause future results performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements. Please note that we have made 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 brief overview of the quarter gone past and then conduct the question-and-answer session. With that said, I will now hand over the call to Mr. Tarak Patel. Over to you, sir.

**Tarak Patel:** Thank you, Mr. Sarda. Good Evening, Ladies and Gentlemen. Firstly, let me apologize that we could not host this call a little bit earlier. Our board meeting was last week but because of the AGM and the other meetings that we had planned, we had to postpone it and we are finally doing it today.

Let me give you a quick background about Q1. So, revenue grew by 40%; we closed the quarter at Rs.130 crores Vs Rs.93 crores in the previous year same quarter; compared to the previous quarter we grew by 8%, Rs.130 crores this quarter Vs Rs.120 crores previous quarter. The EBITDA for Q1 increased by 56% YoY Rs.23.9 crores Vs Rs.15.3 crores the same quarter in the prior year and 41% QoQ; Rs.23.9 crores Vs Rs.17 crores in the previous quarter. EBITDA as a percentage of revenue also increased by 2%, 18% this quarter Vs 16% previous quarter last year and 4% QoQ, 18% this year Vs the last quarter which was 14%. Both PBT and PAT also up; PBT increased by 47% YoY and 25% QoQ; profit after tax increased by 60% YoY, Rs.14.6 crores Vs Rs.9.1 crores previous year and 35% QoQ, Rs.14.6 crores Vs Rs.10.8 crores.

The improvements are quite significant. We started off the year with the very strong quarter which puts us in a very strong position to continue our growth story. As you know, a lot of the growth has come from the Agrochemicals and Specialty Chemicals sector. Because of the

slowdown in China, lot of the production is now moving to India. We continue to see investment in these sectors.

We also believe that Pharmaceuticals will pick up; we have seen some amount of traction in pharmaceuticals as well and hopefully going forward we will see some more development in this sector.

Our Heavy Engineering and our Proprietary businesses are also showing significant improvements. We are also catering to new industry segments like oil & gas, petrochemicals and fertilizer which are new avenues of revenue for us and going forward, we are quite positive that we will continue to grow and continue to improve in profitability as well.

So, with this, let me open this call up for questions and let us have your questions, then we can try answer one-by-one. Thank you very much.

**Moderator:** Thank you very much, sir. 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. Please go ahead.

**Bhalchandra Shinde:** Sir, would like to know how order book has grown for this quarter?

**Tarak Patel:** So, the starting backlog at the beginning of this year was about 50% higher than previous year. We are in a good position when it comes to order book as well. We have visibility for the next two quarters. We are quite positive that over the next couple of months, we will be able to move the orders that are required to meet the target that we set on for this financial year.

**Bhalchandra Shinde:** So, this quarter also we have seen 50% growth in order book?

**Tarak Patel:** So, this quarter has been a little bit slow, but we had good starting backlog, so that was important for us, and what is also heartening is that the order book is spread out quite nicely between all three product lines, it is not just for one product line, but this quarter also we had the good order book, maybe not the highest order book that we have had, but certainly very strong order booking month as well.

**Bhalchandra Shinde:** Still we are with the CAPEX plan of around 3,000 equivalent units by FY'20. Are there any changes in that CAPEX plans or it will be in that line only?

**Tarak Patel:** So, there are no changes on that. The only update that I would like to give you is our new gas furnace which we ordered about four months ago will now be shipped or has been shipped already and we should be able to commission that by the end of September. So, that would further improve our margin. If we can ship out all our production through only the gas furnaces, then we would not need to use electric furnaces and that would help improve profitability as well.

- Bhalchandra Shinde:** As you said, new streams, we have started oil & gas and petrochemical, so what kind of a scope of work will be there, how much percentage if we consider Rs.100 crores as the CAPEX in oil & gas and petrochemicals will be catered related to one product?
- Tarak Patel:** The idea here is that these are new industry segments for us. We have been catering to these industry segments through our heavy engineering business line; however, you know that our traction has been slow but we have recently got approved by EIL as well and hopefully we can improve and make more of footprint in these business lines and eventually at least 20% of our revenue should come from the Heavy Engineering business going forward.
- Bhalchandra Shinde:** And we do not require any CAPEX for that means like existing facility will cater that?
- Tarak Patel:** I think we already have the CAPEX in place for that.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** If I look at the last say 8-10-quarters we have actually doubled our quarterly run rate of profits and sales. So, the first question was on the sustainability. We already had significant growth. So, how far do you see this strong growth sustaining? The second was your thoughts on the Heavy Engineering business because what we witnessed was that this is I think the second quarter where the margins have been impacted, also on the top line also in Heavy Engineering we have seen a slightly lower number. And the third point was on the interest and the depreciation expense which have been higher in this quarter.
- Tarak Patel:** From growth prospects, that is a good question and with what is going on in the Indian economy, we can never be too sure. Luckily for us as I mentioned there is definitely set of orders that we already have. So, we are now running on a backlog which will give us visibility for the next two quarters. So, that puts us in a very strong position. There are definitely projects out there. There are large cash-rich companies which are willing to invest because the demand for their products is increasing and with the slowdown in China, they are definitely seeing more and more interest from foreign companies going forward. Having said that, we all know that there is liquidity crisis, we all know that the economy is not in great shape, industry like auto, industry like real estate and other industries are also feeling the pinch. It is definitely something that we are aware of and definitely could also have an effect on our end industries as well which is chemicals and pharmaceuticals. But again, these are industries that are necessary, I think pharmaceuticals, chemicals are something that going forward will remain and will continue to invest, at least the large companies will, maybe the smaller guys will have to take it a little bit slow, but at least from the large investment I think and from the people that we speak to, we believe that definitely investment will come in. You are right, we have been growing.
- Kaushal Shah:** Are you witnessing any higher working capital days or something of that sort?

- Tarak Patel:** Nothing that we see because most of our receivables are received before we ship out our equipment. Having said that there could be cases going forward where customers would not lift the equipment in time, they might not have the funds required to lift the equipment on time but we are quite careful and we continuously check with the customers if their sites are ready, if their funds are in place and prior to even starting the secondary stages of manufacturing. So, your question was very valid, "How long will this growth continue?" The thing is that every time we say that we are not sure, it surprises us and has been surprising us for the last few quarters and with maybe 8-9 quarters we have always said how much work in Glass Lined grow and it is continuing to grow. We also began work on our next five years strategic plan. So, as you know and if you have been following our company, we are now in the final year of our "Mission 2020" and we are very close to achieving the numbers that we had set out five years ago. We have just started work on our next five years plan which we just presented to the board. So, on April 1<sup>st</sup> of 2020 we will launch our next five year plan. I strongly believe that having alignment within the organization in terms of what the strategies are, what the long-term goals are, I think that is very important and the economy will improve, will decrease, will change, all that is dynamic but we need to keep our heads down and keep doing what we are good at and we will continue to do that and hopefully become stronger through good times and bad times but I think going forward we are quite positive. If we can get through the next few quarters, I think it is the next two or three quarters we can get through without much problem, but if the economy then starts to revive, then I think we will end up the year strongly.
- Ashok Pillai:** Heavy Engineering has of course great potential for growth as Tarak mentioned a little while ago in response to the question asked by the previous caller that we have just started to work again with EIL and the other agencies who really will contribute to the growth in business of heavy engineering. So, right now it is still early days. The potential is very large because our appetite at this point of time is relatively small. So, we do not think we will have any problem. Once we get the new registrations in place and we are qualified as a bidder to go after the heavy engineering business.
- Kaushal Shah:** On the segment numbers?
- Tarak Patel:** On the segment numbers, the first quarter was low because the opening backlog was very strong, but now we have good amount of order backlog, in the next few quarters you will see some improvement there.
- Kaushal Shah:** Jugal sir, your comments on the financial expenses... interest and depreciation?
- Jugal Sahu:** Starting this financial year, IndAS 116 – Lease Accounting is applicable to us. On account of that, all long term rental expenses which were part of operating expenses are now moved to depreciation/amortisation, so this ~~amount~~ is amount is about Rs.80 lakhs this quarter. And then you might know that we have acquired IMSD of Sudarshan Chemical end of April this year. We have carried out the fair valuation of all assets and liabilities including ~~intangible~~ intangibles

in accordance with the IND AS 03, Business ~~Combination~~ and Combination and on that account there is an amortization of Intangible assets of about Rs.70 lakhs this quarter.

**Kaushal Shah:** Sir, on the IMSD, how is it doing and your thoughts about the growth plan for that particular division?

**Ashok Pillai:** IMSD and the Mixing division in GMM, we are in the process of integration, we have had several rounds of meetings with the people who are running the IMSD in Pune, they are part of our regular meetings and part of the strategy meetings as well. So, the business is in the process of taking off. We are now looking at market segments that were not available to GMM in the past especially the market in the minerals and mining in which IMSD had, but we did not have and they are now getting used to sending their own people to the chemicals part of the business which they were not accustomed to. So, it is an integration process that is taking place now. It is only few months since we have started the work of integration and we think there is good synergies are being shown, there is good enthusiasm by the people in IMSD and Mixing division in our company. We see strong prospects as we go forward.

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

**Sanjay Shah:** Tarak bhai, can you elaborate on the revenue what we did in this quarter? As we see the opening order book position and the run rate of the company, we have done much better. So, what has worked in our favor – was it product mix or efficiency or capacity addition?

**Tarak Patel:** Sanjay bhai, it is a combination of many things, I mean, firstly, I just need to give a lot of credit to our manufacturing team at the factory, they have done exceedingly well. You have seen in the past our first quarter has not been a very good quarter, it is always lower than Q4 of previous year but this is one quarter where we have outperformed even Q4. I think lot of the credit goes to the manufacturing team. They continue to break new records. I had made a statement in the AGM that there were two months where we actually crossed 200 equivalent units which is just amazing. We had done that last year in December, we did again in June. So, that is a big improvement in terms of output and if we continue to do that, the sky is the limit. So, that is something that is very exciting. There has also been a lot of improvement in pricing. So, because of the demand in the market, we have been able to extract higher prices from our clients as well. At the same time, material costs are probably looking like they will go down in the future. So, there will be some amount of flow-through that you will see, not only for Glass Lined but even our Proprietary Products division had a good starting backlog and they have also been able to really show significant improvement there. HE was a bit slow but hopefully in the coming months we will be able to catch up.

**Sanjay Shah:** Sir, can you throw some light on our Mavag because consolidated we have not shown any growth since many quarters?

**Tarak Patel:** It is a good opportunity for me to tell you that we cannot expect exciting numbers from Mavag year-on-year; the economy in Europe is slow; there is definitely pricing pressure. So, we should expect Mavag to do anywhere between 14-15 million, they will make about 2 million profit but they are not going to jump into double digit growth at all. There are ideas in place about how we should probably look at Mavag and what are the next steps for Mavag to grow profitably. That is going to take some time. But for this year I believe CHF14-15 million range is something that we can expect from them. They will continue to be profitable but do not expect very exciting growth rates from them.

**Sanjay Shah:** Regarding our group Pfaudler, we were always on the talk that export potential is there, opportunities are lying, they may consider, they have asked for some catalogues and consideration was going. So, any progress on that side and do we see anything happening on that side?

**Ashok Pillai:** The amount of business Pfaudler gives you in the last two years that same level of exports has been maintained even now. So, there are two types of exports that we get from Pfaudler – One is a set of equipment that they buy from us and stock in Italy and they send to the local European customers and that has been a steady order which as soon as they find that the equipment has been sold, they send a replenishment order to us.

**Moderator:** Thank you. The next question is from the line of Jatin from Alpha Capital. Please go ahead.

**Jatin:** My first question is on the segment mix where in GE we see some reduction in margins QoQ as well as YoY. Can you throw some more light on that please?

**Tarak Patel:** So, that is because of material cost. I think we must have bought the materials at higher prices and that was probably older orders. But as I mentioned earlier, going forward, we will see improvement because there is reduction in material cost, steel prices have come down significantly and the materials that we are buying now for the future supplies that we will do in Q2 and Q3 will be at the lower material cost.

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

**Ankit Gupta:** Sir, just wanted to check with you. You talked about some slowdown in order inflow during the last quarter. So, how is the situation in July and current month?

**Tarak Patel:** Actually, I did not say that there was a slowdown in order book. Actually the order book was higher than even Q4. So, maybe my comment was misunderstood. So, actually in Q1 we had a very strong order book. Q4 and Q1 were definitely our strongest months and compared to Q1, Q2 and Q3 of previous year, they were still significantly higher than that.

**Ankit Gupta:** But are you seeing any slowdown in order inflow?

- Tarak Patel:** I would like to not say that we are seeing something but I would expect to see a slight slowdown because the sentiment itself in the industry, in the market is a bit slow. But from what we are expecting, I think for the next couple of months at least we have good visibility in terms of big orders and big projects. But going forward is anybody's guess. If money dries up and investment is not there, but then again, we have pharmaceuticals which has not been invested for a long time. So, maybe if we see a revival there with Hyderabad and the Telangana pharma city coming up, that is something that could drive growth as well.
- Ankit Gupta:** Because the export of chemicals companies continues to perform well but there has been no talk of slowdown in chemicals companies which are more domestic-focused. So, my point was coming from that angle.
- Tarak Patel:** My point here is also like now auto has slowed down, lot of the specialty chemicals manufacture do go into autos, like the tyre, chemicals, the paint chemicals, the leather chemicals. So, indirectly, if one industry slowed down, there will be some effect, but hopefully the new investment and the China slowdown will drive some of the growth that we are looking for.
- Ankit Gupta:** Secondly, on the Proprietary Products, we continue to do quite well in the segment, I think there has been a significant improvement on YoY as well as QoQ basis. I think the manufacturers interest in this product. Any color on this segment how is that doing and how is the order backlog, order inflow for the segment?
- Tarak Patel:** Here we have seen again a good starting backlog. It is a combination of both Indian equipment as well as equipment that has come through our subsidiary Pfaudler. So, that has been something that we have been quite lucky with. So, for the USA as well as Pfaudler China have given us large orders with good margins. We expect more orders to come from them because they found us to be a good source of equipment especially for WFE which is a specific kind of evaporator. You also know there are proprietary products manufactures equipment for our subsidiary Mavag. So, that has also been an area that we have grown. In India, we have started focusing on more of the high margin jobs. The critical jobs that is definitely demand for that. So, going forward we believe that Proprietary Products will also grow significantly year-on-year because we had a good starting backlog and we expect this entire year to go through quite smoothly for Proprietary Products as well.
- Ankit Gupta:** So, you expect the same growth that we are seeing in GLE segment or even more than that given our base in the Proprietary Products going forward?
- Tarak Patel:** Probably a little bit more because market share itself is quite small and we have also revamped our processes internally to be more efficient when we manufacture. So, I think it will grow probably a little bit faster than the Glass Lined.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.



- Anupam Goswami:** How much equivalent units did we do in this quarter?
- Tarak Patel:** For Q1, we did about 550 equivalent units.
- Anupam Goswami:** Sir, you mentioned about pharma have not done any CAPEX for a long time. So, are we doing good on the chemicals and fertilizer side which is why our numbers are also good over there and going forward where do you see the industry moving up, some drivers for us?
- Tarak Patel:** Good question again. Before the last couple of years about 50% of our revenue in the Glass Lined business used to come from pharmaceuticals. Now for the last 12, 18-months, about 60% comes from agrochemicals and specialty chemicals. So, pharmaceuticals is no longer the largest buyer of Glass Lined equipment. As you know there have been FDA issue, there have been pricing pressure in the US which has slowed down the pharma investment. The Bombay pharma companies like Cipla, Lupin, Sun Pharma all have slowed down. However, we have seen this year and we are also seeing going forward that the Hyderabad, Telangana pharma have started to invest again. Companies like Hetero, Aurobindo, Divis Labs, they have put up large projects as well. We have also recently seen that there have been some new rules and laws by NGT which is the National Green Tribunal where certain cities have come within the red zone. There could be companies in and around Baroda, Nandesari, Hyderabad and will have to relocate as well. So, when that happens, we could see additional growth coming from that. But we expect pharmaceuticals to revive as well. There have been quite a few months where investments have not happened. And I am sure that these companies will also plan to invest going forward. But like most of the people and most of the CEOs and owners of chemicals companies that we spoke to, they had at least plan for the next three to five years. So, unless something very drastic happens, I think investment will continue in the chemicals. Now with the trade wars with the US as well a lot of companies want to derisk the China story as well. So, India is an option and hopefully going forward they will continue to invest in India and chemicals and agrochemicals and specialty chemicals will also continue to invest.
- Anupam Goswami:** What are the chances that the China would also revive then, the shift could again go back to China?
- Tarak Patel:** Nobody can say specifically anything about China. We just know that the issues that they have are such that it is unlikely that they can come back to the original levels at the same cost structure. So, that is one thing that we can keep in mind saying that as and when they do, they may come back in any point of time but unlikely at the same cost level. Having said, the other point that Tarak mentioned earlier is that even if they do come back on line, most of the western countries and most of the companies in the west have probably taken a conscious decision to derisk the single supplier that they had China as the base and India will probably get a share of the business going forward as well.
- Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Avendus Wealth. Please go ahead.

- Alisha Mahawla:** Just a clarification on the previous question. When you said the sales unit in this quarter was 550 units. Can you give the same number for last quarter and same quarter last year please?
- Tarak Patel:** Unfortunately, I do not have the data with me. It would probably be lower because more number of units means more revenue; there is a direct correlation between numbers of units and revenue, so, I would expect them to be lower. The preceding quarter maybe Q4 of previous year was about 500 and then compared to Q1 they would be significantly lower because as you know the revenue was significantly lower.
- Alisha Mahawla:** An earlier comment made by you which said that obviously considering the demand you have also been able to charge your marginally higher prices. Will you be able to quantify how much is that currently the price increase taken?
- Tarak Patel:** No, the price increases depend from customer-to-customer, it depends on the size of the order, the size of the reactor. So, I would not be able to quantify but over last 12-months, maybe 5-7% price increase, but lot of it has also come from the increases that we have seen in raw material, so things like metal prices have increased significantly, fuel prices have increased. So, we have been passing that on to our customers.
- Alisha Mahawla:** The order backlog, will it be possible for you to break that up in Glass Lined and non-glass lined in terms of percentage?
- Tarak Patel:** 50% is Glass Lined and about the balance is PP and HE. As I mentioned earlier in one of the comments was that it is evenly spread out, it is not very heavily on just one line. So, that is actually quite heartening for us that all our product lines have a decent amount of backlog.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Just wanted to know sir, in terms of our current order book, what would be the export order and I believe those are on a higher margin, so what kind of margins do we enjoy there? Secondly also wanted to know, we mentioned about getting into the oil & gas. So, say for Rs.100 CAPEX by a company, what kind of orders we could expect in that case?
- Ashok Pillai:** Our share of the exports are about 12% of our revenue. Typically that is what has been happening last year and we see the trend continuing this year as well. And we are not talking about starting off with Glass Lined is the first point over here. The margins are significantly better for the exports, maybe close to 1.5x the margins that we get for the domestic sector. So, therefore the thing on the exports is. On the other issue of CAPEX for the heavy engineering sector from oil & gas is very-very difficult to quantify because our share is so small, it is really-really very difficult to say that what is our share of the heavy engineering CAPEX, it is not quantifiable.
- Kunal Bhatia:** Sir, but what kind of orders are we expecting there?

- Ashok Pillai:** If I give you equipment orders, it has been most refineries and most petrochemicals complex will have lot of heat exchangers, will have lot of colons, will have lot of pressure vessels and we are looking at those types of equipment which are critical, which have high metal thickness, high engineering requirements and high welding and other qualifications that we have qualified for and we need orders for that type of equipment.
- Tarak Patel:** Just to add to this point, we have been building our capabilities and our resources, so we have been adding our capabilities in our factory, so we have a rolling machine now that can grow up to 100 mm thickness, we have capability that can handle much higher thicknesses and weight as well. We have also hired people from the specific industries that we want to cater to. So, we bought people from competitors who have strong track record in selling heavy engineering equipment, we have also got a manufacturing team in place now. So, going forward we believe that we can penetrate this. Definitely need of the hour is for new vendors who are capable because there is so much demand out there, there is so much infrastructure spending going on that people are looking at qualified financially stable vendors who can give them and they can give their orders too.
- Kunal Bhatia:** Finally, just wanted to know the ratio between the new demand and the replacement demand which we are getting?
- Ashok Pillai:** Most of the demand we will be getting in for Glass Lined equipment is new demand. Probably if I were to put a number to it, it will probably be 70% is new, 30% is replacement.
- Moderator:** Thank you. The next question is from the line of Riya Mehta from Anand Rathi. Please go ahead
- Riya Mehta:** I had a couple of questions. Last time we spoke you said the outsourcing for increasing the total EU. So, together with the orders in hand what is the targeted EUs for the next year?
- Tarak Patel:** Good question. I think it is close to 2800-3000 is what we are planning to do, another 25% increase over previous year.
- Riya Mehta:** Could you give the total CAPEX amount that we target for the year?
- Tarak Patel:** We normally spend on maintenance CAPEX of about 2%/3% of our total revenue and I think what we have already spent on has already been completed, so we bought a new gas furnace which will be in line in September and I do not think we have any further CAPEX planned for this financial year.
- Riya Mehta:** In this quarter's result, we see the other income at the subsidiary level has declined significantly. So, could you give any justification of or whether this is a new normal or how to look about it?
- Jugal Sahu:** Our income from mutual funds actually decreased this quarter as we have taken a hit on some of the mutual funds due to debt market correction.

- Riya Mehta:** Also, from industry perspective, could you just elaborate, what is the market size of the proprietary business and where are we and what do we plan in the coming future, if you can just give broad numbers?
- Ashok Pillai:** We are looking at some amount of exports business of some of the Proprietary Products like the Wiped Film Evaporators which China and the US have been the sellers all over the world and we are looking at domestic sales as well. In the domestic sales, we are looking at the high end equipment in the filtration and drying equipment where we have a significant advantage having the designs and all from Mavag. The other businesses are still in the initial growth stage of the business with the Engineering Systems being one of them. Mixing is now as you know part of a larger division with the IMSD of Sudarshan part of the mixing system group, we see great potential for that with new market segments added to our portfolio which we did not have in the past. So, all the product segments look good. In many of the products segments we are relatively small both in size and market share and that gives us good opportunities for us to grow in those segments.
- Riya Mehta:** What will be your market share around for that?
- Ashok Pillai:** It depends from product-to-product but we are in the 10%, 12% type of market share in many of the product lines.
- Riya Mehta:** For the synergy from the Sudarshan Chemical unit, could you give some numbers as to where we think which will go about for this financial year and FY'21?
- Tarak Patel:** We do not know about numbers that we can tell right now, but we see that the numbers will be significantly better than what we did as a standalone unit, will probably be double the numbers that we did in the past.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** Just wanted to check, we see the increasing of capacities to 200 units per month and then we have had a plan of increasing up to 230 units per month. Are we on in line with it or have we completed that?
- Tarak Patel:** We are in line now. With the new furnace coming in, we will definitely have the capacity. We have also improved our manufacturing backend capacity. So, the output of fabricated vessel has also increased. And the idea is to bring our backlog down to more respectable, about a six month period, we are quite close to that. So, yes, there will be months where we will hit the 230 mark.
- Anupam Goswami:** Glass Furnace that is coming from September, how much cost can we expect from this?

- Tarak Patel:** If we do not end up using the electric furnaces, then we can see probably 0.2% - 0.3%, about 20-30 bps.
- Moderator:** Thank you. The next question is from the line of Vijay Gala from Gala Consultancy. Please go ahead.
- Vijay Gala:** I want to know the engineering point, not heavy engineering, engineering product point of view, what is the order position on large diameters reactors glass lined, so what has been the planning for that?
- Ashok Pillai:** From a capacity point of view, we can make very large equipment. So, the largest reactor that we can build is 65 cubic meters and the largest tank that we can build is 80 cubic meters. We do not have yet a single enquiry for sizes higher than 50 cubic meters. So, we have in terms of sizes much higher than what the current Indian demand is and even higher than current international demand from the markets that we normally serve. So, from that point of view, we are very well prepared to handle the increasing market size that we see in the Indian industry for some time to come.
- Vijay Gala:** Heavy competition in glass lined reactors in different times. So, what do you think about it?
- Tarak Patel:** The bigger the size is, the less competition we have because bigger the equipment if something going wrong or something failing, so when the size increases, most customers would prefer to go with GMM Pfaudler because we have a track record because the welding required, the glass lining required, all becomes very-very critical when the size increases.
- Vijay Gala:** What will be the margin in this business?
- Ashok Pillai:** So, higher the size is, slightly bigger the margin. If you go for really big sizes, then the margin increase drastically because after a certain size, we are the only company in India that can make such large vessels. But unfortunately, the requirement for such large vessels is very limited; it only comes once or twice a year.
- Vijay Gala:** In the systems of the Europe operations, reaction and colons with resonance and drying, fitting, everything is there, so what is the order portion in this segment?
- Tarak Patel:** As I had mentioned that the order position is spread evenly; 50% was Glass Lined, 25% is Heavy Engineering and 25% is Engineered and Proprietary Products. So, we are seeing a good backlog in Engineered Systems also.
- Vijay Gala:** In Heavy Engineering we are very lacking?
- Tarak Patel:** Yes, you are right, Heavy Engineering has been a slow start this year because it is a very cyclical business. The order book for the next few quarters is good and for Q1 of next year also is good,

so hopefully next year. But you are right, it is a difficult market, we have entered recently, we have to understand it, but it is still a good market, we have to pick and choose the right business for that. We will definitely improve with that.

**Moderator:** Thank you. The next question is from the line of Jatin from Alpha Capital. Please go ahead.

**Jatin:** Sir, you mentioned that you will produce 550 units in Q1 and you also mentioned the 200 monthly is a very good run rate for us. Having known all these, do you think this QoQ growth that we have witnessed in Q1, is possible in coming quarters also?

**Tarak Patel:** In a coming quarter I think we expect to perform as well if not better because we have a backlog, Manufacturing has continued to outperform, so we expect similar kind of numbers for Q2, we definitely want to take advantage of the fact that Q1 is strong, we want to build on that. So, we definitely this year we want to continue the same kind of numbers that we had seen last year and build on a foundation that we have created and that will put us in a strong position going forward.

**Jatin:** Sir, you mentioned a slightly slower order book growth in this quarter. Is the trend continuing in this current quarter also?

**Tarak Patel:** No, I was misquoted and I said something wrong; Q1 has actually been a very strong quarter for growth, going forward we might see a slowdown in order book because of the liquidity crisis and things like that, but right now we have some good order backlog, but this will take us into at least the next two or three quarters.

**Jatin:** In current quarter Q2, we have not seen any slowdown right or we are just estimating that coming quarter order growth maybe slower?

**Tarak Patel:** In the one month that we have seen, obviously, it has not been as exciting as the last two quarters, there has been a little bit of slowdown but I cannot tell you this is the trend or not because during any financial year we have good months and bad months but nothing that I can tell you it is an alarming situation.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Sir, over to you.

**Tarak Patel:** Thank you, everybody for logging on and hopefully we will see you back here when our Q2 results are there and have a nice day.

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