



“GMM Pfaudler Q3 FY ’21 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the GMM Pfaudler Q3 FY'21 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 pressing '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you, Sir.

Binay Sarda: Thank you, Aman. 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 result performance or achievements to differ significantly from what is expressed or implied as forward-looking statement.

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. Manish Poddar – CFO.

We will start the call with a brief overview of the Quarter-3 passed 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 Evening Ladies and Gentlemen, to give you a quick update on our Q3 performance, so all in all as expected the Q3 was another really strong quarter for us. We, on a consolidated basis, showed an improvement, a growth in revenues of about 29% year-on-year and about 8% quarter-on-quarter.

On a standalone basis, the revenue increased by about 21% year-on-year and about 8% quarter-on-quarter.

The EBITDA on a consolidated basis also showed a good amount of growth, 38% year-on-year and 6% quarter-on-quarter. On a standalone basis as well, the EBITDA grew by about 41% year-on-year and 10% quarter-on-quarter. The growth trajectory still remains very strong. The order backlog currently at the end of Q3 was about 36% higher than what it was at the same time last year, and we continue to see a lot of traction in both the industry segments that we cater to, which is namely chemical and pharmaceutical.

We have seen a strong recovery in the pharmaceutical sector. Particularly, we have seen lot of investments coming in especially when it comes to creating capacity, local capacity in India and reducing Indian company's dependency on China. Our order book in our Swiss subsidiary is at

an all-time high about 20 to 21 million Swiss Francs. To be exact, which means that the next financial year for them will also be very strong. They also continue to see a lot of investment coming in on both the European and US shores, so that is something that really bodes well for us in the future.

One more point that I would like to make in terms of the PBT and PAT, which on a quarter-to-quarter basis is slightly lower. There was one time depreciation expense that has to be taken because we acquired the Hyderabad facility. The accounting policy in terms of the depreciation had to be aligned with our depreciation policy which accounted for nearly about INR 3.5 crore one-time, non-cash expense which will not be recurring. So going forward that would no longer be part of the financial statements, so that is a clarity that I just wanted to give you. Besides that some other highlights for this quarter were Hyderabad facility is now up and running. We had shipment of about INR 4.2 crores, about 30 equipment shipped out of Hyderabad that is a very, very promising sign because in spite of getting it in October, having a couple of weeks of no production due to the heavy rains and flooding, we still managed to ship out a good quantity of equipment. We expect that Q4 Hyderabad facility will be fully operational and we expect a good amount of shipment from there. We also have commissioned our two new gas furnaces in Gujarat, which basically means that we will switch off our electric furnaces, so going forward we will see some improvement in the profitability of equipment that have been shipped from our Gujarat facility.

Lastly, in terms of the Pfaudler International transaction, the highlight is that as of this morning, we have received our last approval, our anti-trust and foreign investment approvals have all now been received, and we believe that we are very close to completing this transaction. We hope to close this transaction by the end of this month and look at consolidating the global business revenues with GMM Pfaudler from the February 1st, so all in all the business looks very promising. The long-term prospects of the company look good as well.

With that I would like to now open this conference for question and answer session. Thank you very much.

Moderator: Thank you, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: Sir, just a technical question, why has our depreciation doubled from a year-on-year basis?

Tarak Patel: As I mentioned in the opening remarks, we have accounted the depreciation for our recently acquired Hyderabad facility, I will just pass the call onto Manish Poddar, our CFO, to answer that in detail.

Manish Poddar: This is basically to align with our accounting policy, we have useful life of every asset defined in the accounting policy. Hyderabad facility does not fall at this point of time in line and once the asset was acquired, we have to make sure that the rest of the useful life falls in line with our rest of the assets that we have in the organization, therefore, to that extent that is a one-time

impact in any acquisition that has to happen, the additional depreciation has to be taken as a one-time hit in the P&L.

Ronak Vora: Okay, so that was the figure of INR 3.5 crores that you said?

Manish Poddar: Right.

Ronak Vora: In commensurate with the whole Pfaudler acquisition and everything, how do you see your global market panning out?

Tarak Patel: Luckily for us the order intake in the Pfaudler Group over the last couple of months has been very strong. Just to give you some highlights, Pfaudler received their first order for acid recovery from Russia, which we have been speaking about on this conference call for quite some time, so that is a new business line that Pfaudler entered into. We at GMM Pfaudler have also tried to enter into that business here in India. We are also very close to winning our first acid recovery business over here in India, so all in all the Pfaudler entity also have a very strong order book also at a good margin. China, Germany, US, all remain very strong. The focus is now shifting to actual execution now, so we need to make sure that we can ship out these equipment and reduce the backlog. The order intake across the group has been very strong, so we have seen that happening now because a lot of the production is moving back to European and US shores. People are building redundancy in Europe and US; we have seen that specifically with our Swiss subsidiary who has the backlog now close to 21 million Swiss Francs, which is something for a company of that size is unheard of. We should be a company with size of \$12-13 million, if we can imagine they have \$21 million Swiss Francs backlog, so it is definitely some traction have been seen in these geographies, and hopefully, over the next few quarters we will see that improve and more investment coming in Europe and the US also.

Ronak Vora: So can we say next year, we will do upwards of 2200 crores on a consol level top line?

Tarak Patel: I would not be able to give any guidance on that right now, the guidance that we have already shared is about 2000 crores top line on a full-year basis, however, once we close the transaction if there is any updates in terms of guidance that we need to give, we will be the first to share it with everybody.

Moderator: Thank you. The next question is from the line of Ashit Kothi from Almondz. Please go ahead.

Ashit Kothi: Good Evening Sir, what was expected after the takeover in the labour intensive business would be transferred to GMM over here, to what extent you have been successful in doing that?

Tarak Patel: Basically, the transaction has still not closed, like I mentioned to you we have received all the approvals from the Government authorities regarding foreign investment and anti-trust. We expect to close the transaction very soon by the end of this month hopefully. Once we close the transaction then we can really speak about the synergies and what are the benefits that the consolidation will have, but just to give the group an idea in terms of what we are working on,

it is not that we have waited the last few months by doing nothing. We already have a good amount of ground work done and we are going to look at low-cost opening where India becomes a hub for some of the other manufacturing facilities globally. There is definitely new markets that we can enter into Southeast Asia and Middle East become very important markets for GMM Pfaudler per se. Earlier we skipped it and could not supply into those markets. We are looking at cross selling, we are looking at bringing European made technology into India localizing that, one of the things that we have spoken about will be interseal, that is something that we have already Made in India, it has gone back to Europe for testing and approval. Once that is approved, we will be manufacturing that locally here in India and then lastly we are also looking at bringing our capability when it comes to operational excellence into some of the Pfaudler facilities. Like I mentioned to you we are all booked solid, we all have large backlogs. If we can improve their production and their output, that will be a significant benefit for the entire group, so all in all, there are specific areas, where we have created work stream, we have already identified people, and hopefully, as soon as the transaction closes, we will start working on these initiatives and hit the ground running.

Ashit Kothi: To be very specific, if I have to look at Pfaudler in labour-intensive business in numbers, what would that be?

Tarak Patel: Pfaudler International business, I mean are you talking about the revenue of the Pfaudler International business?

Ashit Kothi: Labour-intensive business of Pfaudler International?

Tarak Patel: Everything is labour-intensive, so if you see the glass lined reactor itself, the basic raw material costs the same both in Europe and in India, the steel costs the same, the electricity and the gas cost the same, so the big arbitrage is really the manpower, the labour, so as soon as you move the labour to India, those intensive activities in India then you will see a big reduction in cost. I mean one example I can give you is our Swiss subsidiary, 80% of that manufacturing for Switzerland is done here in India, it is shipped to Switzerland and then they complete it, they add whatever other parts that they need to add, they finally test it, they assemble it, and they operate locally to that, so they get that benefit and the arbitrage of moving all the labour-intensive, non-critical activities to a low-cost country.

Moderator: Thank you. The next question is from the line of Amar Maurya from Alfa Accurate Advisor. Please go ahead.

Amar Maurya: Sir, thanks for the opportunity, couple of questions from my side, firstly Sir in terms of the international subsidiary likely you indicated that you know Germany is already about a breakeven and post the shift of China facility to the new location, China would also be profitable, so if you can give some color on the Germany and China at the global level, and secondly, how had been the nine month profitability at the global level?

Tarak Patel: The global levels we are actually targeting and they are very close to whatever they had guided towards, I will be more comfortable sharing the global profitability numbers once we have the transaction closed. I would not be in a position to speak about it right now, but overall as a group I think we are tracking towards the number that we are internally and probably doing a little bit better than we had planned. Like I said, fortunately for us, all three major facilities, the US, China, and Germany are booked solid. The order intake over the last couple of months has been very strong. Just to give you some idea like I mentioned to you there was a \$4 million coming in from acid recovery from Russia. There was a large US engineered systems order that came in from Cargill for about \$6 million. This morning we found out that we are getting a large order from China for close to \$7 million, so overall the order intake across all the geographies have been very, very strong. I mean we have been actually very lucky that in terms of timing we have done the transaction and then the order intake has been significantly. On the flip side what is not very good is the backlog have meant that the delivery time for Germany, for China have moved to 12 months, 14 months, which is much, much longer than we would like, so going into these facilities and giving them some kind of operational excellence kind of initiatives and pushing them to produce more, it is something that we will have to do but on the good side, definitely the order intake is there and that execution is now the focus that we have to shift to. Having said that, India has also benefitted from some of these backlogs because as I mentioned China was booked solid. We started getting some business from China as well. We got about 10 or 12 glass lined equipment that came in from China because China could not produce, so we are working along with the other groups now to see and look at ways of reducing the backlog and making sure that the delivery timeline comes down, but from an order intake standpoint, we are very comfortable. We have orders on hand, so that is not a problem, the problem is now making sure that we ship out these products as soon as possible.

Amar Maurya: Okay, so when you say delivery timeline Sir, it is because of the lockdown or it is because of some productivity issue at the specific locations?

Tarak Patel: No, it has nothing to do with, either it is just the quantum of business that is there and unfortunately for them, the new plants of Germany and China have still not reached that kind of efficiency levels and output that we enjoy here in India that is something they are working on, but you will start seeing a lot of improvements flowing through, so both China and Germany for the next year will definitely be profitable because business is there and as long as the output is maintained, there is no reason why they should be in the red.

Amar Maurya: Sir, second question like if I see your heavy engineering business despite the higher revenue run rate, I mean the profitability has been very, very weak compared to the Q1 or even if I compare the last year, I mean any specific reason for the same?

Tarak Patel: I think these you will see a little bit of up-and-down because it all depends on product mix, sometimes you have large equipment moving out which are high-value and high profitability, some quarters you will see a little bit low but all on a yearly basis, we are definitely as per plan, so I would not let a quarterly kind of profitability really change any of the long-term kind of understanding of the business.

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

Shrinivas Aiyer: Good Evening Sir, congratulations for excellent numbers.

Tarak Patel: Thank you.

Shrinivas Aiyer: I have two questions, one is related to how the accounting will be done because as I understand the Pfaudler International accounting year closes on August 31st so currently do we get the benefit from September 2020 in our books?

Tarak Patel: So Pfaudler will now change to our accounting here, we will have April 1st to March 31st as our accounting year. There will be only one set of accounts and they will report and consolidate into India. We are hopeful that we can start the consolidation from the February 1st of this year and get February and March this year and then obviously from April onwards it will be a full-year consolidation.

Shrinivas Aiyer: My second question, I had written a mail to Mittal Madam also that I understand that Bangladesh is setting up API park near Dhaka, do we have any plan of opening sales office in Dhaka or servicing from here because some units have already started coming up there?

Tarak Patel: Yes, we have been working on the Bangladesh market for over now two years. We have appointed a person based out of Calcutta to travel to Bangladesh regularly, of course during the pandemic time he has not been allowed to travel, but before that he has been travelling regularly. We have agents in Bangladesh who follow the business and we are getting orders from Bangladesh, so yes we recognize that Bangladesh is going to be a hub for pharmaceutical products as well and traditionally they have a lot of dependence on India for their technology and for their manpower for API plants and we also know them pretty well over the years, so yes, we are focusing on that market.

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

Sanjay Shah: Good Evening Gentlemen and we Welcome Manish Poddar as CFO, congratulations Manishji!

Manish Poddar: Thank you.

Sanjay Shah: Tarak Sir, can you highlight on this acid recovery business which we have received from Russia, what is the scope of the business, what actually we do there and what is the potential of that business?

Tarak Patel: Acid recovery is as the name suggests you recover waste acid from the process. In a process you typically start with concentrated nitric acid or a concentrated sulphuric acid and then in the process there are other chemicals added by which the waste stream of the process contains weak

acids. Now, disposal of the weak acid in the earlier days was easy, there were people who were willing to take it and convert it, but now with the environmental laws becoming stricter by the day all over the world even in India, it is not permitted to take out this material the way they used to do it in the past, so most of these companies now are looking for to re-concentrate, that is first purify from all the other waste products and then concentrate that weak sulphuric acid or nitric acid back to concentrated acid so that they can reuse it for their production, so that is the whole process and that is how we compete in that space to get orders for a complete system that concentrate weak acids to back to the original high concentration acids for production.

Sanjay Shah: Great, Sir now we are having good run-up of orders as you cited received 6 million from Cargill, 7 from China, and even that Russia acid recovery order, so all these orders which are coming in our subsidiaries now that is outside India are all of glass lined or anything else or other heavy equipment also?

Tarak Patel: So, it is basically built around glass lined and engineered systems, like I said the engineered system order from Cargill is basically a kind of kit that they are supplying. The one from China is definitely glass lined mainly and the acid recovery also is a combination of glass lined and process knowledge. Heavy engineering also is coming through to us of Pfaudler subsidiaries but not such large orders, but recently we supplied to Saudi Arabia through Pfaudler some large stainless steel vessels, so that is something that we are working constantly with Pfaudler, but heavy engineering as of right now most of the order intake that is coming in, it is for the Indian market, the oil and gas sector here, it has seen a lot of investment as well, so that is an area that we are trying to focus on.

Sanjay Shah: Mr. Tarak, correct me if I am wrong, we see lot of opportunities lying ahead of us with this taking over of Pfaudler International, by expanding our footprint into different geographies as you rightly pointed out which we were not allowed previously, bringing in the new technology which they have been using we have not been using, give them our low cost advantage means labour arbitrage, so there are lot many leeway and how do you see that Sir?

Tarak Patel: I think these are very exciting times, I think that it is important that we obviously look at it from a point of view that this company has kind of changed ownership quite a few times, but the people are very loyal, they are hardworking, they know their products quite well. I think the first kind of reaction that we got from the people around the world and the different Pfaudler facilities is that they are very happy that GMM Pfaudler has acquired the business because in GMM Pfaudler they find that we have a parent who is stable, who is strategic in nature, has the long term best interest of the company at heart so everybody is excited, everybody is motivated. One of the things that we would have liked to do after the transaction would have closed all these or when we would have signed, would have been to go to these facilities, meet the people, tell them what the long drawn strategic direction of the company is, but all in all I do see that there is definitely motivation and momentum picking up, but at the same time again there is lot of work to be done. There are lot of initiatives that are planned, there are lot of workgroups and work team that we have created, but we are definitely going to start only by focusing on the low-hanging fruit, so really going after what is easily and then we build successes and then you can

build more on those success, so that is the idea that is a short-term plan. We also need to make sure that the integration is something that gets done very, very efficiently, for that we have also formed a PMO, a Project Management Office, that will take care and monitor the integration process and look at reducing costs, and then lastly, if we find additional areas where we can add values then we will do that, but right now the idea is to really stabilize the group, start focusing on our own businesses, and on top of that, build some synergies which will give us long-term benefits.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, congratulations for good numbers, just one question, a follow up on the depreciation explanation which you gave at the start, so I was going through the annual report and the depreciation policy, so we follow percentage of completion method in our GMM Pfaudler, so for a manufacturing business like us, this percentage of completion method how does it relate to the kind of business model we have, generally that is more in a project driven kind of businesses this policy, and secondly, so what will the change in the deprecation one time that you had to take so was it again a policy change in the company which you have acquired which led to this, so can you just little bit explain on both of these points?

Tarak Patel: Before I let Manish get into the details, let me just give you a high-level view. The Hyderabad facility which we acquired recently from De Dietrich had plant and equipment, which were more than 30 years old. As soon that became part of our asset, we had to depreciate it as per our depreciation policy, so that is why there was one time non-cash hit of about INR 3-3.5 crores odd. On the percentage of completion, it is not related to depreciation, it is related to basically the sales that we do, so we invest a lot in engineering hours, we invest a lot in raw materials, we go out and we do a lot of other activities which kind of relates, so when we have total policy replaced that if an order from a single vendor is greater than a certain size going to a certain specific address, then we can take percentage of completion, and overtime, this has kind of been something that has been quite stagnant in our business and especially when it comes to the large project orders that we get in the heavy engineering business, one year contracts, large 20 crore plus contracts, then it helps us kind of stretch the kind of shipment over a period of time rather than having it all coming in one specific time, but it is a normal process, Pfaudler also follows it. Many of the other manufacturing companies do it as well and that is something that we do quite regularly in our business as well.

Manish Poddar: On depreciation, Dhaval as Tarak said for building for example, in GMM we have a 30-year lifecycle for a building. This building was already 30 years old, so logically for us to align with our own accounting policy, we need to make sure that we do not carry any WDVD for the Hyderabad building, so that is there and accordingly, plant and machinery also we had a shorter life as per our policies just to be on the conservative basis, and therefore, there is an accelerated depreciation, collectively it makes out to 3.5 crores and going forward because we have that much of less WDV, you will have lower depreciation and a higher PBT and PAT in coming quarters as we go along, and of course Hyderabad now in this quarter was only partial operations,

and as we go along in the Q4 it will be full operational piece, so you will have the full sales and margins coming in, but a lower depreciation in the coming quarters. You see as Tarak mentioned, that is normally industry practice and this is a CAPEX for the customer and once we have the order, it is not an off-the-shelf product for us, once we have the order, we make the products as per the specifications of the customer, therefore it actually takes a shape of the project for us, so we cannot just make it and then sell it to customer A or B or C, therefore the percentage of completion is being followed as a consistent accounting policy for us on revenue recognition.

Dhaval Shah: Sir, typically your production would take around five or six months right?

Tarak Patel: Right now it is around eight to nine months depends, and it is also spread over a longer period because some of our project are very large in nature, even in glass lined we have 120-130 vessels so that takes may be more than that and in the heavy engineering space sometimes it is even longer than that.

Dhaval Shah: Okay, fair enough Sir, and one question was on the steel inflation, so our GP was slightly lower this quarter, is it because of steel and have you seen like percent increase in steel prices in the past couple of months, so how are you handling this and way forward how do we see this?

Tarak Patel: Sorry I do not know if I got the question, but our EBITDA margin are around the same, if you compare it to last quarter, it was about 24% in the current quarter, it is around the same number, so what is the question exactly, sorry I did not get that.

Dhaval Shah: I am talking about your steel being the raw material, so your sales minus your COGS, so your gross profit I think is slightly lower this quarter?

Tarak Patel: There is a lag between, we buy steel in advance, so the steel that we are using today was bought about three or four months ago in one quarter five months ago and the steel that we are buying today will be used for shipment that we do four to five months down the line, so we are in a good position to pass on any material increase to our customer, there might be maybe for a month or so a slight hit that we might have to take, but I think with the new furnaces coming in, I think that should be something that we should be able to kind of mitigate, but overall we have in the past and we will continue to do is to pass on this price increases to the customer. The customers are quite aware because they buy stainless steel equipment, they buy carbon steel, they buy steel for their plants as well, so they are very, very clear that any steel increase is either upwards or downwards will benefit them or kind of hurt them and they are quite okay with that as well.

Moderator: Thank you. The next question is from the line of Puneet Jain from Fair Value Capital. Please go ahead.

Puneet Jain: Good Evening everyone, I was looking at our segmental results at consolidated level, so generally our unallocated expenses are in the range of 2 to 3 crores per quarter, this quarter we have about 10 crores, so is there any one-off item in there?

- Tarak Patel:** We are not very sure offhand, we will have to check, maybe if you can separately reach out to Manish or to the Company Secretary, we will provide the information with the exact, so this is unallocated expenses you are talking about, right?
- Puneet Jain:** Yes.
- Tarak Patel:** Okay, so we will check on this and maybe come back to you.
- Puneet Jain:** Sure, also in our Swiss subsidiaries, basically our margins are falling quarter-on-quarter with increasing revenue, so basically can you give some colour on that?
- Tarak Patel:** It is basically some orders which obviously came in earlier which were probably slightly lower margin, but again for the year once we finish Q4, you will see a significant improvement in margins and also the order intake for the next eight or nine months which we will produce has a good margin profile and again we are now manufacturing most of the stocks here in India. There were one or two orders that we have seen that was not in terms of very high margin profile, but I do not see any reason why the international business will not be able to maintain their profitability going forward.
- Moderator:** Thank you. The next question is from the line of Ravi from Naredi investments. Please go ahead.
- Ravi:** Thank you Tarak, it is indeed very good result in this situation, can you tell what is the order position in money terms or time terms?
- Tarak Patel:** The order book right now is about 512 crores as of Quarter-3 end on a consolidated basis versus 380 crores odd same quarter last year.
- Manish Poddar:** March 31 FY 20 was INR 382 crores, Q3 FY 20 was INR 375 crores, and today in Q3 FY21 we are standing at INR 512 crores.
- Tarak Patel:** Yes, so about 30% higher than previous year same time.
- Ravi:** Okay, and second due to this Government PLI scheme, what are you looking for next two or three years for our company?
- Tarak Patel:** I was actually on couple of news channels today and I was saying that hopefully we would be also included in the PLI scheme. We have an end-user of pharmaceuticals who get the PLI benefit and then we have the steel manufacturers who get it, especially companies like ours who are looking to move manufacturing into India if we have some kind of benefit, it will definitely be helpful, but from an end-user segment definitely pharmaceutical is something that we will see a lot of traction, we will see a lot of investment coming in. There are already a lot of talk about new project being set up especially in Hyderabad and Vizag area, maybe Ashok you want to add something on that.

Ashok Pillai: There has been a lot of traction both in the Gujarat and Hyderabad area, so in Hyderabad it is mostly obviously pharmaceutical and all the big names over there are putting up big projects whether you talk about Aurobindo, Divi's, Hetero, a lot of Lifesciences all of them are putting and they either have the orders or in a very good position to take the orders. In the Gujarat area, it is mostly chemical and specialty chemicals are in that region. There also the demand is very strong and there are large projects that are coming up and putting up new project, some of it is an offshoot of the China effect, but the business is very strong.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.

Vivek Gautam: Sir, first of all congratulations on excellent set of numbers and I just wanted to know about adding to the previous question, how strong are the tailwinds for our sector and which particular segment, does it compile only of the GLE or of the other segment also including the takeover which we did from Sudarshan, the chemical sector overall is going through unprecedented boom time for Indian manufacturing especially and now internationally also Sir?

Tarak Patel: Definitely, the tailwinds for the chemical sector both pharma as well as specialty chemicals has seen a very strong tailwind, and we see that trend came the demand for chemical product and therefore, our equipment to be continuing to be strong for the next few years, that will apply not only to GL equipment, but since our product lines are almost complementary to the glass lined equipment, we can see some traction for the other equipment as well, so all product lines other than HE really follow the pharma and specialty chemicals in a big way. HE had some contribution from big sectors, but going forward will depend a lot on the non-traditional sectors of GMM like fertilizer, oil and gas, petrochemicals and refining, and those markets are also expected to grow and our appetite for this business is not very large for us to be full and find a good growth year over year, so all in all we see good growth prospects in the chemical sector and therefore, helping our *GL* product line and also the non-glass lined including the heavy engineering.

Vivek Gautam: The China plus one and China Blue sky policy is helping us in real sense or is it sort of a more of a hype, Sir?

Tarak Patel: Definitely, there was more than hype in the initial part of it. We also recognized as our customers that this may be there only for a short time, but many of the customers have put in big projects to take advantage of the China scarcity both in terms of the first time when they had the environmental issues and then the overall the trade dispute between the US and China, so all those things and also our issues with China around the same time, so all those have actually given traction to a lot of chemical companies in India to put a project or to expand their capacity to handle some of the products that they were not manufacturing earlier and all that has resulted in additional orders for us.

Moderator: Thank you. The next question is from the line of Rahul Jain from Anand Rathi. Please go ahead.

Rahul Jain: Sir, Good Evening, thank you for the opportunity, can you give segment wise breakup of the current order book of INR 512 crores?

Tarak Patel: I do not remember it at top of my head, but out of the INR 500 it is about INR 200 odd crores in glass lined and another INR 180 crores in HE, and about INR 100 crores in PB that is at a GMM standalone basis.

Rahul Jain: Sir, what has been the GLE volume for Gujarat and Hyderabad specialty, and what is the outlook for the same going ahead?

Tarak Patel: I think currently our Gujarat facility about to 2100 units, we hope to ramp that up with a new furnace to about 2500 odd, Hyderabad should be on a full-year basis 400 to 500, it is about 3000 units for the next financial year something is what we are looking at.

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

Rohit Ohri: I have two questions, one if you can share the developments which might be working with Normag as of now and Mixion has completed nearly one year, so what are the takeaway from Mixion, and second question is what is the total debt on books if you would like to share that?

Tarak Patel: Rohit, first I will talk to you about the Normag, so Normag is something that we are working with, but there is no traction as yet. They are special glass products so it will probably time with the first-order that we get for acid recovery, there would be parts of the all glass products that Normag makes and goes into that. We have from them for example a test centre that is imported from them that is getting assembled and put up in Karamsad where customers can actually bring the waste acid that I talked about earlier and do the trials over there and then depending on the success of the full plant, so that is our relationship with Normag. On Mixion, our business is good. We are sending product both to the chemical, pharmaceutical, and the non-traditional sectors as well, so that is doing well.

Manish Poddar: Rohit, currently we have got a debt of INR 46 crores primarily for this Hyderabad facility that we acquired earlier in this year and going forward we plan to borrow \$6 million for the Pfaudler acquisition. If you recall in our earlier presentation, we had said that we would be borrowing something like \$12.5 million of debt and \$5 million will be our own internal accruals out of the total \$17.5 million planned investments into Pfaudler, but now we have turned the tables around and because of the stellar performance and a good collection, we have managed to generate \$11.5 million of own fund and we will now be borrowing only \$6 million of and that too through ECB so that is where we stand, so INR 46 crore of Hyderabad and other INR 46-47 crore depending on the exchange rate, so it should be close to INR 90 crore post the transaction is over on account of the fixed.

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

Nihil Parakh: Sir, thank you for the opportunity, just had one question, in one of our presentations we mentioned that the overall CAPEX spends in our industry is about 70,000 to 75,000 odd crores, so Sir wanted to understand what is our addressable market opportunity here like what is the market opportunity for the next two years?

Tarak Patel: I did not get the whole question, are you saying the addressable market only in the pharmaceutical space or glass lined market here in India?

Nihil Parakh: Glass line market here in India, so overall user industry applying the CAPEX of about 70,000-75,000 from FY '22 to '23, this is what the presentation says so just wanted to understand what is the market opportunity for the glass lining industry?

Tarak Patel: Just to give you round numbers, I believe the market price of glass lined will be for 1000 crores odd here in India, it is a growing market, continues to grow and we expect that market to grow. When we say 75,000 crores obviously this includes pharmaceutical and chemical and again includes the whole spectrum, we only cater to bulk drugs and APIs and in the chemical space, which is Agro and specialty chemicals so obviously our pie is much smaller. However, having said that, our market share remains very strong. If the customers had an option that we could meet their pricing and their delivery, they would definitely go for somebody as reputed as ours, so I think market is growing at a good pace plus we have an ability to take market share as well, so from that standpoint, I am not very worried in terms of the growth that is going to come from the glass lining sector.

Nihil Parakh: Sir, can I assume, or can you share that out of 75,000 crore expansion or CAPEX coming to, can we say that about 20,000 crore is the market which glass lined will be catering to?

Tarak Patel: No, I think that would be too large, so in a normal kind of CAPEX that comes in, in a pharma plant if you do not count the land and the building, the equipment glass lined would be anywhere from may be 10% to 30% of the total expense, in a chemical plant it could go little bit higher, but that is the normal thumb rule that you should take, so if you look at API, bulk drugs, Agro, and specialty chemical plant, the investment that is going to go in there and maybe get a thumb rule of 20%-30% of that and then you can really look at all the products that we cater to that might be the number that will be more current.

Moderator: Thank you. The next question is from the line of Vineet Mittal as an Individual Investor. Please go ahead.

Vineet Mittal: Sir, thank you for the opportunity and a great set of numbers, so my basic question is what is the normal life of our equipment at the customer site?

Tarak Patel: It depends on the industry, it depends on how we use it, the chemical industry had much more corrosive reaction, so life of equipment can be anywhere between three to seven years; in pharma it could be five to 10 years depending on how well you use it, at the same time there are equipment in Europe which have been running for 20 years as well, so it really depends on the

process how you handle, how you take care of this equipment, how do you maintain this equipment, but otherwise generally between three to seven years is normally the life-cycle of the equipment here in India.

Vineet Mittal: Okay Sir, and the second question is on during the investor presentation, 40% of the Pfaudler revenue comes from the services, so what portion of that kind of revenue we can expect in India?

Tarak Patel: That is a good question Vineet, and I think it is important to understand that the European and the US markets are very mature markets and that is a significant amount of revenue that comes. I think India is moving in that direction. Currently, we have to increase our after sales business from something like 7% to 8% maybe two or three years ago to close to 13% to 14%. Today we believe that the entire industry is changing, the need for going back to the original equipment manufacturer for after sales for support for service is increasing. Now that FDA and regulators require people to go back and not have stopgap arrangements, so you will see now a lot of new business coming in from the aftermarket and the after sales as well for the spare part business. We expect that business to increase and that is why we have been proactive and we have set up a service centre in Ankleshwar, in Vizag, in Roha and now we have plans of opening a couple of more service centres who will be close to the customer and will be very prompt in terms of giving the customer support and services required.

Moderator: Thank you. The next question is from the line of Dipak as an Individual Investor. Please go ahead.

Dipak: Good Evening, I have one comment and two questions, so the comment basically is that when I look at the results, so there is broadly 10% kind of EPS growth versus P multiple of 70 lakh we have currently, so it looks quite imbalanced, going forward it would be difficult to maintain this kind of a valuation with this kind of an EPS growth, that is the comment. The two questions which I have, first one is that when I compare the Y-on-Y results for the quarter, so the total comprehensive income has reduced, but despite that the EPS is up, does that mean that the total share count has reduced that is why the EPS is higher?

Tarak Patel: The share capital remains the same, there is no change in the share capital per se.

Dipak: Okay, so the total comprehensive income, the consolidated in Row #13 that has dropped from 218 to 212, so despite that the EPS is up?

Tarak Patel: On a consolidated basis, revenue has increased by about 8% quarter-on-quarter or 29% year-on-year. The comprehensive income will be more related to the reserves and all, so the EPS will be dependent upon the tax, it is not related to other comprehensive income if that is the question. EPS will be dependent upon PAT.

Dipak: Okay, that is how with the share count. The second question was that in row number 13, when I look at the total of the row number 13, the numbers do not seem to add up, last year September number coming to INR 217.91 million that is adding up after the PAT from a PAT of INR 210.51

million if you add up all those numbers of row number 12 other comprehensive income, it adds up to INR 217.91 million, but on the current quarter from INR 231.64 million if I add up all the items of row number 12, it should not be INR 211.98 million, it should be somewhere like INR 250 million, could you please clarify this?

Tarak Patel: I think this would not be the right forum to answer these questions, something that we can definitely take up separately if you share your email ID or your phone number with the Company Secretary, we can definitely take this and answer this in more detail.

Moderator: Thank you. The next question is from the line of Bhavyank Shah as an Individual Investor. Please go ahead.

Bhavyank Shah: Good Evening Gentlemen, as you mentioned earlier in your presentation that we have taken one-time depreciation in this quarter and that has impacted the profitability, so even if we take out the depreciation still our profitability will be flat in this quarter if you compare it on quarter-on-quarter right, so what else has impacted the profitability apart from depreciation?

Manish Poddar: Right, that is primarily on the PAT basis, so there was INR 1.5 crores if I remember correctly the number, INR 1.5 crores of tax refund during the Quarter-2 which was of course exception and one-time item, we do not get tax refunds every quarter, so that is why your PAT was increased in Q2 so that the PAT was an additional impact and if you couple it with the INR 3.5 crores of one-time impact that we spoke about the INR 5 crores, so that is another INR 5 crores, so that will add up and then of course we have a non-compete fee for Hyderabad which is going to be there for next two-and-a-half to three years that is another INR 1 crore, so INR 6 crores if you add up so probably your numbers will add up.

Moderator: Thank you. The next question is from the line of Udit Sharma from Investment Hut. Please go ahead.

Udit Sharma: Hello Tarak Sir congratulations for clocking strong set of numbers, I am really happy after seeing the numbers, most of my questions are already answered, but I have only one question left with me, so I will quickly summarize my question, I was seeing the past results, so when I am checking the cost of material consumed in comparison to revenue, the number is coming out to be 40% to 45%, in this quarter it is coming out to be 48%-49%, so is there any specific reason why cost has increased in this quarter and also on the labour charges, it is coming out to be 5.5% when I compare with the revenue, this quarter it is coming out to be closer to 6%, so labour charges has increased slightly and cost of raw material consumed has increased, is there any specific reason or misunderstanding?

Manish Poddar: What we were discussing was that those individual projects or individual order will have a different combination of the steel requirements and the labour hours required, and therefore, you will not have exactly consistent material consumption throughout the quarter, so depending upon which segment and which product line actually improves or goes up and down, depending on

that the consumption will definitely be quarter-on-quarter will not be as consistent as in any standard or over-the-counter industry.

Moderator: Thank you. The next question is from the line of Mudit Kabra from Hem Securities. Please go ahead.

Mudit Kabra: Good Evening everyone and congratulations for a great quarter, just some follow up question put up by a few Gentlemen earlier, like if you could please give us share of breakup of new orders among our three verticals, also a breakup between the new orders versus replacement orders?

Tarak Patel: Most of our demand Mudit is from new orders, capacity in India is still being built and we do not see a lot of replacement demand, maybe 15% to 20% in a full-year basis could be replacement but otherwise most of it is really driving by new plants being set up and new capacities being set up. Having said that, we will definitely see replacement demand picking up in the next maybe few years because now it has been about 15 to 20 years since the first phase of plants went up in Hyderabad, in Gujarat, and in other parts of India, so you will see these plants now ageing and being requiring to be refurbished and revamped and that would again give a kind of prop to new business coming in which will be driven by replacement demand. In terms of the order backlog as I mentioned out of about the INR 500-crore backlog that we have here in India about INR 200 plus crores is in the glass lined segment, about INR 180 crores is in the heavy engineering, and INR 100 plus odd crores is in the proprietary product, so it is quite well spread. It does not kind of heavily depend on only one product line and it is important to start all our product line with a strong backlog so that we can have a strong Q1 and a strong Q2 and then build on that going forward because if you lose a quarter or a couple of month by not having a strong backlog then it is very difficult to make up, so we are in a very strong position for next year and then hopefully the next couple of months will continue to remain strong in terms of order booking, so we are quite confident that next year we can maintain the same levels of growth.

Moderator: Thank you. The next question is from the line of Puneet as an Individual Investor. Please go ahead.

Puneet: Tarak, greetings from me and congratulations on a very consistent set of numbers, I think most of the queries have been addressed earlier, I had a query regarding cost of raw material 48% against 43% which has been already answered, I just have a query regarding Mavag, if you see the consolidated EPS, I see that the performance of Mavag even though it was indicated even last quarter that this should change this quarter onwards, it is not reflecting in the EPS when we look at it on a consolidated basis, having said that I get the comfort that the order book is very strong, but it is not reflecting in the bottom-line so could you just elaborate on that?

Tarak Patel: Sure, I can definitely see that concern, but I think just hang in there for another quarter, there is a lot of material that has been shipped out of India which is going to get completed and shipped out in Q4, so you will see on a full-year basis definitely growth both in terms of revenue and

profitability and then again for next year onwards, we have a very aggressive plans in terms of making Mavag even more profitable and growing a little bit faster than expected, but I think on a full-year basis, you will not be disappointed you will see them coming back because Q4 is going to be a strong quarter for them.

Moderator: Thank you. The next question is from the line of Achal Shah as an Individual Investor. Please go ahead.

Achal Shah: Hi Tarak, most of my questions have been answered, just one question was the proprietary product business on a consolidated basis has been, there has been a drop in terms of revenue and margin on a quarter-on-quarter basis, is there any reason for that or is this something one off that we do not?

Tarak Patel: It is one-off, we had some large orders for engineered systems for a specific customer in Hyderabad, it was more of a strategic decision to take these orders, but on a full-year basis you will see again significant improvement in terms of both revenue and profitability, good growth in proprietary products. We have done well, our strategies are working quite nicely, and you will see a significant improvement in both those parameters, so I really would for a manufacturing business like ours, I think quarter-to-quarter comparisons are not generally something that will really give a lot of clarity and colour, but I think on a full-year basis, I think you will find that we will still be doing a lot better than we did previous year.

Moderator: Thank you. The next question is from the line of Dinesh Gupta from Validus Wealth. Please go ahead.

Dinesh Gupta: Thank you for the opportunity, Sir just want to understand about the debt position right now?

Tarak Patel: As Manish mentioned, we have about INR 46 crores of debt on GMM Pfaudler's balance sheet currently. This debt was used to acquire the Hyderabad facility. On top of that for the Pfaudler acquisition, we will raise another \$6 million of debt and the India balance sheet, so another about INR 46 crores or so. Then we have some debt we will be raising in our Swiss subsidiary, so that will be required for the Pfaudler acquisition. The good news is that we had actually planned to raise about \$12 million here in India, but we have been able to reduce that number by internal accruals, so all in all quite a comfortable debt situation.

Moderator: Thank you. The next question is from the line of Kunjan Gupta from Client First Wealth Management. Please go ahead.

Kunjan Gupta: Good Evening Sir, first of all I would like to congratulate you for great numbers, my question is like you said the order book is currently at around INR 500 crores, right?

Tarak Patel: Yes.

Kunjan Gupta: Can you just elaborate it like how much from this number is coming from the new clients and how much is from the old?

Tarak Patel: So I think most of our clients are really old in nature, you will find may be four or five new customers that have come in, new plants in India but mostly these are our existing customers, large Indian companies who we are dealing for a long bit of time, but every year we also have new customers but I would say about 80, may be 60% to 70% of our kind of order book at least in the glass lined segment will come from our old customers. In heavy engineering since we are not a very established player, this is a new business for us there we have lot of new customers like L&T and so on and so forth and then in proprietary product always again being very similar to glass lined, we will have 60%-70% coming from old customers.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital Advisors LLP. Please go ahead.

Anish Jobalia: Our longer-term guidance of INR 2000 odd crores in FY '21 to INR 2400 odd crores, so I had a question on that, so given initial comment around the tailwinds that we are expecting on the shores of US and Europe, just wanted to get your thoughts of, do you think that our growth rate could actually propel more than the 10% that we are guiding for over the next three years?

Tarak Patel: Again too early for me to comment and would be kind of premature, let the transaction close, I mean already from a standalone point of view, we have shown significant improvement in profitability when these guidances were kind of brought to the table, our profitability margins were much, much lower about 18%-19% EBITDA, today we are clocking around 23%-24%, so there is already an improvement there, but I would not like to change the guidance right now, I think let the transaction close. We have to understand where the international business gets the momentum going and if we believe that, we could improve on the current guidance that we have given, we will be the first to come to the market, but having said that we have been a little bit conservative with the numbers, we would like to obviously outperform the market. We want to definitely look at the synergies which are based on top of the guidance that we have given, so there is definitely low-hanging fruit. There are definitely opportunities available, but again I think it is better to kind of guide low and do better than kind of guide high and then not perform, so I think that is the thought process, but having said that if we believe that there is going to be improvement in certain areas, we will come back and inform the public that we are now planning to change our guidance.

Moderator: Thank you. Ladies and Gentlemen, due to paucity of time that would be the last question for today. I now hand the conference over to the Management for their closing remark, thank you and over to you.

Tarak Patel: Thank you very much everybody for your time. I think this quarter again has been a strong quarter, lots of things going on and lot of things that we have to keep in mind. The India business continues to remain strong, our end-user segments continue to remain very strong as well, so India is really on autopilot, we need to keep increasing and improving our market share and penetration here. At

the same time, it is exciting times for us now that we have really transforming this company from an Indian company to really a global powerhouse in the anticorrosion glass lining space, lots of exciting things happening in the next few quarters and few years, hopefully the amount of hard work that we have put in so far and the hard work that we will put in over the next few quarters will see a lot of improvement on a consolidated basis. We definitely want to turn the international business around. We believe that there is definitely scope and possibility of doing that. Like I mentioned little bit earlier, the people are good, the products are good, the technology is very strong, and luckily for us the end-user market both in Europe and US are also now conducive to growing the business, so all in all we are quite pleased with the outcome. The focus is now going to shift on closing the transaction which should happen very shortly, and then next time we speak, we would have a couple of months of consolidation and then from April onwards next year we can really look at the numbers from a completely different aspect and look at the group as a much larger group and hopefully by then you will have specific questions with international business and also the kind of outlook that we have, so look forward to going on this journey with you all, and hopefully, we can surprise you with our performance and make sure that whatever we promised, we step up to and continue to perform, so thank you again and wish you all a very nice weekend coming up and please stay safe and thank you for your time.

Moderator:

Thank you very much. Ladies and Gentlemen, on behalf of GMM Pfaudler Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.