



“GMM Pfaudler Limited Q1 FY ‘19 Earnings Conference Call”

August 10, 2018



**MANAGEMENT: MR. TARAK PATEL – MANAGING DIRECTOR
MR. JUGAL SAHU – CFO**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the GMM Pfaudler Limited Q1 FY '19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. 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, Mr. Sarda.

Binay Sarda: Thank you, Karuna. Good Afternoon to all the participants on this call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties, and other factors. It must be viewed in conjunction with our business risks that could cause future result performance or achievement to differ significantly from what it expressed or implied by such forward-looking statements. Please note that we have mailed the results and the press release and the same are available on the company's website. In case, if you have not received the same, you can write to us and we will be happy to send the same over to you. To take us through the results and answer your questions today, we have the top management of GMM Pfaudler represented by Mr. Tarak Patel, Managing Director, and Mr. Jugal Sahu, CFO. We will start the call with a brief overview of the Quarter-1 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 Afternoon, Ladies and Gentlemen, just to take you through some numbers for the quarter, our revenue is up by about 35%, (93.2 crores versus 68.9 crores) as compared to the corresponding quarter and as compared to the preceding quarter, it is up by 6%. Our operating expenses have reduced by 6%. This is actually due to savings that we have shown in power and fuel as well as price increase of our products and also as having a large chunk of export business in this quarter. Our EBITDA is up 94% year-on-year, which is 15.3 crores versus 7.9 crores in the same quarter in the preceding year and compared to Q4 of last year, it is up by 6%. PBT is up by 67%, 13.9 crores versus 8.3 crores and PAT has finally touched double digits and is up 65% (9.1 crores versus 5.5 crores) as compared to corresponding quarter last year. We are very pleased with the first quarter numbers; usually our first quarter is slower because of a very strong Q4. This year we started the year strong and that will help us in terms of making the number that we set out for the year and we will not be playing the catch-up in the other quarters, so we are pretty positive of the outlook for the year and we expect to hit the numbers that we had planned for ourselves. With this, let me throw it open for some questions and then end up with some closing statements after the question and answers. Thank you.

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 Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, can you throw some light on the business vertical like last time. Also, what have we done during Q1 which gave us this fantastic results? Are you optimistic about the forward quarters coming from this glass line business?

Tarak Patel: Thank you, Sanjay. Glass line has obviously been the main chunk of our business for a long time, it accounts for about 70% of our business. We have seen a lot of traction off-late especially in specialty chemicals and agrochemicals, a lot of expansion going on. These are obviously much more critical applications than pharmaceuticals and the need for good quality equipment is much higher. The other thing that has happened is that because it is an agrochemical and chemical space that we are catering to now, the sizes required by them are also much bigger, and the chances of failures in bigger vessels are much more than in smaller vessels and then that would obviously mean that many of these agrochemical and chemical companies would come to GMM Pfaudler. We have also last year put into basically two major initiatives, one was Project Shakti which was to improve the output of the glass line business. That is something that had shown a lot of success. We have been able to increase our output by 20% to 30%, and we are still seeing improvements there, so that has helped us in terms of being able to produce a lot more vessels.

The other initiative was obviously, which I talked about in the last meeting was the commissioning of the new natural gas furnace, so that has also helped us in terms of increasing output as well as reducing cost. Most of the incremental production is now all coming out of the gas furnaces. We very rarely use the electric furnaces, so there is a big cost saving that we have because of this new natural gas furnace. We are quite positive and our backlog right now for all our product line is very strong, but we are seeing a lot of activity in the glass line business itself and one of the decisions that we took yesterday at the Board meeting was to add the additional infrastructure to increase capacity, so we would like to increase capacity further, so we will be putting up another manufacturing facility in the same location and this would add another 25% of additional production going forward.

Sanjay Shah: What CAPEX will be required for that?

Tarak Patel: About 10 crores.

Sanjay Shah: Right now, we are working at rated capacity, full capacity?

Tarak Patel: We are about 90% capacity, there is still a little bit of debottlenecking that we can do, but otherwise, we are at about 90% capacity in the glass line business and to grow further in that and we believe the market is there and that is why we have decided to put in the additional fabrication facility, so we can have more throughput coming out of the factory.

Sanjay Shah: Sir, can you highlight on our other division heavy engineering, where we have margin wise grown substantially, fantastic margin we have achieved this time but top line we could not achieve much?

- Tarak Patel:** The margin is something that people have been asking me for a long time about why we entered into this business and I did explain to them that if you can pick and choose the right orders in heavy engineering, you will make similar margins like in the glass line business. We differentiate ourselves from the local fabricators, we try and cater to a much higher class of clients, people who are looking for branded products, people who are looking for much higher thicknesses, much higher weight, something that the local, smaller fabricators cannot handle. The timelines of these single projects can be very long, can be six months, nine months, one year and the kind of requirement for the capital is also quite intense because you have to buy a lot of material, so the customers do prefer to go with financially stable companies and GMM Pfaudler is a very stable company when it comes to financials, so that also helps us. Also, what also improved for us is the export business, so we are seeing a lot of traction with the Pfaudler network. They are now going out and selling heavy engineered products made in India by GMM, and the incremental margin that is coming is also coming because of a lot of exports that is happening in this business line. I did yesterday mention at our AGM also that we have now finally put a salesperson in place in Europe who will be dedicated to sell our product lines in the European and the Western market, and we believe that is going to be a good area for growing both revenue and margins.
- Sanjay Shah:** What revenue we are expecting from heavy engineering this year?
- Tarak Patel:** Again, as a company anywhere between 15% to 20% growth in all our product lines, that is something that we are targeting this year.
- Moderator:** Thank you. The next question is from the line of Jatin Kalra from GS Investments. Please go ahead.
- Jatin Kalra:** Sir, in terms of margin if we compare quarter to quarter as we compare with Q4, there is some dip in margin, would you like to comment on that?
- Tarak Patel:** In terms of the business, the profitability is same, maybe there is some other income or anything.
- Jugal Sahu:** What you are comparing exactly?
- Jatin Kalra:** In terms of gross margin, there is some reduction?
- Jugal Sahu:** Not much, if you have the segment results with you as compared to the preceding quarter, glass line is almost in the same line and heavy engineering margins has actually gone up from 15% preceding quarter to 22% this quarter. Our proprietary product is about 7% this quarter which has gone down by 3% because of the product composition.
- Jatin Kalra:** Sir, for our subsidiary Mavag, how was the Q1 and how is the year expected to be?

- Tarak Patel:** That is something I had promised that we would probably start publishing consolidated numbers this year; however, we have not been ready. They actually hired a CFO that has come in and joined recently, so in terms of systems and process, we are not ready but from next year we will definitely publish the quarterly results as a consolidated number. From a business point of view the Mavag is also having a very strong backlog. They are also expected to continue performing as they did last year if not better, so we are confident that both companies going forward will be able to meet the targets that we have set for ourselves.
- Jatin Kalra:** The 15% to 20% growth target that is there for standalone applies to Mavag also?
- Tarak Patel:** The Indian Company, GMM Pfaudler, obviously being in an emerging market, in the growing market is expected to grow at 15% to 20%, Mavag would grow at a rate of about 10%.
- Jatin Kalra:** Sir, you are saying we will increase 25% capacity by putting in 10 crores, is that right that looks quite low for 25% capacity increase?
- Tarak Patel:** This is only for glass line equipment, this is in terms of quantity, so we actually measure the unit at equivalent units based on the effort that goes into making units, because units could be of different sizes, they can be small units or big units, so we call it the equivalent unit and we basically will try and increase, we do about 165 units, right now that is the maximum capacity. We would try and take that up to 200 in the first year and 225, 230 in the second year.
- Jatin Kalra:** Sir, CAPEX guidance would be just 10 crores this year, is that right?
- Tarak Patel:** This is over and above the normal CAPEX that we plan. This is additional CAPEX which was just approved in yesterday's Q1 Board meeting. This is not part of the normal CAPEX that we put in plant, machinery, maintenance and other items.
- Jatin Kalra:** What kind of CAPEX can we assume for this FY '19 and next year, '20?
- Jugal Sahu:** Our operational CAPEX is about 15 to 20 crores and then this 10 crores will be in addition to that.
- Moderator:** Thank you. The next question is from the line of Siddharth Agarwal from Kanav Capital. Please go ahead.
- Siddharth Agarwal:** Sir, my first question is regarding in the annual report you have mentioned that our parent has acquired a few other businesses and there is a possibility that we may try to launch them in India, so could you just tell us a little bit more about it, what is the potential opportunity size would be and how soon can we see some actions happening on the ground here?

- Tarak Patel:** They have acquired two new businesses, one is the sealing technology and other is Lab Glassware Company. They have not made a lot of headway in the Indian market, we expect them and we have seen some traction. We have seen some enquiries coming in, but in terms of the growth I do not think there will be something that is going to happen very quickly. Our growth drivers are going to remain our main business line. This is going to be in addition to that, but this would be anywhere between \$ 1 to \$ 2 million in the first three years and that if everything goes as per plan. We are just starting to work with new product line, so I think it will take a bit of time before they actually translate into actual orders.
- Siddharth Agarwal:** Sir, did we have any follow-up orders from the parent for exports on the first initial good feedback that we got?
- Tarak Patel:** It is actually two orders that we had got, right now they are in the process of placing a new order; unfortunately for us we had booked solid and we have a very strong backlog because of the demand in the domestic market and we have been able to increase prices as well, so right now it is not something that we need, but I think that will come in probably in the next quarter or so, the third order from the parent.
- Siddharth Agarwal:** So you mean to say that currently we are in a position that we can select only some of the orders depending on the profitability as the factories totally put out for next two quarters or so?
- Tarak Patel:** I would say, yes, I would say that obviously you have to keep your key customers in mind, I mean you have to pick and choose smartly, but yes, there are times when we can actually refuse to take business because we are in a very strong position from an order book point of view.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** Sir, if you can throw some light on how much export has been done from this quarter?
- Tarak Patel:** I think export was about 10% of total revenue and in terms of the order book as well we have quite a large export chunk in our backlog and that is quite heartening to know that we have been able to be quite successful with the export business and that has helped improve margins in the coming quarters.
- Anupam Goswami:** Sir, you had told in the earlier con call that now your target for this financial is about 1800 equivalent units in the glass line, are you still sticking to that or you want to like modify towards upward of something like that?

- Tarak Patel:** Last year if you compare, we did something like 1550 equivalent units, this year we are on target to do 1800. Obviously, some of this additional capacity is ready before the end of this financial year then we can probably look at increasing that number slightly.
- Anupam Goswami:** Sir, that increase in the number as you said it is going to be 165 units to 200 in the first year, right?
- Tarak Patel:** Yes, 165 is what we are doing currently, between 165 to 170 and we would like to increase that to 200 in the first year and 230 in the next year.
- Anupam Goswami:** Sir, you mentioned about the price increase that has happened in this quarter, can you tell me how much percentage of price increases you have done across all products?
- Tarak Patel:** I cannot actually tell you the exact percentage, but mainly in glass lining, we have been able to pass on some of the increases that we have seen especially in the raw material and the bought out, so that can be easily passed on to the customers, but we have managed to increase prices a few times over the last few quarters and our competitors have also followed suite and the customers have not found it to be extremely or over in terms of being prohibitive when it comes to placing orders on us.
- Anupam Goswami:** Sir, you mentioned the 90% capacity utilization has been done, so can we assume like 90% the total capacity like 2000 units, right?
- Tarak Patel:** I would say about 90% would probably be about 1800 units, maybe slightly less than that and obviously we are working the furnaces 24-7, seven days a week, but we do have some capacity to outsource as well, but since the sizes required in the market have become bigger that is why it has taken a bit of toll on our capacity because making the bigger size vessels is actually harder than making smaller ones, so that has taken some of the excess capacity.
- Anupam Goswami:** Increasing capacity, you said is 25%?
- Tarak Patel:** In terms of quantity about 20% to 25%, in terms of unit 165 to 200 in the first year.
- Moderator:** Thank you. The next question is from the line of Arunkumar Karthikeyan from Unifi Capital. Please go ahead.
- Arunkumar Karthikeyan:** Sir, can you repeat what is the performance of Mavag?
- Tarak Patel:** Mavag performance is strong in Q1, it is as expected and they have improved both revenue and profitability and they will continue to do so, they have a strong order backlog and they are on target to meet the numbers that they had planned for the year.

- Moderator:** Thank you. The next question is from the line of Jatin Kalra from GS Investments. Please go ahead.
- Jatin Kalra:** Sir, just a follow up, would it be possible to share how much is the order book growth right now?
- Tarak Patel:** We actually had our highest ever order book for the Q1 in the history of the company and we started the year at 50% higher than the previous year beginning, so Q1 is about 50% more and Q1 order book is the highest we have ever had, so that puts us in a good position for the next few quarters maybe even take us into Q1 of the next Financial Year.
- Jatin Kalra:** Sir, when our order book is growing at 50%, why do we want to grow our revenues only at 15% to 20% in terms of JVs?
- Tarak Patel:** The order book, yes, you are right has grown in terms of 50%, but obviously some of these orders will not be executed this year. They are much longer and larger orders, they will actually flow into Q1 of next year that is what I was saying. These are heavy engineering orders, so even though we have received the order this year, but they will actually ship out in the next financial year, so they cannot really count to revenue growth for this year.
- Jatin Kalra:** Sir, would you like to comment anything on the competitive intensity, is it increasing or is it going fine?
- Tarak Patel:** We obviously worry about competition, but we like to focus on the things that we do well and we are focusing on growing our businesses of maintaining our quality and making sure that the customers get the best possible product in the shortest possible time. I know that the competitors also do plan to expand or improve their throughput, but as I have said earlier it is easy to reach a certain threshold, but then after that you really need to invest in systems, in processes, in people to really get the next level of growth, so we have done that. The competitors because they are much smaller will find it a little bit more difficult to reach the next level of growth for themselves.
- Jatin Kalra:** Sir, you are saying export is right now 10% of our total sales, so what kind of figure are we looking at by the year-end?
- Tarak Patel:** I think 10% is Q1 and we would see that slightly increasing. We have a strong export order book as well and that obviously will affect margins going forward, improve margins going forward, but I would say anywhere between 10% to 15% on the entire year would be the export component.
- Moderator:** Thank you. The next question is from the line of Siddharth Agarwal from Kanav Capital. Please go ahead.

- Siddharth Agarwal:** Sir, my question was regarding the orders, most of our orders are coming from agrochem specialty chem, & Pharma. Could you give us some color, so where do you see a lot of these orders coming from in the industry, any section of the chemical industry are they coming from?
- Tarak Patel:** Chemical. Usually Pharma accounts for 50% of our business as historical data, but over the last 12 to 18 months we have seen a slowdown in Pharma because of FDA issues, because of pricing pressure in the US, and that shortfall has been made up by the chemical companies especially the specialty chemicals and agrochemical companies. We have seen a lot of expansions going on there, new capacity being built. We believe obviously the crackdown in China on the polluting industry has had a role to play on these Indian companies. However, we do expect that China will come back, will they have the same cost structure as they did earlier, it is probably not going to happen, but the Indian companies are quite bullish. They are investing continuously for the last few quarters and they expect that their order book to grow, more products to be transferred to India, and most of the promoters, owners, and professionals that we speak to in this industry are quite positive for the next three to four years at least, so that is just the chemical business. We also expect in the next few quarters some kind of revival in the pharmaceutical space. We already see enquiries for large projects in the South of India in the Hyderabad area, Vizag area, so that should start also coming in, so I think overall for us the market is not really a worry. I think the demand is going to continue and that is why we have decided to invest in the additional facility and increase production, so we can capture some of this additional business that comes through.
- Siddharth Agarwal:** Sir, so you are basically saying that this CAPEX cycle or the way the current strong phase that we are seeing currently that the capacities are being expended, at least in your mind you see a visibility that this could last for at least three to four years?
- Tarak Patel:** Yes, I would say at least the next three years. Obviously, there is some kind of political uncertainty next year with elections coming up, but I think business will continue. I think Indian entrepreneurs are very focused on what they do and they do a good job. In terms of the monsoon, the monsoon has also been a very normal monsoon, good monsoon for us, so rural consumption will improve, agrochemical sales will improve and India is also much lower in terms of when we look at the consumption of the specialty chemicals, so the Indian market itself is a huge market, which will obviously account for some of that growth.
- Siddharth Agarwal:** Sir, have we started also receiving orders from the Pharma City that is planned around Andhra and Telangana?
- Tarak Patel:** No, not yet from what we last heard, environment clearance had come through from the Centre, I think it is still maybe a year to year-and-a-half away before we start actually receiving orders.
- Siddharth Agarwal:** Sir, finally last question if I may ask, so one of our competitors who recently about a year back had a management change and they also are into filtration systems and mixers etc., so obviously

we have similar capabilities in our Swiss subsidiary which does high-end filters, is it are we also trying to extend our product range in India as well to capture more of the wallet share of the whenever these new plants are being set up?

Tarak Patel: We have already brought those products in the Indian market, we were actually the first people to bring it. Obviously, we are not the market leaders in filtration and drying, but again there we have to be a little bit careful because there is a lot of competition and it is a fragmented market, and the pricing strategy there is pretty much always to the lowest bidder. So we have to pick the right applications, we pick the customers, we focus and go after the critical applications. We go after the Oncology processes where people need containment, glove boxes, have issues with contamination, and things like that, so that is where we focus on and we go and give the customer more of a system rather than just an equipment and then we have been quite successful there, but we do not really go and compete on a volume basis with the local competitors because it is basically a price war and that is not something that we want to get into.

Siddharth Agarwal: Sir, if I remember that we were also trying to expand our after sales service so that which as a sales tool as well, is there a concept of AMC sort of thing relevant in our industry as well or is it just better warranty servicing that we do or can we also earn something out of it with quicker, faster servicing of the equipment that we have sold to our customers?

Tarak Patel: We have invested in building these service hubs in key industrial locations, key chemical zones, Ankleshwar, Vizag, and now one in Maharashtra as well. We do want to be closer to our customers, we do want to be prompter when it comes to after sales services. Obviously in India this is still very low. There is a local market of local entrepreneurs who do support and service our equipment as well, a lot of that is changing now with the new FDA issues coming up and documentation and all that stuff, so we do see an upsurge in the after sales. We do believe that after sales is going to become a big area for us and we are the only company that had our own dedicated people for service, most of our competitors usually send people from their factories. We are trying to grow our after sales market and just to give you an idea, Pfaudler Internationally or in Europe, their spares account for 50% of their business. For us, it is only about 12%, we are trying to increase that to at least 15% if not more if possible, but that is something that we want to do.

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

Sushant: Sir, I had one question on Mavag, you said we will achieve 10% of the growth in turnover, but we would see more growth on operating lever?

Jugal Sahu: Mavag anything after 10 million CHF, we make 50% margin as such because our breakeven is around 10 million CHF, so that will have 50% margin flowing through.

Sushant: We are not expecting any further margin improvement?

- Jugal Sahu:** No, that is enough, actually if you look at it whatever sales we make, our PBT will be 50% more on the additional incremental sales.
- Sushant:** What about GMM Pfaudler like it says we can improve the operating margin in this year, right, so what kind of operating margin you are expecting?
- Jugal Sahu:** Our EBITDA stands at around 17% this quarter as compared to 15% last full year. We continue to target to achieve EBITDA around 15% - 17% on a CAGR basis
- Sushant:** This quarter we did 17%, right?
- Jugal Sahu:** This quarter it is 17%. Yes.
- Sushant:** With improvement in this export order and all this stuff and even capacity utilization is more than 90%, we cannot expect more than that 15% to 17%?
- Jugal Sahu:** We cannot comment on it at this stage, but we will maintain our 15% to 17% EBITDA for this year.
- Tarak Patel:** Just to add, we always try to improve profitability, but the guidance that we have given for this year is about 15% to 17%, hopefully, we can beat the estimate. We are always trying to reduce our cost, improve our processes, and we do believe there is an opportunity to do that. The incremental volume, the price increase, and the mix of breakup between domestic and export business will help us to achieve probably higher numbers.
- Sushant:** What kind of impact we are seeing of the steel price increasing on our heavy engineering side of segment?
- Tarak Patel:** Steel prices are usually something that we can pass on to our customers, so if there is an increase in steel prices it just goes directly to the customers, obviously there might be a lag of maybe a quarter or such, but since we buy most of our plates in advance, we will not see a big problem in that.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** Sir, I just could not get that you said about Mavag's margins, can you just explain little bit more of how much margins are we to gain in Mavag?
- Jugal Sahu:** Mavag's EBITDA margins are about 20%, as we have been explaining that anything more than 10 million revenue, it gives us 50% margin on the additional sales that we bring in. Accordingly our current EBITDA is about 20%.

- Tarak Patel:** We did revenue last year was total Mavag's revenue was 15 million and if we continue to grow at 10%, you can do the calculation.
- Anupam Goswami:** I am pleased that last year there was some Mavag cost optimization going on as in employee cost level, so can we expect some better margins from this quarter this year?
- Jugal Sahu:** In FY '17, we had an additional provision on account of retirement benefit for employees, that was about 2 million CHF, but in FY '18 that profit is there for the company. There was no additional provisions made, so EBITDA was 20% last year.
- Tarak Patel:** We are actually now not going to optimize further because as they are growing, they are going to need to add maybe one or two people as well, so I think now we have reached a point where I do not think there is any further optimization in terms of people that is going to be done.
- Anupam Goswami:** Sir, can you give me some light on the market size of the glass line industry, like last time you said about 225 crores, so has it grown or how much can we look ahead?
- Tarak Patel:** I think if you just use the calculation of our business for the last year, we did about 215 may be gross of sales and we have let us say a market share of about 50%-55%, so may be double of that plus there could be some imports from China about another 100 crores, so may be 500-600 crores of business, I would think may be 500.
- Anupam Goswami:** Sir, can you give me about some light on how much revenue has come from different sectors like Pharma and specialty chemicals, agro and as in like the revenue mix from these industries?
- Tarak Patel:** In glass line, it is about 60% from chemicals and then about 35% from Pharmaceuticals, and the balance is basically dyes and all the other industry, but at a company level, I would say chemicals would account for I think may be 50% or so because then we have some of the heavy engineering stuff going into fertilizers, oil and gas, so that probably reduces the impact.
- Anupam Goswami:** Sir, how are you looking at the Pharma sector and in fact there was a slowdown and some environment clearance that last time they have got, so another like six to eight months can we expect some Pharma sector go traction from there?
- Tarak Patel:** Yes, so we have already seen some enquiries coming in, people have started rethinking about projects which were on hold earlier, so I would say at least in the next few quarters, I think you will start seeing some improvement as well.
- Anupam Goswami:** Any change in the FDA rules that requires them to improve or upgrade our machinery in this?
- Tarak Patel:** Yes, there could be some replacement business, many of these plants are old plants, the equipment has been there for 15 to 20 years, so I think the older companies will now look at upgrading the facilities as well that would give some replacement business to us.

- Moderator:** Thank you. The next question is from the line of Nidhi Agarwal from Angel Broking. Please go ahead.
- Nidhi Agarwal:** Sir, I wanted to understand the outlook for each segment, like we have grown glass line business by 25% this quarter, while heavy engineering is just 10% growth and proprietary product is 43% growth, so our earlier thesis was that glass line business will not grow that much, but now it is also seeing I think lot of traction, so this run rate can continue and what about the other two segments?
- Tarak Patel:** I think we actually hope that all our businesses grow at a rate of 20% or more, this is just basically this quarter we have had more shipment in one of these segments. The heavy engineering segment obviously it also growth area for us, unfortunately last year we had a big order which took us much longer to execute than we had planned, we could not book new orders, but we are back on track and glass line obviously as you rightly mentioned has surprised us. We would have thought that it will not grow faster than it has been doing, but it has been surprising us for the last few years now and as I mentioned earlier in the call, we have taken a call to invest more and increase the capacity in glass line because we believe going forward it will continue to grow, but I think all our product lines are expected to grow. As a company, we do not want to focus only on one product. We want to have multiple product offerings that in the event that one of our business segment does slow down, something else can be compensated for that.
- Nidhi Agarwal:** This run rate for proprietary products can also continue or you see ...?
- Tarak Patel:** For proprietary products, I do not think you should look at, I mean the base is so small that there is lot of growth potential, there is a very big market out there, so you will see that continuing to grow. Obviously, there could be ups and downs in quarters, but overall like on a yearly, we do expect maybe 20% to 25% growth.
- Nidhi Agarwal:** Given that margins are now almost at sort of a peak, so we can grow from here also as the scale of economy also comes?
- Tarak Patel:** Yes, I think that is the plan, any increases in volume, additional sales will flow through to improve profitability. We are continuously working to reduce our cost. The economies of scale will come in as you rightly said, we can buy more material and much better prices when it comes to raw material especially steel plates. There is cost reduction planned already with the natural gas furnaces coming in, so we do aim to improve profitability as well, I think that is one of the goals for the year that we continue to grow, but at the same time we look at growing our bottom line as well.
- Nidhi Agarwal:** Lastly, have you seen an increase in competition since lot of orders are coming, any increase in competitive scenario?

- Tarak Patel:** No, actually I think that our competitors they are a bit smaller than us and I think they have booked and I think what is helping us now is our ability to supply this equipment to our customers in a much shorter period of time, and some of the initiatives that we put into place last year especially the throughput improvement, that is helping us now because we know that some of the other customers through some of our clients that our competitors are fully booked and they do not have capacity available for few months and we can actually come in and then price ourselves at a level where we get actually better pricing from the customer.
- Moderator:** Thank you. The next question is from the line of Deepak Kumar, an Individual Investor. Please go ahead.
- Deepak Kumar:** Sir, you have a vision 2020 which is say that the glass line and the non-glass line business will be 50:50, so you still stick to that vision or you feel that with the growth which we are seeing in the glass line business, so it would be difficult to achieve this 50:50 mix?
- Tarak Patel:** That is a good question, every year I expect the glass lining to reduce and the other businesses to grow faster and the ratio to come down, but actually glass lining has been surprising us, I mean it is not a bad surprise because glass lining is our bread and butter, it is what we do best, but we definitely want to diversify as well, so we believe that in case glass lining does slowdown, it is important to have other products that can compensate for that slowdown, but as of now I do not see glass lining slowing down for at least another two to three years, but at the same time we expect growth in proprietary as well as heavy engineering, but the ratios might not change as drastically as we thought it would, but definitely it would change a little bit.
- Deepak Kumar:** Sir, one thing on your exports, so you said that export you see 10% to 15% of the revenue this year and you have placed the sales person in Europe, but what I read from your previous transcripts that you are basically not catering to the Europe and the US region and you are mainly focusing on Africa, Middle East, like the geographies, so is there any change with the agreement with the Pfaudler that you can now export through the particular economies also?
- Tarak Patel:** I think that was misunderstood, we said that as GMM Pfaudler, the closest market to us are the Middle East market and Southeast Asian markets and they have a lot of Indian speaking and Indian people there in management of the companies that are located there, but having said that we have seen a lot of traction coming through the Pfaudler network in Europe and because of that we decided to hire our own sales person in Europe dedicated to growing our heavy engineering business, and this person is finally on-board and he was actually at the factory last week. He was very impressed and he believes that he can bring us a good amount of business from Europe, but we may not only confine to Europe. This gentleman has spent time around the world, so he has contacts in Asia, in the Middle East, and the business can come from any of those countries, but predominantly he will be based in Europe and he is going to target the European markets.

- Moderator:** Thank you. The next question is from the line of Anand Jain, an Individual Investor. Please go ahead.
- Anand Jain:** Sir, I met you yesterday and some of the questions that I have are follow-up, the first question is on the EBIT margin for this quarter, in heavy engineering we are at like 24%-25% and on the glass line reactors we are at around 20% margin, so these are sustainable margins for the rest of the year?
- Tarak Patel:** No, I think that will change, the order obviously, the orders that we are supplying today especially in glass line have been booked maybe five to six months before or maybe slightly lower than that, heavy engineering again is much longer, so these are for the more than six months or the pricing strategy at that point was different and now with the exports that have been booked especially in the non-glass line business as well, so I think you see margin improvement in both these areas.
- Anand Jain:** Sir, the other question that I have was that generally in the talks although we have been explicit about it we have been always talking of some kind of an inorganic growth, I also remember reading from our annual reports six-seven years back that at one point of time, we had significant equity in Nile so that maybe our intention was to get into their glass line business as well, so what kind of acquisition do you think would fit our kind of business, I mean where are we looking for, not exactly in terms of what are we looking at that, what kind of ticks us is just I wanted to know if you are going for a inorganic?
- Tarak Patel:** When we look at acquisitions, we can look at either adding a technology that we do not have, a complementary technology that we can sell along with our other products, we can look at acquiring the market share, but when you acquire market share, usually you lose a lot of it to competition, so it is actually better to acquire technology or a new product range that you do not currently have or a new industry segment or a new market which you are not in currently, so we would like to acquire, I would say, number one would be a new technology or a new product that can add to our product portfolio and something that we can probably look at exporting outside the domestic market as well, so I think those strategies if we can find something that fits into one of those strategies, that will be something very attractive to us.
- Anand Jain:** Something like that is niche and not like kind of a commoditized?
- Tarak Patel:** I think so, something that at the end of the day, we are good at engineering and fabrication, I think it is going to remain at that level. There have been quite a few small niche companies in Europe that do a lot of good work, very profitable work and we have come across a lot of these companies, if we can find somebody who fits the board and fits into our product range and portfolio, that is something that we will look at acquiring.
- Anand Jain:** Second question is that currently we can see tremendous growth happening in India. Now, to assume that if the growth moderates in two to three years from here on, can you give me a rough

idea of what is the export market in terms of opportunity, how much percentage can we take it up. Right now, we are looking at around 10% to 15% in export terms, once the Indian market slows down, can you look at like 30%-35% kind of number from exports?

Tarak Patel: Yes, 25% is something in the next three to five years, something that we should target. Obviously, a lot of that will be in the non-glass line business, because glass line itself globally India is the biggest market, so if there is a slowdown in glass line in India, I do not expect any of the additional glass line business to come from the export market, but what we can target are the heavy engineering and the proprietary product because those have much larger markets, they cater to much more industry segment that is Oil and Gas, fertilizers, specialty, so there is a whole range of new markets that will open up with that, but 25% of export business is something that we would like to do if we achieve somewhere close to 15% this year, I think the next three years 25% is something that should be targeted and should be possible as well.

Anand Jain: The last question that I have is, we have these products which the PE fund or the subsidiary which the PE fund has along with Pfaudler at the top-level in terms of like intel fee or other thing, so we do not have market for those in India right now or maybe they are not suitable for the Indian market and progression there is going to be slow as you had mentioned both in the AGM and during the con call, is there a case of bringing some of that production itself to India?

Tarak Patel: As I mentioned yesterday also that Pfaudler is open to the idea of giving us the technology, so we can manufacture it globally, but at the same time they do not want us to sell it at a very low price, they do not want us to commoditize the product because these products do have some benefits for the customer especially the sealing technology might be a little bit more expensive than the normal ones, but the benefit in terms of contamination, in life, in terms of changeability, in terms of maintenance, it is so much great that the customer can be shown that the return on the investment is much faster than he would actually think, so spending a little bit more today but saving a lot more money in the long term, I think that is the kind of conceptual setting that we have to do and I think India is changing from what I feel even in terms of quality of equipment, the premium that GMM receives today and most customers would choose to go with GMM, it is a big change from what it was 10 years ago where it was only driven by price, so customers are becoming more mature. They do appreciate quality, the Pharma companies have seen what poor quality and poor management can lead to, and I do not think people would like to take a risk just trying to save a few lakhs of Rupees here and there.

Anand Jain: Just one final question, after sales is 12% of our revenues now?

Tarak Patel: Yes.

Anand Jain: And that would keep on increasing, is that like an annual contracts that we have when we sell the product, how does that happen?

- Tarak Patel:** Mainly, we do have annual contracts with some customers, but it is not a big trend in India, a lot of companies are signing up for the annual contracts. Most companies when they have a break down will come to us and say they need to get this equipment as soon as possible and depending on what we have available in stock, we would replace that part. We are trying to improve that by storing a part in local service centers, the customers do not have to wait for it to come from the factory and trying to give them as prompt services we can.
- Moderator:** Thank you. The next question is from the line of Jatin Kalra from GS Investments. Please go ahead.
- Jatin Kalra:** Sir, just one last question we have been generating good free cash flow, so any plans to hike dividend or consider buyback?
- Tarak Patel:** No plans right now. We did increase the dividend in Q1 to 50% from I think 35%, no plans in the pipeline as of now, we would rather put the money to growth, because we do believe that we can grow this business, grow this company, we do have a nice plan in place, some nice strategies in place, I think we can use the money better than doing a buyback.
- Moderator:** Thank you. The next question is from the line of Deepak Kumar, an Individual investor. Please go ahead.
- Deepak Kumar:** Sir, one follow-up question, currently we are seeing great growth in our both the industries Agri-chemical and the specialty chemical, just in case when the cycle turns and we have a down cycle of something like that, so we will be more dependent on the replacement demand, so can we get the number what is the current installed base of the reactors currently in the industry, which will basically come for replacement?
- Tarak Patel:** Good question, we would so far have the highest number of units out in the Indian market. We have been manufacturing let us say an average of 1000 equipment a year for the last maybe 10 years or so, so that is about 10,000 plus. We have been in business for now more than 50 years, so there is definitely a lot of glass line equipment out there, but in India the trend is to usually use the equipment till it absolutely there is no way to use it anymore, they have to trash it and then just replace it, but it is basically the big Pharma guys like the Dr. Reddy's, The Divis', Hetero's, the Aurobindo's who have big factories and they are now going and upgrading blocks, so when they go back to these old blocks may be 10 to 15-year-old blocks, they will look at replacing all the reactors in one go and that could be a driver for growth, but right now I would still say 90% of our revenue for glass line is still for new capacity, it is not yet changing through replacement capacity.
- Moderator:** Thank you. Ladies and Gentlemen, with this I now hand the conference over to the management for their closing comments, over to you, Sir.

Tarak Patel: Thank you very much, Ladies and Gentlemen, for your questions and for coming on to the conference call. As I mentioned that we have had a strong quarter and that we expect to continue this performance going forward, and hopefully come close to achieving the targets that we set for ourselves, both to grow revenue as well as profitability, and hopefully, by the end of this year we will have plans in place for inorganic growth as well and if we can put our money to good use, I think that is something that we would like to do. Thank you very much.

Moderator: Thank you very much, Sir, Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.