“HLE Glascoat Limited
Q4 FY2022 Earnings Conference Call”

May 25, 2022

ANALYST: **MS. RASIKA SAWANT – ORIENT CAPITAL**

MANAGEMENT: **MR. HIMANSHU PATEL – MANAGING DIRECTOR - HLE GLASCOAT LIMITED**
MR. AALAP PATEL - EXECUTIVE DIRECTOR - HLE GLASCOAT LIMITED
MR. HARSH PATEL - DIRECTOR – HLE GLASCOAT LIMITED
MR. NAVEEN KANDPAL – CHIEF FINANCIAL OFFICER - HLE GLASCOAT LIMITED
MR. NILESH GANJWALA - SENIOR ADVISOR - HLE GLASSCOAT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to HLE Glascoat Limited Q4 and FY2022 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 '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Rasika Sawant from Orient Capital. Thank you and over to you Madam!

Rasika Sawant: Good evening, everyone. I am Rasika Sawant from Orient Capital. We are an investor relation advisor to the company. Today on this call we have Mr. Himanshu Patel, Managing Director of HLE Glascoat Limited along with the senior management team. Before we begin this call, I would like to give a short disclaimer. This call may contain some of the forward-looking statements, which are completely based upon our beliefs, opinions, and expectations. As of today, these statements are not a guarantee of future performance and involve unforeseen risks and uncertainties. With this, I hand over the call to Mr. Himanshu Patel for opening remarks. Over to you Sir!

Himanshu Patel: Good evening and a warm welcome to all the participants. Friends thank you for joining us today to discuss HLE Glascoat's Q4 and FY2022 financial performance. I hope you and your families are healthy and safe, I pray for their well-being. Today on the call I am joined by Mr. Aalap Patel, Executive Director; Mr. Harsh Patel, Director; Mr. Naveen Kandpal, CFO and Mr. Nilesh Ganjwala, Senior Advisor to the company and our investor relations partner Orient Capital. I hope everyone has had an opportunity to go through our financial results and the investor presentation which have been uploaded on the stock exchange as well as on the company's website. The Indian economy witnessed positive momentum in the fourth quarter of FY2022 and this is also reflected in our strong order book for both filtration and drying equipment and glass lined equipment business. This reflects the continued robust demand from the user industries. During the quarter and year ended March 2022 all of our plants were working at high capacity utilization. The robust order book combined with increased production capacities is expected to result in stronger dispatches and sales in the coming quarters. This is a testimony of our team's effort of delivering performance despite the tough external environment. In continuation to our strategy we are introducing improved products and technologies to all players in the end user industry particularly in the MSME sector has tremendous potential and the management team is focused on adding newer customers from this segment. We also planned to expand the geographies with a renewed thrust on exports for both our key product segments in the coming quarters. This will make our business model more resilient operationally as we diversify our customer base. The company is developing unmatched execution capabilities and the same needs to be strengthened further hence we are growing our professional team to execute the company's vision and growth strategy. We have strengthened our executive team by making senior level hires in operations and support functions. We are pleased to announce the completion of the capex programmes at our Maroli and Silvassa plants. We spent approximately Rs.15 Crores at our Maroli plant by adding new manufacturing shakes which will augment floor area by about 40% for manufacturing of filtration and drying equipment.

Further, we spent another approximately Rs.50 Crores at the Greenfield Silvassa plant which will further increase manufacturing capacities for the filtration and drying equipment. With these developments the company is well poised to reap the benefits of higher production in the coming quarters given that the capex has already been incurred. Lastly, as you are informed, the Thaletec acquisition was successfully completed after receiving all the necessary regulatory approvals. Now we are working on various integration initiatives and identifying synergistic opportunities. The company will look to cross sale, existing and new product ranges to both HLE as well as Thaletec's domestic and global customers. With this acquisition being completed, the company is in a position to augment its consolidated revenues and profits whilst also reaping the benefits of multiple synergies and complementary capabilities of the two companies. Our commitment to client retention, satisfaction and other sales service remains unchanged. We continue to implement our long-term product capacity and market expansion strategy. I would now hand over the call to Mr. Naveen Kandpal, CFO who will brief you on the financial highlights for the period. Thank you and over to Naveen!

Naveen Kandpal: Thank you Himanshu Bhai and good evening to all the participants. I hope that all of you have had the opportunity to go through our results and investor presentation. With respect to the FY2022 our overall consolidated revenues were around Rs.652 Crores which means a growth of 35%. EBITDA stood at somewhere around Rs.118 Crores again a very good growth of 23% and PAT stood at Rs.58 Crores, a growth of 9% over the last financial year 2021. 49% of the revenues came through filtration, drying and other equipment segment while the remaining revenues came from the glass lined equipment segment. Both these divisions have showed robust revenue growth, 30% growth we witnessed in our filtration, drying and other equipment and around 65% growth came through glass lined equipment. EBIT growth for filtration, drying and other equipment is 5% whereas EBIT growth for glass lined equipment is 69% over the last financial year. With respect to the last quarter of the FY2022 our revenues were Rs.249 Crores, a growth of 69%, EBITDA stood at Rs.40 Crores growth of 37% and PAT was at Rs.23 Crores, a growth of 30% over the same period last year. While revenues from filtration, drying and other equipments have grown by 47% to Rs.104 Crores, revenues from glass lined equipment increased to Rs.143 Crores with a growth of 114%. EBIT for filtration, drying and other equipment stood at Rs.15 Crores registering a growth of 11% and EBIT for glass lined equipment division grew by 47% to Rs.22 Crores. So these were the brief highlights, now, I would request the moderator to open the floor for questions and answers. Thank you.

Moderator: Thank you very much. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you Sir for the opportunity and congratulations on a good set of numbers. Sir, I have a few questions on the demand environment and also on the company so in this particular environment like many other companies we have seen a little deterioration in our working capital I think that has been explained in the presentation also but some thoughts on how do we see the working capital moving from now and when do we expect it to normalize going forward given that prices at least in some of the commodities start correcting?

Nilesh Ganjwala: Thank you for your question. The working capital environment has changed as I think we had mentioned probably in our earlier conversation on the call as well. This is a temporary situation that we have seen ever since the start of the COVID disruption. We are seeing some hesitation on the part of the customers to pay as much in advance as we used to earlier. This is as we believe it is a temporary situation which will ease out over a period of time. The current disruption on account of the change in metal demand and supply situation which is our main raw material has led to us taking a slightly more conservative stance and building up a higher level of inventory and probably a little higher working capital on account of the higher amount of raw material that we hold as well as the value itself of the raw material which has gone up, so yes we do see this happening currently, but as I said this is expected to be temporary and should normalize may be over the next few months.

Kaushal Shah: Prices as we speak has started correcting in terms of several commodities including steel so would you expect that towards the second half of the year we would be in a position to have may be similar working capital numbers in terms of days that we had earlier?

Nilesh Ganjwala: I think your point is very valid, yes prices have started correcting, but we do not know at what stage this price correction will stop, so yes if the prices come back to older levels then I believe our working capital cycle will also be at similar levels as we were earlier.

Kaushal Shah: Right. Nilesh Bhai a few questions on Thaletec. We have seen fairly good numbers from the German company in the fourth quarter, for the full year how do you expect that to move the order book as you have mentioned in the presentation continues to be very healthy so how do we see the topline and also the bottomline in terms of EBITDA margins moving up, we have already seen some improvement in the fourth quarter but given that the order book is already there, there is also a possibility of some cost savings, etc., so where would you expect margins over the next let us say one year or two years in Thaletec to move like I said not just in the current year but over the next two years or so?

Nilesh Ganjwala: If you look at Thaletec I think a classical example of how we have been able to build efficiencies on top of good established infrastructure. In December 2020 Thaletec's operating or EBITDA margins were in the single digits. We saw that improve towards the end of the calendar year 2021 and of course the last quarter has shown further improvement. We believe that these are fairly realistic and sustainable operating margins subject of course to external environment, but we believe that these are sustainable. In terms of the overall outlook on the business I would like to request Aalap Bhai to may be elaborate on that.

Aalap Patel: Hello good evening. On the overall outlook of the German entity Thaletec GmbH, I think generally, the market still is positive in Europe, order inquiries have not slowed down. The order book is also as you might observe only grown compared to the December figure, so the overall market sentiment is still positive. Yes, there have been some disruptions in the supply of raw materials; some disruptions in terms of energy, etc., even during the peak of the problem which is when the Russia Ukraine war started, order finalizations have not stopped. Fortunately, the disruption in the supply of raw materials was fairly short lived and even the availability of raw materials today is not a problem.

Kaushal Shah: Given that European entity what kind of number would you be looking at in terms of topline growth we have seen in the past they have grown in double digits so this kind of topline growth in your opinion can be maintained or it can even be increased?

Nilesh Ganjwala: I think we believe we should have double digit growth going forward and of course the effort is to not just look at pure growth in terms of pure numbers but also to build may be over the next year or two on the synergies between the two entities and the two geographies and we believe that it is not just about growth in topline but we are also working on building on other elements which will make this a very great synergistic play.

Kaushal Shah: Will it be possible for you to share the volume numbers for HLE as well as Thaletec for the year?

Nilesh Ganjwala: When you say volume numbers, I am sorry I did not understand the question.

Kaushal Shah: In terms of units for both glass lined as well as for filtration would it be possible for us to share the volume numbers for both the entities?

Nilesh Ganjwala: So I think the glass lined numbers for the year would be in excess of 2000 equipments for the year that is from the Indian glass timed equipment business. The filtration and drying numbers would be close to about 600 equipments for the year.

Kaushal Shah: In Thaletec?

Nilesh Ganjwala: Thaletec would be closer to about 400 for the last completed financial year which is the calendar year 2021.

Kaushal Shah: Sure also Himanshu Bhai in his opening remarks mentioned about hiring people at senior level so if you can may be throw some more light are we expecting a possibility of higher employee expenses over the next two to three years?

Himanshu Patel: See the hiring at the highest level is obvious because as we are growing, we need very professional people with us, so hiring will continue for the coming years and I hope that the people will help us add members or add groups to the company.

Kaushal Shah: Right Sir one final question before I join back in the queue. Your outlook on the demand scenario since we are catering to spec chemicals, agro chem, etc., how do you see the demand unfolding, there has been an obvious price pressure for virtually all industries so your thoughts on the demand, how do you see the next let us say two quarters, four quarters and may be any discussions that you have had with your clients as to how they see their demand and the ordering activity so some thoughts on that Sir?

Nilesh Ganjwala: So I think that is the area where we see the same level of both momentum and confidence. The inquiry pipeline is as strong as ever especially over the last three years and continues to be so. Over the last quarter also actual order bookings have shown no signs of slackening whatsoever so that is a good situation. We are seeing a stray case here and there or some delay in order booking simply because somebody in that company does not want to look out of place with the amount of volatility in the market. I think the pipeline and the order book continue to be as robust as ever.

Kaushal Shah: Thank you.

Moderator: The next question is from the line of Mithun Mehta from Lucky Investment. Please go ahead.

Mithun Mehta: Good evening to the entire board. Good evening Nilesh Bhai, Aalap Bhai and everybody. My question is particularly in the glass lined equipment business and in the standalone business, I am not talking about Thaletec because Thaletec we have done wonderfully well despite the difficult external conditions, but in the domestic business if we look at the Q3 standalone number and Q4 standalone number. Between Q3 and Q4 what has changed that has led to falling in EBIT margins for the glass lined equipment business. Well, I do understand that the material prices were a big cause of concern but Sir if you could just highlight as to what are some of the changes that you see on the ground which led to dropping in margins and do you feel that we can come back to our original margins as we move into Q1 and Q2. Also if you can highlight the similar concern on the filtration and drying business. Well, I do understand that Q3 was an absolute bottom sort of a margin quarter for us in the segmental results and in Q4 we have improved by about 100 basis points but we are still sort of much below what we used to earlier drive our F&D business and that business where we continue to remain market leaders and we have significantly improved our capabilities in F&D business, so there also if you can indicatively give us some guidance as to where we are headed as far as margins are concerned. So these are my two questions if you can highlight?

Nilesh Ganjwala: So, I will take your question on the F&D part first. On the F&D part as you, yourself noted we had a drop in margins in Q3 which was due to the impact of the higher raw material prices flowing into the numbers at that point in time. Actually, the same impact has now flowed into the numbers of the glass lined equipment business so you are basically seeing a drop in margins predominantly due to higher raw material prices. As we suggested earlier, we believe that this is transitory as the matter goes back to normal, we should go back to our regular margins going forward. Again, an interesting point here is that even though we have been able to pass on the increase in the cost to the customers, it is obviously not possible to pass on the margin on the increase of the cost and hence from a purely mathematical perspective the percentage in terms of margins are a little lower compared to the previous quarter. There is also a marginal impact of gas prices going up because as we had indicated earlier some of our furnaces, not all luckily but some of our furnaces are gas fire and the cost of operations of those gas fire furnaces have marginally moved up so that has also been a marginal impact on the overall cost of production.

Mithun Mehta: Well as far as the power and fuel bill goes, I do not see any material change in the variation in the fuel prices that have remained more or less stagnant at Rs.5.5 to 6 Crores. Of course I do believe that the material cost has been a big worry so as things stand today, have we been able to pass on the material cost to our end customer or are the new inquiries or new contracts coming at a fairly higher price so that we come back to our original margins as early as possible.

Nilesh Ganjwala: The answer to both of your questions is yes. Even in the past, we have been able to pass on the cost of the material increase what we have not been able to pass on as I said was the margin on top of the material cost, so let us say my material cost is let us say at around between 45% or 50% if my material cost goes up by 100 I cannot increase my prices by 200 our price increase will pretty much be equivalent to the cost of an increase of the material, so hence as percentage margins will take a hit.

Mithun Mehta: So the margins that we saw in glass lined business in standalone India in Q4, do we believe that these margins were like absolute bottom and the margins will start looking up as we go into Q1 and Q2 given the fact that the steel prices have come off by 10% to 15%?

Nilesh Ganjwala: I really wish that what you say is right, but honestly, we hope so too as we have seen in the past a lot of times we make any predictive assessment of the future ends up being wrong but at least the trends appear to be in that direction yes.

Mithun Mehta: Nilesh Bhai, also one of the question that I wanted to ask you is that, this year because of higher steel prices and because of the strategic reason of stocking more inventory to fulfill the order requirement, our working capital has gone up and so therefore, our debt has also gone up, going into FY2023, do you believe that we should be able to retire some part of debt that we are currently holding as on March 31, 2022?

Nilesh Ganjwala: To answer your question on the debt increase, in fact the substantial amount of debt increase is linked to the investments that we made during the year, not on the working capital. Actually, Increase in working capital is very largely being financed from operating profits, so operating profits have been plowed back into working capital. In terms of the investments as you are aware we did an expansion of the capacities at the glass lined unit at Anand. We also expanded the facility at Maroli which is for the filtration and drying equipment and we also set up a Greenfield project in Silvassa which was also funded partially by debt. On top of this in December we also completed the acquisition of the 100% equity of Thaletec, which was also partially funded by debt. So actually the increase in debt is more related to the investments in capacity and the acquisition than in working capital.

Mithun Mehta: **The** bulk of our capex or a large part of the capex is now more or less completed and both Maroli and Silvassa have started producing, this year should be a year when we will see cash flow and therefore we should be able to retire debt so is that the right assumption?

Nilesh Ganjwala: I think that is a logical way to look at it because we have completed our capex programme as Himanshu Bhai stated earlier. We have also completed the acquisition obviously, the impact of these investments in the profit and loss accounts will reflect in this year and obviously this kind of capexes are not required to be repeated for obvious reasons and hence these capacity increases will slow down to better liquidity and obviously lead to debt reduction, yes.

Mithun Mehta: Do you have any particular number in your mind that you would like to retire debt from the present?

Nilesh Ganjwala: We would be happy if we can bring this debt down by half but that is only I would say a wish at this stage.

Mithun Mehta: As far as your glass lined capacity is concerned, are we more or less maxed out or we can still grow our output by another 20% to 25%?

Nilesh Ganjwala: In terms of current capacities, it may be possible to enhance production to some extent yes, but the campus itself at Anand gives us scope for some more expansion in a coming couple of years yes. So we have scope to expand as well as we have some scope for enhancing production given the current capacity.

Mithun Mehta: So how much by let us say 15% to 20% you can enhance your production from the current capacity?

Nilesh Ganjwala: Using the current capacity infrastructure, I would say enhancement of about 10% to 15% may be possible. We are currently operating at close to 80%.

Mithun Mehta: So does that mean that you will have to finalize an expansion on the glass lined very soon?

Nilesh Ganjwala: We will again have to look at how the disruptions in the market play out, whether it will happen in six months or it will happen in two years honestly very, very difficult to say.

Mithun Mehta: Great Sir. Thank you very much.

Moderator: The next question is from the line Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: Yes, Hello Sir, thank you for taking my question. So just to begin with I just had a couple of questions. In terms of the manufacturing processor, your major competitor is GMM Pfaudler and just wanted to know in terms of a manufacturing process is there something different between, so I understand GMM Pfaudler is a trademark product and glass filled is a trademark product right, so in terms of manufacturing process for GLE is there a significant difference between the manufacturing process because where I am coming from is my question comes in terms of that you both hold a lion share in the domestic market, so how difficult is it for the competition to replicate this model, just wanted to understand and in terms of the manufacturing process, is there a marked difference between process for Pfaudler and your company?

Aalap Patel: So while I cannot make a lot of comments on my competitors' manufacturing process, I would say generally speaking manufacturing process for a glass lined reactor is pretty standard where the difference in the quality is created from is the nuances of the process, so glass lining being a highly technical process I think process control, understanding of each and every operation that is done to finally manufacture the product and then establishing a good enough control on every step of that process determines the quality of the end product and I think what we believe is that our expertise again which has been demonstrated quite clearly even in our filter dryer business, our expertise is to establish process control in a manufacturing environment and we also believe that there has to be continuous improvement in how you manufacture your product so the process that I am following today need not be the process that I follow tomorrow and to answer your question I think our edge is in finding that last bit of continuous improvement and to keep finding that year-after-year and that is what sets us apart rather than the process that any of our competitors may follow.

Harsh Patel: I think I would like to add a little bit to the question that he asked, so what I would add is that glass lining is part science, part art, also in addition what happens is this is a more of a performance product, this is not a product which is sold on specification so you cannot say that this dimension is from **(inaudible) 33:25** you cannot say that this thickness or this colour so what happens is the quality of the product is proven only in the field and the fact that we have so many **installations** for many years also kind of determines who stays in the market who does not, so the entry for a new player is difficult because - 1) he has to first get the track record right which usually is very difficult and 2) the product performance is known only after a few years in service or few months in service at least if not yes so in that sense the entry barrier is quite high because at least good customers do not really take risks because that could affect them the entire production.

Jason Soans: Okay sure Sir. Thank you for that. My next question is what I want to understand so you have acquired Thaletec and even Pfaudler that side also has acquired the global business of GMM Pfaudler international so my question comes from this aspect that when you look at pharma manufacturing and chemicals manufacturing there is a lot of focus and shift from the west to the east so manufacturing is coming to India and to the east for various reasons such as cost, majorly being cost and other things as well China Plus One, etc., so manufacturing is actually shifting out of from this high cost location such as the US and Europe so I just wanted to understand in terms of doing global acquisition, how does that play out, because it does not make more sense to focus on the Indian centric business and have a more Indian centric play rather than focus and acquire businesses globally?

Harsh Patel: I will tell you my understanding of the situation is slightly different. See what has happened during COVID is that a lot of things that were global being sourced from China, India, Indonesia because of the disruption during COVID lot of countries realized that certain critical chemicals and glass products have to be made closer to home so while you are right there is a lot of manufacturing is shifting from west to India but now after COVID what has happened is a lot of countries for example, Germany, a lot of chemicals which they never thought they will make ever in their life so they are putting up their plants so the China Plus One strategy has intensified but now also China Plus One means China plus your home country. It does not necessarily mean

India or any so called low cost country so while most low-tech products are coming to India but some of the high-tech products which had shifted to China are actually shifting back to the home country. So in this scenario, it makes real sense to be present locally because number one for example, it is very hard to sell our Indian product to a German chemical company because of various reasons including servicing, reach, etc. it is much easier even it is more expensive to sell a German product to a German company or a European product to a European company so the China Plus One strategy is playing out, China Plus One means India as well as the home country. Other example is chip manufacturing. For example, who would have imagined that semiconductors would now be made in India and Europe or the US so that is what is also happening in the chemical sector that kind of trend.

Jason Soans: Sure Sir and definitely you can leverage the Indian entity as a more cost effective base and export it abroad as well that also will help you aid realizations as well, isn't it?

Harsh Patel: Yes of course that is always an option. That is something we will always look at so that is never out of the table.

Jason Soans: Sure Sir. Regarding this Russia Ukraine crisis, just wanted to know any impact on the European demand in terms of GLE or F&D, have you seen any impact on the ground level in terms of the overall demand environment?

Aalap Patel: I think we have not seen any substantial impact on the demand. Both the demand and the order book continue to be strong and I think even at the peak of this problem, we were still finalizing orders with our customers and in many cases some customers were generous enough to also consider an open delivery date depending on the availability of raw materials so I think demand continues to be strong, support from the customers continues to be strong and I think there is a general understanding of the realities of the market and like I said there is great support from the customers.

Jason Soans: What I was saying is for Mavag which is a subsidiary they do talk about focusing on the high-end spectrum of F&D equipment especially for overseas clients for Europe and the US, so I just wanted to know you are a domestic market leader in F&D so in that sense what is your strategy towards the export market towards the high end F&D equipment?

Nilesh Ganjwala: As far as F&D equipment is concerned, I think it is relatively clear that HLE has always been the leader of sorts both in terms of a number of equipment as well as the innovation in design, so we are active in the export markets, but currently the domestic market demand is so high we are unable to export more than what we currently are doing. Having said that we currently have installations, and we also have ongoing orders from most of the developed markets of the world so we are currently selling in the US, Western Europe and so on, so we do not believe that quality or technology will be a barrier to our growth in the export markets.

Aalap Patel: Okay in fact, Nilesh Bhai I would just like to add to that to say that the original inventors or pioneers of our flagship product which is the Nutsche filter are currently acting as our distributors in the European and American markets.

Moderator: Thank you. The next question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Thanks for taking my question. Firstly, on the Thaletec acquisition itself, so wanted to understand what has driven the 7% point increase in the EBITDA margins over say 2018 to 2021 your thoughts on that?

Nilesh Ganjwala: So there have been considerable changes in multiple aspects of the way the business is run, there have been changes in the operations layout and the operating framework of the company. There have also been changes in the cost structure that they have implemented by way of some element of automation and so on and hence, we are seeing that improvement. There is also consistent continual improvement in our innovation that this company has shown over the last two to three years so they have come up with multiple innovations which are enabling them to not only get a better market demand but also get a premium pricing so even the pricing of their products is far superior to what it used to be about three years back due to the innovations that they have brought about in the product so that is the reason why Thaletec has shown a considerable improvement in the operating margins.

Jaiveer Shekhawat: So just to understand it is largely coming via the pricing front anyway anything on the cost front that might have been done by the predecessors that might have held in too many margins because that is a substantial portion of margins?

Nilesh Ganjwala: Not really as I said I think the substantial improvement is actually being driven by innovation, not so much by just operating efficiency and we are seeing some improvement in operating leverage due to again growth in topline but that is not on account of any other let us say operational differentiation.

Jaiveer Shekhawat: Sure you mentioned that the aftermarket revenue constituted roughly 40% currently of the overall revenue any attempt on where they were probably in 2018?

Nilesh Ganjwala: So they have consistently been in excess of 35% so again that constitution or the breakup of the sales or revenue mix has not really changed dramatically no.

Jaiveer Shekhawat: Your thoughts on what the integration as well as value sourcing could do in terms of improvement in the EBITDA from here on I think one of the participants has asked on this front but wanted more clarity on that?

Aalap Patel: On the integration front, I think obviously there are several synergies that will come into play and as you very rightly pointed out value sourcing is one of them. So I would say this with a qualifying statement, I think Thaletec's inherent strength in the market or rather one of the important value proposition has been a made in Germany product and I think that has been able to propel them to the position of a market leader and they have been able to retain that position with continuous innovation in a made in Germany product. So for us the idea is not to manufacture the entire product in a low-cost market like India but the idea is to source strategic raw materials or some components or some assemblies from a cost efficient market such as India and we have ample capacities here at home to make that possible. So yes value sourcing will happen but not in the form of an entire product made in India.

Jaiveer Shekhawat: Lastly if I may add another question here given that Thaletec revenues are almost about one-sixth of the overall revenues of the Pfaudler international, wanted to understand from you your strategies in terms of increasing the market share going forward and will the growth for Thaletec have to say sacrifice revenue for Pfaudler or is the market big enough in order to accommodate both the players at the same time?

Aalap Patel: I think right now, Thaletec is very much focused on Germany and the German-speaking parts of Europe, so a large amount of revenue comes from these two markets. The operations of Thaletec are not entirely global in nature. There is also some revenue that comes from the United States and some portion of the sale comes from other parts of Europe and some parts of East Asia but predominantly the sales are generated from Germany and the German-speaking parts of Europe, so in that sense this still leaves a huge opportunity for Thaletec to capture these markets and grow.

Jaiveer Shekhawat: Sure thanks a lot for answering my question.

Moderator: Thank you. The next question is from the line of Gokul Maheshwari from Awriga Capital. Please go ahead.

Gokul Maheshwari: Thank you for the opportunity. You mentioned about sort of the broader outlook on the European business in terms of double digit growth rate. On the domestic business in terms of where we are in terms of the cycle and the demand environment, would you comment on the broader growth rate for the next three to four years, I am not talking from a quarterly perspective but more from a broader direction of how you see business growth for the next three to four years?

Nilesh Ganjwala: I think we have over the last five years or so demonstrated CAGR in excess of about 23% to 24%. We believe that kind of growth in excess of 20% for the next three years looks feasible at this point in time.

Gokul Maheshwari: Okay that is great and secondly in terms of once you are achieving such kind of growth rates, does economies of scale help you improve your profitability notwithstanding the challenges of short-term with respect to material prices, but again once these are a bit normalized, do you think that margins can or your operating profits can grow faster than your topline?

Nilesh Ganjwala: I think operating leverage actually works when we increase production or increase production capacity at an existing campus so whenever we have done capacity expansions at our existing plants in Anand and Maroli, we have seen operating leverage kicking and I think that is reflected in the numbers already. However, whenever we set up a new Greenfield campus as becomes necessary at some point in time and as we have done now at Silvassa, the increased production capacity at Silvassa while it will add to the topline and the bottomline may not actually see operating leverage until we go in for some additional capacity expansion may be sometime in the future, so I would say the operating leverage coming from a pure increase in topline yes that is something that we have already seen but at the operating level in terms of manufacturing cost and a number of people and labor and so on, that is actually also dependent on capacities and utilization at existing plants and not necessarily when we set up our Greenfield project as we have recently done that at Silvassa.

Gokul Maheshwari: Okay and just on your ability to leverage your positioning in Germany now with this acquisition would it be fair to say that we will be able to leverage both India and Germany in such a manner that you can significantly improve the profitability of the German acquisition by taking out manufacturing more in India but designing more in Germany whereby increasing the profitability in the German operation?

Nilesh Ganjwala: So I think value sourcing as Aalap Bhai just mentioned is definitely one of the elements of the strategy going forward. The other elements would include improvement of knowledge and sharing of knowledge because both the Indian entity as well as the German entity are focused on development and innovation and there are lot to learn for both the teams from each other and that is a process that we have already kick started. We believe that that is really the driver of substantial synergies and margin improvements going forward, so what we really want to achieve is to achieve a better product both in India and from Germany as well as have higher capacity utilization by way of improved production methodologies so these are both elements that are part of our integration strategy.

Gokul Maheshwari: Great this is really helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Milind Muchhala from Julius Baer. Please go ahead.

Milind Muchhala: Thank you for the opportunity and good evening to everyone. Just had a few questions so the first question was on the GLE business in the standalone operations, so can we get some perspective in terms of what was the volume growth over there because if I just look at the revenue growth which was around 12% and I would typically presume that that is the kind of price increases that would have happened over there so any perspective over there?

Nilesh Ganjwala: Yes. You are right that the volume growth is marginal. The volume growth was in the range of 2% to 3%. This is also given the fact that we were already operating at very high levels of capacity utilization even at the end of the last financial year, and for the substantial part of this financial year we had the same capacities installed. The commissioning of the expansion at Anand only happened in Q3 of the financial year and the actual output from that expansion will probably start getting reflected in the coming quarters.

Milind Muchhala: So, it will that reflect in Q1 numbers, you are saying it was not there in Q4 and it will start getting reflected in Q1, you are saying?

Nilesh Ganjwala: Given that the production cycle itself is ranging from between three to six months, yes that is correct.

Milind Muchhala: What is the capacity expansion that you have taken in GLE around 25%?

Nilesh Ganjwala: Roughly about 20%.

Milind Muchhala: So if I were to just look at the profitability of this business, the GLE business so again on an absolute basis there has been a fall say Rs.15 Crores EBIT, we are down to Rs.11.5 Crores, so what led to that decline in profitability on an absolute level?

Nilesh Ganjwala: Yes, in terms of absolute levels in Q4, as we said the raw material cost has been slightly higher as a percentage of the total sales even at an absolute level it has been higher because some of the orders that we had said I think we probably stated in an earlier call as well, some of the orders because we had an open order when we do our quotation, we quote with a validity of over 30 days and in Q1 and Q2 of this financial year we had seen substantial volatility in metals. Some of the orders were taken although the metal prices in the interim movement had moved a bit but considering our commitment, we have not only taken those orders but also executed them so yes it has hit us marginally on the bottomline.

Milind Muchhala: So now going forward where would you put this figure in the sense where do you think the EBIT margin can kind of stabilize for both the businesses GLE as well as F&D for the standalone operations?

Nilesh Ganjwala: So in the normal situation, definition of a normal situation is where we do not have the kind of volatility that we have seen in the last four or five quarters if we do not see this kind of volatility in the raw material prices we believe we can go back to a normal EBITDA margin in excess of 17% to 18% across both businesses.

Milind Muchhala: Second question was on this Thaletec operation so basically how is the gas price scenario right now and are we kind of well positioned to pass on this entire gas price increase to customers?

Nilesh Ganjwala: In Germany, all our main furnaces for the glass lining business are electric fire and not gas fire, so the impact of gas on our business and margins is very, very minuscule. Just to elaborate, we were just using one or two small furnaces for components, so there could be a very, very marginal impact due to that but it is really not worth speaking of.

Milind Muchhala: Okay get it and this expansion of capacity for F&D so in totality what will be the percentage expansion that will materialize for us?

Nilesh Ganjwala: We are expecting a total capacity expansion of about between Maroli and Silvassa put together in excess of 50%.

Milind Muchhala: For the Silvassa facility so I got your point it may not be margin accretive but will the margins be similar to our existing margins?

Nilesh Ganjwala: Yes, our operating costs are expected to be similar since we are incorporating the same manufacturing SOPS and manufacturing procedures yes.

Milind Muchhala: One question on this F&D business, so basically if I were to just look at the differences between consolidated numbers and standalone numbers for F&D, so there again the profitability is lower vis-à-vis the standalone level so I would have presumed that if this is the export business that is there then the margins could have been slightly better so can you just kind of give a clearer perspective over here? If I were to just kind of deduct the standalone revenues of F&D from the consolidated revenues so the revenue works out to around 23.5 Crores on which the EBIT works out to 2.7 Crores so which gets converted to an EBIT margin of 11.7% so just the difference between consolidated revenue and standalone revenue?

Nilesh Ganjwala: So that revenue is actually related to the production at the Silvassa partnership firm which is also a subsidiary of the company. We have this company called HL Equipment which is a partnership firm where HLE Glascoat owns 99% ownership so that is the consolidation impact of the partnership firm.

Milind Muchhala: Why are the margins lower over there?

Nilesh Ganjwala: Margins are not actually lowered, actually because most of the margin is already incorporated in the standalone numbers by way of a line item which is called a share of profit for the firm so it reflects another income hence the margins are not lower. Actually, they are just repeated. It is only a pre-tax, post tax impact that is getting reflected. This is due to the application of the accounting standards in normal cases.

Milind Muchhala: I know this question was kind of answered but again for GLE again this 20% expansion that we are looking at and hopefully the way the overall business momentum is building up so that would kind of lead us to again reaching the optimum utilization pretty soon so then what are the thoughts over there in terms of expansion of capacities?

Aalap Patel: So, I think what we have followed so far is always a stepwise expansion in the form of debottlenecking, so if you see for the last nearly five years beginning 2018 every year, we have made an expansion. We already can identify what section of the plant is likely to be a bottleneck coming up and as and when that bottleneck comes up in a planned or in an advanced manner, we make an expansion so I think our last expansion that we made was for components, the one before that we made was for assembly and the one before that we made was for glass lining and the one before that was for fabrication. So I think we have always approached this in a phased manner and we will continue to make phased expansions as and when required.

Milind Muchhala: When you spoke about a 20% aspirational revenue growth that we are looking at so I would presume it would be for GLE as well would that be a right reading?

Nilesh Ganjwala: Yes, we are looking at a 20% growth across both segments of this.

Aalap Patel: I would also like to add is that output increase does not just come from capacity increase. There is also always a continuous improvement effort that goes on in our manufacturing plant so the growth in output is not always directly proportional to expansion of capacity so better utilization of furnaces which are our critical resource, better utilization of assembly infrastructures of assembly kits for example, also can very much result into a higher output.

Milind Muchhala: Great. Thanks a lot everyone and all the very best.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Himanshu Patel for closing comments.

Himanshu Patel: Thank you very much for actively participating in the session and I wish you all a very good evening and thank you very much.

Moderator: Thank you very much. On behalf of HLE Glascoat Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.