



sealmatic

Sealmatic India Limited

(Formerly known as Sealmatic India Pvt Ltd)
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Date: - December 04, 2023

To,
The Manager,
Listing Department,
BSE Limited,
SME Division,
P. J, Towers, Dalal Street
Mumbai- 400 001.

Subject.: Transcript of Earnings Call
Ref: - Scrip Code: - 543782 - SEALMATIC INDIA LIMITED

Dear Sir/ Madam,

Pursuant to Regulation 30 and Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find attached the transcript of the aforesaid Conference Call held on Friday, December 01, 2023 at 4:00 p.m.

Kindly take the above information on your records and oblige.

Yours faithfully,
For, Sealmatic India Limited

Neha Chheda
Company Secretary & Compliance Officer

Place: Mumbai

Encl: - As above



“Sealmatic India Limited
Half Yearly Earnings Conference Call”
December 01, 2023



Moderator:

Ladies and gentlemen, good day and welcome to the Sealmatic Half Yearly 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 star then zero on your touch-tone phone.

Please note that this conference is being recorded. Statutory notice. All content on this earnings call is for informational purposes of a general nature only and does not address any circumstances of any particular individual or entity.

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I now hand the conference over to Mr. Umar Balwa, Managing Director of Sealmatic India Limited. Thank you and over to you sir.

Umar Balwa:

Good evening and a very warm welcome ladies and gentlemen to this earnings conference call of today. Before I begin with formal address, I take this opportunity to express my heartfelt gratitude for taking the time out of your busy schedule and accepting our invite and to be a part of this call. This would be a third address to the shareholder investor community since we got listed on the BSE platform on March 1st, 2023.

I would also like to take this opportunity for the trust kept by our shareholders and the keen interest expressed by investors and analysts community in our company Sealmatic. I will not get much into details about the business and the industry which we operate in. It has been spoken about on numerous occasions.

Hence, I would like to focus in brief about the year that went by and with more details on what we did in the last 6 months period for April 2023 until September 2023. And also the outlook about the company in the near term and the mid-term. As you know, we work with Fortune 500 companies such as Reliance, IOCL, BPCL, HPCL, KEL, NTPC, NPC and many more.

We are one of the major suppliers to leading companies globally such as KSP, Sundyne, Solder, KBL, [Androids], Maxo and many other OEMs. Our products find application in refineries, oil and gas, chemical, petrochemical, chemical fertilizers, pharmaceutical power, marine pulp and paper, food and beverage, aerospace and many more industrial applications. It gives me tremendous pleasure to give you a glimpse for the year ended 21st March 2023 and followed by our half yearly results as on September 30th, 2023.

Sealmatic succeeded in increasing its turnover by around 31.4% to INR59.6 crores as compared to the previous year of 31st March 2022. This shows the demand for Sealmatic products is very strong and is being driven by developed markets in Europe, North America and India included.

As planned, we have established sales and service centers in Pune, Chennai and Kolkata in India. We have established a sales office in Europe in Dublin and are in the process of establishing a sales office in the UAE, more specifically into Abu Dhabi. The last six months have been extremely eventful in terms of expanding our footprint.

We have established sales and service agreements in Thailand with the PSS group, in the UAE with Habshan Trading Company and [Ecotech] in the USA. Hence, we can proudly call ourselves as a multi-location company covering all the continents which matter to our business. Noteworthy development for the period April 1st 2023 to September 30th 2023, which needs to be mentioned is the TRCU-12 certificate which opens doors for us in the Russian market.

Accreditation of ISO-19443 which allows us to participate in the growing nuclear business in India and elsewhere. Supply of critical seals for Pranahita Chevella Lift Irrigation Project which was a very, very prestigious project done under the aegis of the Government of Andhra Pradesh. Supply of 60 mechanical seals for extremely critical application for ISL Mathura.

Supply of 28 critical API mechanical seals for BPCL Bombay and a special division for defense business which is being spearheaded by an independent business development manager is put in place to develop critical products for the marine applications. In addition to the above and besides the many other important activities at Sealmatic, it would be a pleasure to mention that we had a successful participation at the Defense Expo in India and the Pump Symposium in Houston, USA. For the coming six months, we are slated to participate at the Dahej Industrial Expo in India and also the EGYPES Exhibition in Cairo, Egypt and ChemTECH in India which is one of the largest chemical exhibitions in Asia.

The year 2024-2025 will be equally exciting and more eventful as we see huge investment being unfold in the industry that we operate. As we have informed earlier in the year 2022-2023, we have developed a long-term strategy for the next five years under the title Sealmatic Beyond 2028. We are seeing positive results of the efforts that we have put in the past few years.

We have been successful in meeting market demand by continuous investment in our plants, new product launches, research and development and infrastructure. Our common factory expansion which is 16 kilometers north of the existing plant in Mira Road is on track and by the end of 2023, it shall be fully functional thus adding capacity to the current infrastructure. To support our research towards new development, we are investing in state-of-the-art equipment to develop products such as dry gas seal, metal bellow seal and host of other exciting products.

The development is on track and we hope to complete the same by May 2025. The year 2023 commenced on a buoyant note with a healthy order booking on hand. Our robust strategy for 2024 and 2025 has been put in place which will result in demand for engineered mechanical seal for critical applications such as FGD which is known as Flue Gas Desulphurization, Boiler Feed Pumps, API 632 mechanical seals for oil and gas, refinery petrochemical and other critical applications.

We are on track for the projections made in our DRHP for the year ending 31st March 2024 and I will now hand over the proceedings to Ratan Kandare who is our CFO to share important details about the year that went by. Over to you Ratan.

Ratan Kandare: Thank you sir. Good evening ladies and gentlemen. We have delegated to present the financial results for the first half of 2024 which showcased robust performance.

In this period we achieved a revenue of INR38.26 crores, EBITDA margin of INR10.13 crores and PAT margin of INR6.59 crores. This signifies remarkable growth with a 44.43% increase in revenue or 23.28% increase in EBITDA and a 21.32% increase in PAT compared to half one of FY23. We expect this momentum will keep going on. Thank you.

Umar Balwa: Sagar we are open to questions from the participants.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of CA Raj Mehta from Raj Mehta & Associates. Please go ahead.

Raj Mehta: Thank you. Good evening sir and thank you for the opportunity. I congratulate you for getting a huge response for your products. So there are a few questions which I would like to ask. First what are the steps taken by you in order to reduce the working capital cycle? I totally understand that you need inventory to showcase in various exhibitions and you are dealing with Fortune 500 companies so there is no risk of default in case of data.

But what are the steps which as a cinematic we are going to take to bring down our data or to bring down our working capital in future? That was the first question.

Umar Balwa: If you are finished with the question can I answer you Mr. Raj Mehta?

Raj Mehta: Yes. Then my second question is with respect to your operation and maintenance business. So say you have already mentioned in previous con calls that you are going to grow by 30% in this year and by 60% next year since the new capacity will come in place. So what is post that what will be the growth engine for the company? Because if operational and maintenance business is the key which you have always mentioned that it will start from the year 2026. So I just wanted to understand what is the revenue capability which that business can generate apart from what you have already done.

Umar Balwa: I will answer the first question which is inventory because this realization of inventory and making it more efficient. So the nature of the business is such that the inventory pile up would remain in this area what we see today as percentage compared to the sales realization. The reason being is that a huge amount of money is being invested into the O&Ms and project business. So that is going to remain until 2026. Once we start our O&M business which is more profitable as compared to any other business for us. So that ratio between inventory and sales realization will be much more better than what we see today.

So that is the answer to question one and as regards to O&M business as I partly answered in the first aspect of this answer. O&M business will as I mentioned in many occasions that it will

start from 1st April 2026 because the investment that we have made over the last year and the years that will ensue from today will make us realize more O&M business as we speak starting from 2026. And the profitability as we all know that on the O&M business is far far higher.

It's a business of you know proprietary. So once your mechanical seals go fitted as an original equipment you are there to enjoy the benefit of the annuity business which will remain the lifetime of the equipment which is 25 to 35 years depending on the type of equipment we are talking about. So that business is secured as I see today that we are investing into an O&M business which will result into a strong O&M business.

Raj Mehta: Okay, so I will just counter that. So I respect that inventory will always remain at this level but is there any possibility if we are you know the only supplier to such high fortune 500 companies that we can have certain bargaining power and can reduce the debtor's days so that we can efficiently manage the working capital. Is there any possibility for that?

Umar Balwa: To be honest there is no possibility on that aspect. So when you say we are dealing with fortune 500 companies and I think to correct the notion we are not in a monopolistic situation. So we are not the only supplier. We are competing with global companies. So there are three global players in India who have dominated the scene for the last 40 years not only in India and have dominated the scene in the last 100 years globally. So we are competing with them and as we see that we are dealing with fortune 500 companies our money is secured. So your money comes between 60 to 90 days period from the date of supply.

Raj Mehta: Okay and for second operational and maintenance business say can you just give a glimpse of how the revenue visibility comes say if you are doing a business of say INR100 in these two years. So from April 26th in petrochemicals I think in the oil and gas sector the lifecycle of the project gives you annuity for 25 to 30 years. For other sectors it is I think lower than that.

So just for a sake of you know giving a revenue visibility how does it goes in how does it goes like if you do revenue of INR100 today what is the expected revenue which we can do through O&M business?

Umar Balwa: On a not very scientific but I can give you a ballpark arrangement to this kind of business. So when you typically invest into any project which is you know sometimes below your cost of raw material but when you are doing O&M business so you are going at the first fit as a OEM to the end user say for example a company like Reliance or a BPCL or HPCL so your revenue generation gross margins are hovering in the range of 85% to 90%. So that's the kind of, margins we are talking about.

Raj Mehta: That's for OEM?

Umar Balwa: For O&M.

Raj Mehta: Okay. No worries, I will get back into queue for other questions. Thank you.

Umar Balwa: No problem. Thank you.

- Moderator:** Thank you. The next question is from the line of Krisha Kansara from Molecule Ventures. Please go ahead.
- Krishna Kansara:** Hi sir. Thank you for giving me this opportunity. I might repeat some questions because I am sorry I joined the con call a bit late but my questions are mostly regarding your business model. So sir just let me start from the scratch. So for example, if we get an order for let's say an oil and gas plant or let's say a petrochemical plant or any other plant for example. So how much percentage of that total project cost do we get as business is number one? And let us say okay so you can even answer this first question and then I can ask follow-up questions.
- Umar Balwa:** So I am not sure whether I got it right. You want to know the percentage of project business. Is that correct?
- Krishna Kansara:** No. I want to know our business as a percentage of the total cost of a project or a plant?
- Umar Balwa:** Typically, any petrochemical or a refinery can be ranging from INR5,000 crores to INR25,000 crores. So depending on the size. So when we talk same for typically when we talk about our share as a mechanical seal component into the entire gamut or scheme of that big project you would be something like 0.25% of the project cost.
- Krishna Kansara:** Okay. Okay, fine. And sir, you were mentioning with previous call that once you get a project you will need it for 30 years, cinematic is needed for need it for 30 years. So how exactly does this O&M business work is my question? And also, a follow-up question would be what is the replacement cycle of our seal?
- Umar Balwa:** So, the replacement cycle typically is between 12 to 18 months. So any seal fitted into an oil and gas refinery or any other core sector application or seal typically gets replaced between 12 months to 18 months. So that is the answer to that question and I didn't get the first question. Can you please be kind enough to repeat that?
- Krishna Kansara:** Yes. Sir, what I asked was you said once you get a project cinematic is needed for next 30 years by that particular company. So I just wanted to understand the nature of orders in those 30 years period?
- Umar Balwa:** It is every 12 or 18-months cycle.
- Krishna Kansara:** Correct. Okay. And sir, what would be that order size of replacing a seal versus when we get an order to the first time from a company?
- Umar Balwa:** So I'll just break this question into two parts so you get a better understanding of the nature of business that we operate in. So there is an OEM and project business which you mentioned that how much is the percentage of our mechanical seal vis-a-vis the project size or the project cost. So when we supply our seals on the project it is below your cost. So because you want to enter into that business and then once that seal goes into the end user you have an annuity of 30 years. So your seal will give your business for the next 30 years and which will recover your cost more than 30 times over the cost of investment that you made.

- Krishna Kansara:** Okay. Okay understood. So that was very helpful.
- Umar Balwa:** Thank you.
- Krishna Kansara:** And sir just one other question on order book. If you can give out the number of the order book that we are sitting on currently and any sense on -- rough sense on execution cycle of that order book?
- Umar Balwa:** I wouldn't be able to comment on the size of the order book at this juncture. But any typical cycle for a project business to turn around is six months period for a project which is a complex project. Say for example we are doing a project here in Iraq. It involves 100 forms. So that typically from the date of receipt of order in the final exhibition cycle of six months is involved.
- Krishna Kansara:** Okay. Okay, thank you sir. And sir my next question is regarding capex. So you mentioned capex which will add 60% of your existing capacity. So when can we expect that new capacity to come online?
- Umar Balwa:** I think any time between the December this month that we are and the 31st March year 2024. So already we are in the final stage of integrating our unit two into the current unit. So integration is at the moment happening.
- Krishna Kansara:** Okay. And so what kind of turn -- asset turn can we expect from this new capacity which will come online?
- Umar Balwa:** Sure. As a thumb rule I would say eight to nine times.
- Krishna Kansara:** Okay. And sir you raised INR12 crores in IPO for capacity addition. So have we spent INR12 crores already for this plant?
- Umar Balwa:** No. Not yet ma'am. We are still investing money and we have invested approximately INR4 crores and INR8 crores is still yet to be invested. We are not in a hurry. We want to do smart investment as the capital goods market is slightly under pressure. So we want to expect the best benefits globally.
- Krishna Kansara:** Okay. And sir this is one last question.
- Umar Balwa:** Ma'am you said you'll only ask two questions. The seventh question.
- Krishna Kansara:** Yes. If I can just ask one last question.
- Umar Balwa:** I'm just joking. Please continue.
- Krishna Kansara:** Yes. So in your previous call you had mentioned that, you are in talks with companies like Mazagon Dock and Bizark. So any updates on that defense side of the business that you could share with us? Any updates on that?

- Umar Balwa:** Yes ma'am I love this question because yesterday we got our first order from Mazagon Dock.
- Krishna Kansara:** Okay.
- Umar Balwa:** For a very critical application for a submarine.
- Krishna Kansara:** Okay. Perfect. Thank you, sir. Thank you so much.
- Umar Balwa:** You're welcome.
- Moderator:** Thank you. The next question is from the line of Abhishek Sharda from Hem Securities. Please go ahead.
- Abhishek Sharda:** Yes. Good evening, sir. Thank you for the opportunity. Sir, my first question is regarding the mechanical field industry. So can you throw some light how much big is this industry globally in India and what is the industry growth expectation?
- Umar Balwa:** The typical industry size globally is \$4.15 billion and the market in India is INR1900 crores and it is growing at a good rate. In India, we have seen an incremental growth of 12% over the last decade.
- Abhishek Sharda:** Okay, sir thank you. My next question is regarding like you have given a guidance -- margin guidance of 28% for FY'24. So is this guidance intact since in the first half we have achieved the operating margin of 24%?
- Umar Balwa:** Yes we are there in that range.
- Abhishek Sharda:** Sir, I mean, is there any seasonality in the business like second half is better than first half? Is this understanding correct?
- Umar Balwa:** Unfortunately, not. Maybe at the year-end there's a pressure of dispatches. So then you might see a spike but there is no seasonal business for us. It is a – it's a maintenance business. So it is needed throughout the year.
- Abhishek Sharda:** Okay, sir. And sir, the growth guidance that you have given is around 30% in FY'24 and in FY'25 60 percent. Is this right?
- Umar Balwa:** Yes, that's correct.
- Abhishek Sharda:** Okay. And sir, I want to know like you have said that after capacity expansion you will be like more than 60% like, it will be a 60% addition in your current capacity. So what is currently our capacity?
- Umar Balwa:** There is no scientific data available to calculate because, we are not a line item business. We are a tailor made business. So depending on the configuration of business that we get month-on-month on a ballpark, I would say our capacity utilization would be something between 75% to

80% and that's the maximum we can achieve because of the nature of business. So we are not a line item business. We are a tailor made business. And also depends to what kind of orders that we are getting in. So sometimes if your owing a business is higher you will have a better or more realization.

Abhishek Sharda: Okay. And sir, after this capacity extension like when we expand after 60% the capacity utilization would be in the same range 75% to 80%. Is this correct?

Umar Balwa: Yes that's correct.

Abhishek Sharda: Okay. And my next question is regarding like what is our domestic market share? Do we have significant domestic market share sizes?

Umar Balwa: No, not really. I would say we have just begun our journey in India but living upon the question of the size but we are a dominant player here in India. So any new project coming out of any big refinery or oil and gas or petro chemical we are there as a default company which cannot be ignored. So any tender coming out for mechanical seal, we are one of the players who would be invited to participate. So depending on our offerings techno commercial, capabilities we will get the orders in competition with the three big boys as we call them three multinational companies here in India.

Abhishek Sharda: Right. Like do we have any aim to achieve some kind of like, if you can quantify in terms of market share in next three years four years maybe?

Umar Balwa: I wouldn't like to put that figure at the moment because it would be too premature to make that prediction. So it is sensible to say some figure but I still would not like to put that figure. Yes I can say one thing that any new projects please get me correct so that there is no misunderstanding. Any new project coming out of India, I can say very strongly that, we are getting a 15% share on the new projects on the new business. Forget the existing business which cannot be replaced. So the INR1,900 crores that we have in the market is already an installed base. But what is coming new as new projects we are getting a share of 15%.

Abhishek Sharda: 15, 15 right?

Umar Balwa: 15 yes that's I mean that's enough for us to, handle logistically and enough for us to, because it requires huge resources in terms of money, in terms of men, in terms of plant and machinery.

Abhishek Sharda: Fair enough, sir. And sir, in our last phone call at the end of April 23, we said that revenue coming from India is around 40 and international is 60. So is this mix has changed or is it same in H1?

Umar Balwa: We are there in the same figure. So it is 61.21 to be precise and 38.79 is domestic.

Abhishek Sharda: And sir, we like -- we are aiming for increasing our domestic market shares because of better margins, right?

- Umar Balwa:** Correct.
- Abhishek Sharda:** So like, do you have some number for FY'24 or '25 like by the end of '24 our domestic would be something around 45 or 50 or you can like would you like to comment on this?
- Umar Balwa:** Yes I would be happy with the 45% for the FY'24.
- Abhishek Sharda:** Okay. And sir can you share operating margins separately for India and international?
- Umar Balwa:** That threadbare analysis is difficult to give is too complicated. So I wouldn't get into that area.
- Abhishek Sharda:** But there is a significant difference between like domestic margins and international margins, right?
- Umar Balwa:** See when we as if -- as I said that it's a bit complicated business to understand. So when we talk about domestic, there are two aspects for us. One is OEM business where we are literally bleeding and one is the O&M business which is not a very significant portion in the moment. So that will only start in 2026. So the margins if we try and compare at this point in time, would be a very unfair assessment.
- Abhishek Sharda:** Okay. Fine sir. Thank you for the detailed responses. I'll come back in the queue.
- Umar Balwa:** You're welcome
- Moderator:** Thank you. The next question is from the line of Rayan Rodrigues who's an individual investor. Please go ahead. Ryan sir, your line is unmuted. You can ask your question.
- Rayan Rodrigues:** Yes sir. Just wanted to ask two questions. One is regarding your product portfolio. What are the new products that you would like to add to your portfolio in the coming years? Like are you looking to add some other mechanical components like safety valves, bearings or connectors or flexes or something like that?
- Umar Balwa:** No, we wouldn't like to deviate from the core business. We would like to stick to mechanical seals and that's our domain and that's the product we know. And there are many multiple reasons. Once you are into the business of mechanical seals and you enjoy a margin which is unfound in any other industry. So typically a hose or a coupling has no interest to us because it's a commodity and we are a very specialized company over here which deals in highly critical components. So to come down to that level of doing a coupling or a hose pipe would be detrimental to our interest again the time and money that would be devoted.
- Rayan Rodrigues:** Okay. Next question is regarding your exposure in automobile industry. Do we have any exposure in automobile industry?
- Umar Balwa:** No, our seals don't go into automobile industry in a vehicle unless, we are talking about a paint shop in automobile industry. Yes there our seals are installed in Hyundai, in Tata Motors and the likes.

- Rayan Rodrigues:** Okay. Okay sir. Thank you. Thank you. That's it.
- Umar Balwa:** You're welcome.
- Moderator:** Thank you. The next question is from the line of Ankur Sanwal who's an individual investor. Please go ahead.
- Ankur Sanwal:** Good evening, sir. Thank you for the opportunity. As an OEM we are already enlisted into various refineries of India and we have already started supplying to them. Why our O&M business will start only by 2026, sir?
- Umar Balwa:** Because any project that you do today there's a gestation period of three or four years depending on the execution. So typically, if you supply a project or business today, it would only get commissioned in 2027. So that's the cycle of a project. So once the project gets commissioned, then you start enjoying the O&M business.
- Ankur Sanwal:** Perfect sir. Got it. One more thing. The new plant which we are getting into Daman. What will be the product range? Is there anything special we are going to make apart from what we're already making?
- Umar Balwa:** There has been a misnomer about the location, because it sounds too familiar. It is Kaman not Daman.
- Ankur Sanwal:** Fine. Fine.
- Umar Balwa:** So Kaman is you know 16 kilometers from north of Mira road where we are sitting. So it would be identical product that would be manufactured at the new unit.
- Ankur Sanwal:** Thank you sir. And the new 15% -- new market 15% share is very good sir. Congrats. Thank you.
- Umar Balwa:** Thank you very much sir.
- Moderator:** Thank you. The next follow-up question is from the line of Mr. CA Raj Mehta from Raj Mehta and Associates. Please go ahead.
- Raj Mehta:** Thank you. So I wanted to ask that there are three which are our competitors. So we have world class facility. We have all the certificates to supply to the concerned customers. So when you bid for a project or when you fill the tender, what is the USP in which the MNCs are not given the orders and the orders have been given to Sealmatic. So what is that key feature which MNC is not able to provide? Is it the price point? Is it something which is the company is looking for domestic? What is it?
- Umar Balwa:** First of all to participate into any project is a long drawn process of getting your company enlisted with the -- in the mother body which is EIL, Engineers India Limited based on which you will get into the AVL which is called the Approved Vendor List of ISCL, BPCL, HPCL and

the like. So once you are appearing in the data sheet, you will automatically be invited to participate in various tenders or mechanical seals for pumps. And for us to get orders against competition from three multinational companies is of course a challenge.

They are companies which are 100 years old. They are in this business in India much prior to when we came into the scene. But we have been able to get our fair share of business mainly on understanding the application because our business is application oriented. Secondly, our rate of turning around the order into supply is much quicker than them. Our response time is which I believe is our USP. Our response time with various stakeholders concerned for any project is very quick.

And we do limited focus business. We are not spreading thin. We have our ideas about this business and we stick to that and that is why we have been very successful in getting project business in competition with the three multinational companies.

Raj Mehta: So mainly you are saying that the three multinational companies are not able to deliver the product at time and you are able to deliver either on time or before time and that is why it is helping you to get orders from the various clients. That is one of the factors, not the entire factor, but one of the factors which you are looking into it?

Umar Balwa: Yes.

Raj Mehta: So if -- suppose a multinational company setup a new factory and they increase their production and then that can be a threat to us?

Umar Balwa: Not really because who can stop anybody from investing into new facilities. It is not a question of enhancing the facility and able to execute. It is an approach to business. They are multinational companies. They have a particular style of functioning and we have a particular style of functioning being relatively a younger company in them. We have an appetite for growth. I believe that their stomachs are full.

They are multinational companies. They have guidelines from their parent companies in USA or in Germany and Japan. So it is the ideology which matters. It is not a capacity. Tomorrow I will go and multiply my capacity by five times. It is not going to help me in any way to get business five times. That is not the way this industry functions.

Raj Mehta: But then is the product differentiator helping you?

Umar Balwa: I am sorry?

Raj Mehta: Is the product differentiator helping you to gain orders? So I am just wondering if there are three multinational companies competing with you today, then what is that thing which will allow us to grow at a faster pace because you are going to grab this market share from these three multinational companies?

Umar Balwa: Correct.

- Raj Mehta:** So either it can be all multinational companies are very strict with their margins. So if we reduce the price, we get the order. That is one of the key areas in other sectors also where there are multinational companies already there and the domestic companies reduce the prices and gain the market share? Or is the product differentiator that helps the company which the multinational companies may not be able to offer it because they have the best in class technology and even you also have the best in class technology, but there will be certain differentiator between you and the MNC. So I just wanted to understand where we stand when it comes to the competition?
- Umar Balwa:** When we talk about competition on the project and OEM business, the price is never a consideration because everybody is willing to give the price to the particular company on a project because they know that once we get fitted as an OEM, we are going to reap benefits for the next 30 years. So I would leave that part of the price out of the discussion. The differentiator is the approach and the service that you offer to your customers.
- More particularly, when we talk about project business, it is to do with the OEMs. They should be confident and comfortable in dealing with you when we get the project order. They should be so convinced that we'll be able to deliver in time, which is not the case with these multinational companies because they've got their own style of sponsoring. So I'm not here to criticize them, but we have an edge over our service offerings.
- Raj Mehta:** Okay, so any new orders which are coming, which you are applying, so you are getting that customer feedback based on their delivery and based on the service which you are offering, and that is the reason why we are getting larger orders compared to what MNCs can get?
- Umar Balwa:** We work with all the big OEMs, who are in the industry. So any big pump company, which is globally present and also present in India, they all work with us. So -- I wouldn't like to say that we are a preferred vendor for them, but somewhere around there, we are always given the first right of refusal. So if we don't take that order, it goes to somebody else. And of course, we don't refuse orders.
- Raj Mehta:** Okay. And sir, with respect to this, is there any possibility wherein we become a contract manufacturer for this MNCs and we might supply to them and they will be the front runner? Is there any possibility ever you have a thought of getting into that thing? Or you'll be always the B2C supplier and not a B2B player then?
- Umar Balwa:** MNC in sense, you're referring to the three multinational companies, the steel companies?
- Raj Mehta:** Yes.
- Umar Balwa:** No, no, no, no, absolutely not.
- Raj Mehta:** Okay. So there are enough capacity on ground for the demand which is coming into. So whatever demand comes, all three players, including you, all four can cater to that demand and you will be gaining that market share from the MNCs, basically?

Umar Balwa: For us, to understand the business, Mr. Raj Mehta, is that there is no territorial restriction. For me, the whole world is open for business. For me, I can go to Russia, I can supply in Iraq, I can go to the Middle East, anywhere I wish to go, unless there are sanctioned countries which we don't go. I can supply to Europe, I can supply to USA, I can supply to South America, I can supply to anywhere in Asia.

So for me, the prospect for growth is humongous. So as we see, and as I mentioned in my speech today, that we already have established a small sales office in Europe, which is based out of Dublin. And then in March 2024, we'll be having a similar setup in Abu Dhabi to cater to the entire Middle East, the GCC countries.

Raj Mehta: Okay, thank you. And with respect to your projections which you have given, so next year when the facility comes in, so are we expecting the entire capacity utilization of around 75% to 80%, which is the max which we are able to, will be done from the day one itself, like for the entire full year?

Umar Balwa: No, it cannot happen on the day one, the integration and other things will take a while. And I think to have a sense of complete maturity on that new unit would be another six, eight months down the line. So when both the units will get integrated, we'll have both the units operating at 75% to 80% of their capacity.

Raj Mehta: You won't be left out with any capacity post that? Post FY '25, will there be any capacity left for you to cater to any new demand?

Umar Balwa: To build capacity is only a question of money, right?

Raj Mehta: Okay.

Umar Balwa: So money is available with us. And if you want to expand any capacity, there's no stopping us.

Raj Mehta: Because I think in last con call, you mentioned that maybe based on your conviction, based on your experience, you're thinking that even this 60% addition after a year or two, maybe will be a lesser and we would require much more bigger facility to cater to new demands?

Umar Balwa: So not bigger, but additional facility, say by 2026, I would like to believe so, that we would go for further capacity announcement.

Raj Mehta: Okay. Got it. And the margin will remain the stable, even though the first supply, which we generally do is below cost, but the regular annuity business, which will keep coming, that will help the margin to be at a level which is currently at 20%, 28% around?

Umar Balwa: That's correct.

Raj Mehta: Okay. And this, sorry to ask the question with respect to this first supply seed, which you mentioned to one of the participants, can you just explain that part that the initial first supply, which you do to any customer, it's always below cost. But once that comes into you, once that

business comes into you, then you can do the annuity business for lifelong? So there is no possibility once that annuity business starts, they won't go to any other competitors to replace that seed?

Umar Balwa: No, it doesn't happen like that because these are critical installations and replacing anybody else's mechanical field at the end is impossible.

Raj Mehta: It's key, important for you to just enter. Once you enter, then it's 100% for you. There will be no competition for that particular project?

Umar Balwa: For that particular farm, there is no competition.

Raj Mehta: And the replacement will be always 12 to 18 months. So you'll get a recurring business every year.

Umar Balwa: Yes.

Raj Mehta: Okay. Thank you for clearing my doubts and all the best for future.

Umar Balwa: Thank you very much. You're welcome. Thank you very much.

Raj Mehta: And so I would request one suggestion that even though we are SME company, we have only compulsion to give only semi-annuity results. Is there any possibility if you can switch to quarterly numbers and quarterly investor calls, so it will help the investors also to get understand your business more fast and it will also spread a higher corporate governance into investor community because today you are SME.

A few years down the line, you won't be an SME company. You will be a much bigger company then. So just a suggestion. And is there any possibility where an investor can come and have a plant visit?

Umar Balwa: I'll answer this question. As regards to corporate governance, we may be an SME, but I can assure you my corporate governance would be in the first 3% or 4% of the countries in the corporate governance. So it is very strong over here. As regards to visitors from investors, analysts, they are very welcome to visit our plant. We would be happy to show them around. So that is never an issue.

And as regards to half yearly earnings call, I would like to remain like this for today. I don't know if it's going to change tomorrow. But for today, if you ask me this question, I would say, yes, we'll be only doing half yearly.

Raj Mehta: Okay. No problem, sir. Thank you.

Umar Balwa: Welcome.

Moderator: Thank you. The next question is from the line of Jinesh Sipani from Niveshaay. Please go ahead.

- Jinesh Sipani:** Thank you for the opportunity and congratulations for a great set of numbers. I'd like to ask a question. We mentioned that we are the only supplier along with L&T for nuclear application series? Is that understanding correct?
- Umar Balwa:** Slightly. It's correct, but also not totally correct. In a sense, when we talk about the nuclear certification, we are the only company other than L&T which has got this certification in India. So L&T doesn't make mechanical seals. L&T makes equipment for nuclear applications, the larger equipment.
- Jinesh Sipani:** When we are talking to Leak Proof Engineering in Mumbai, so even they mentioned that they also have certifications for nuclear applications to provide them mechanical seals.
- Umar Balwa:** I would -- I don't know, this is a question which I would be not...
- Jinesh Sipani:** Is that the thing which we offer is different from them or is that on the similar pages?
- Umar Balwa:** I wouldn't like to compare myself with anybody other than the three multinational companies in India and globally. So if I have to compare myself with somebody, the name that you have mentioned, I would be putting myself down the pedestal many steps.
- Jinesh Sipani:** Okay. And so next question, is there any trend shifting which we are seeing? Like I was seeing on KSB, even they are manufacturing in-house mechanical seals. So are we seeing such a trend reversal where pump companies are manufacturing seals in-house?
- Umar Balwa:** The biggest example would be Flowserve, which is the largest -- one of the largest pump companies globally and one of the largest mechanical seals company globally. They are second globally. They make their own seals. So that trend has been there, but that also works to a disadvantage in a sense that if you make both pumps and mechanical seals, then you're cutting yourself out of the business from the OEM and projects because no other OEM would like to deal with you as a seal company because you already have a pump company as a parent.
- Jinesh Sipani:** Okay. Thank you so much, sir, for clearing my question. Thank you.
- Umar Balwa:** Welcome.
- Moderator:** Thank you. The next question is from the line of Mukilarasan Deivamani, who's an individual investor. Please go ahead.
- Mukilarasan Deivamani:** Hi. Thanks for the opportunity. So some of my questions are already answered. I just have a couple of suggestions and one or two questions maybe. My suggestion is that I'm calling from Germany. I'm unable to call using the international toll-free number which is mentioned in the invitation. And most of the time it is not connecting. I think I tried last time also and this time. And now I'm trying with a different route. And I was not able to join from the beginning. It took me more than 15 minutes to join the call. So just a question. When do we get the recordings?
- Umar Balwa:** Sorry, you mean to say to get the recording of this earnings call?

Mukilarasan Deivamani: Yes.

Umar Balwa: It always gets uploaded as per the norms of the BSE. So you'll find it uploaded on the BSE site in due time.

Mukilarasan Deivamani: Okay. So the next question is that, are there any updates to your long-term strategy which is Sealmatic beyond? Are there any additions or any changes in the approach?

Umar Balwa: Sorry, my apologies that you could not connect as efficiently as you would have wanted to while you're in Germany. We will set that right for our next earnings call. And as regards to long-term strategy, nothing has changed and nothing I see changing in the next at least five years.

Mukilarasan Deivamani: Okay. So next question is about the cash flow from operations. I mean, it is currently negative. When do we think that we become positive from the cash flow perspective from an operational level?

Management: Yes, sir. Cash flow will be revenue -- positive.

Mukilarasan Deivamani: I'm sorry. I couldn't hear that.

Management: Cash flow will be positive.

Mukilarasan Deivamani: Okay, fine. So, yes, I think most of my questions are already answered. So I just want one suggestion, sir, regarding the business model. I think we are getting many questions around business model because I think as an investor, like we are not able to understand completely about how we work and what are the different areas that you concentrate when it comes to your business model? I think it is very difficult to explain this call, but would it be possible that you can provide a detailed explanation of your business model and which area do you work and your expertise in your website? Would that be possible?

Umar Balwa: I think most of the details that you're seeking out is already on our website. And as regards to business model, this has been spoken time and again on various occasions, but I'll still repeat myself that the business model is comprising of two areas for any seal companies. One is the OEMs and projects and one is the O&M business. So that's the way this business works.

So you first get listed on the various AVLs and project master data sheets. And then you start getting inquiries from the firm OEMs for the projects. We supply our seals at below cost to that particular OEM. And then the seals will go to the end user and then you start reaping the fruits of O&M business. So this is a nutshell in a very simplistic manner I've tried and explained it to you. But if I really have to explain this, this is a long story. So this would be too much to talk about.

Mukilarasan Deivamani: Sir, can you also give me a difference, like what is the difference between the OEM and project, which I couldn't understand a bit?

Umar Balwa: I'm sorry, I didn't get the question.

- Mukilarasan Deivamani:** So the difference between OEM and project?
- Umar Balwa:** No, OEM and project is one segment and end user is the next segment.
- Mukilarasan Deivamani:** Okay. Okay, sir. Thank you. Thanks for the response.
- Umar Balwa:** You're welcome.
- Moderator:** Thank you. The next question is from the line of Amit Zinabhai Beladiya from Beladiya And Associates. Please go ahead. Mr. Beladiya, your line is unmuted. You can please proceed with your question. As there is no response from the line of our current participant, we'll take the question from our next participant. The next question is from the line of Gautam Rastogi from Invest and Rise. Please go ahead.
- Gautam Rastogi:** So thank you for taking my question. So the first question that I have is, when do you think we'll get the ISO certification for the nuclear business?
- Umar Balwa:** We already have it in place.
- Gautam Rastogi:** All right, we have it. All right, great. The next one that we have is, and again, this is regarding the business model. And a lot of participants have been asking questions about this model. Perhaps it may have to do with my understanding. So you said, we bleed initially and we make money only later, okay? So my question is, then how are we profitable now, considering we ventured into India just in 2020, but we have been profitable as for the financials from day 1. So if you could just perhaps just pour any insights that would be great?
- Umar Balwa:** Yes, Mr. Rastogi. The first question of ISO 19443, which is nuclear, is already in place about five months back. So we are the only company second to L&T in India, and only a company in the segment of mechanical field, which has the distinction of ISO 19443, which is nuclear. Coming to the second question, of business model that you would like to understand, is that correct?
- Gautam Rastogi:** Yes, sir.
- Umar Balwa:** And why we are profitable?
- Gautam Rastogi:** Yes, sir, because it seems to me that we supply below cost early on, and we become profitable only later. So just wanted to understand as to, as for the books, how can we be profitable since we ventured into India only recently? So perhaps this may be just a misunderstanding issue from my side?
- Umar Balwa:** Sure. So our business and our journey in mechanical field started in 2012. So predominantly, for the first eight years or nine years, we stayed away from the Indian market, because India needs a huge amount of resources in terms of money, when we do projects and OEM business.

And secondly, it also requires a lot of accreditation, certification, approvals, and all those things which come along when you want to actually do business with the end users. So our major focus during that time from 2012 until 2020, or rather '21, was purely exporting mechanical fields globally to more than 47 countries, and which was -- and which is still continuing. It's a profitable business.

So that profit that you see is coming from this segment of business. And also, we have a certain set of OEMs, which are not project related, which we call them as non-API business, which is profitable. So for example, we have business, let's say example, KSB or Kirloskar, or [Armbrace 0:58:01] or Metso, which is non-API business, that is not a business where we are bleeding.

So if we make a decent margin, the only time that we bleed is on this large project, which are into refineries, oil and gas, petrochemicals, power plants, etcetera. So that is where we lose money. So we also have to take a very conscious decision that how much of a subsidy you want to give on this project and OEM business. Of course, if I have the money and the resources, if I have INR100 crores to my disposal, I'll take all the projects. But of course, that will affect my top line and bottom line. So we have to be very sensible and smart when we have a mixture of business between profitable and a business which is subsidized.

So we are careful. So we do only, say example, INR5 crores or INR6 crores of project business in India. Say for this year, example, would be in between INR5 crores to INR6 crores. So that's the limit that we want to bind ourselves with. And the same would be applicable for next year, when we'll say instead of INR6 crores, we'll have INR8 crores of subsidized business. But rest all is not a business which is generating any kind of subsidy, since it's a profitable business. So that is why you see a healthy balance sheet for Sealmatic.

Gautam Rastogi:

All right, sir. Thank you for the detailed response. If I can squeeze in one more question. I think last participant, you mentioned that one of our core value propositions vis-a-vis competition is that our response times are much faster. So why do you think our competition, which are the three big boys as we call them, why their response time is not as great as ours? Perhaps it may be an unfair question, but I know you have a lot of experience in the industry. I just wanted your insights here as well.

Umar Balwa:

See, when we compare ourselves with a multinational, it's a large monolithic organization, of course. I mean, I'm not here to criticize them. So they have their own style of functioning. They have their own layers of decision making. And we are a very lean organization. We are agile. We are nimble-footed. And we only focus on business where we want to go and where we want to be successful. We don't spread ourselves very thin in the market.

So that is one reason that why our response time is very, very quick as compared to our competition. And especially when we do project business, it is all time-bound project activity where there's a target, a deadline for every activity in a project. So when a pump company gets an order for supplying pumps, they have a deadline to meet with. Similarly, that deadline will be transported or transferred to their various sub vendors. One of them would be a company like Sealmatic. So where we meet those deadlines, we give them those services.

And when we're doing project business, it requires a lot of technical discussion in the initial phase till we don't freeze the technical specification and move with the production. So during the technical clarification phase, you need a very quick response because there are multi-level companies, multi-companies involved. So when we do a project, it is not only between Sealmatic and the pump OEM. The EPC, the Engineering Procurement Company also gets involved. The end user gets involved. So it's a whole group of companies which are doing that particular project and everybody gets involved.

Even for a component like mechanical seal, we are meeting with 20 people sometimes. So our response is far, far quicker than any multinational company. And that is not what I'm saying. That is what I get as a compliment from all the OEMs, not only in India, but globally.

- Gautam Rastogi:** All right, sir. Understood. Thank you, sir. Those were my questions.
- Umar Balwa:** You're welcome.
- Moderator:** Thank you. The last question is from the line of Samridhi Financial Solutions. Please go ahead.
- Analyst:** I just want to know whether is there any provision or program of the company to shift on NSE main board?
- Umar Balwa:** Yes, we would. As to the norms of the BSE, as and when we are eligible, we would like to move on to the main board. But as I see today, I read an article about it, I think the day before yesterday, there is going to be a change in rule where it would be a minimum three years period. So I don't know how factually correct that information was printed in a particular newspaper.
- Analyst:** Okay. And what is your guidance for next five years if you are thinking about it?
- Umar Balwa:** I'm sorry, your voice broke a bit.
- Analyst:** What is your program for the next five years? Where is your vision? Where are you seeing the company after five years from here?
- Umar Balwa:** Five years from now, I would like to say one thing very loudly and which I am not only confident, I'm sure about it, that in the global scheme of things, when we talk about mechanical seals, I should be the fourth player. I may not be as big as the three big companies, but I'm as good as them in my product portfolio, in my understanding of the business. So, and that is our aim and that is where we are going to reach and I'm sure you will find us there in five years period of time.
- Analyst:** Thank you very much and my heartiest appreciation to you and my warm wishes also.
- Umar Balwa:** Thank you very much. Thank you so much.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Umar Balwa, Managing Director for closing comments.



Umar Balwa:

Thank you, Sagar. And I see 52 participants on this earnings call and that gives me a reason to smile that people are interested in our company and what we're doing. I thank everybody for taking their valuable time and attending this earnings call and also asking questions and while answering those questions, it also brings a lot of confidence when I'm trying to answer those questions. I take this opportunity of wishing everybody a happy New Year in advance and may the advent of 2024 bring in peace and prosperity to all our families. Thank you so much.

Moderator:

Thank you. On behalf of Sealmatic India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.