GMM/SEC/2023-24/22

June 2, 2023

To,

BSE Limited
Phiroze Jeejeebhoy Towers,
1st Floor, Dalal Street,
Mumbai – 400 001

Scrip Code: 505255

NSE Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051

Symbol: GMMPFAUDLR

Dear Sir/ Ma'am,

Sub.: Earnings Call Q4 FY23- Transcript

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter ended March 31, 2023 conducted on May 26, 2023, for your information and records.

The above information is also available on the website of the Company.

Thanking you.

Yours faithfully,

For **GMM Pfaudler Ltd**

MITTAL KARTIK MEHTA

Digitally signed by MITTAL KARTIK MEHTA
Date: 2023.06.02 16:17:30 +05'30'

Mittal Mehta
Company Secretary & Compliance Officer
FCS No.: 7848

Encl: as above

“GMM Pfaudler Limited

Q4 FY ‘23 Earnings Conference Call”

May 26, 2023

MANAGEMENT: **MR. TARAK PATEL – MANAGING DIRECTOR, GMM PFAUDLER LIMITED**
MR. THOMAS KEHL – CHIEF EXECUTIVE OFFICER (INTERNATIONAL BUSINESS), GMM PFAUDLER LIMITED
MR. ASEEM JOSHI – CHIEF EXECUTIVE OFFICER (INDIA BUSINESS), GMM PFAUDLER LIMITED
MR. ALEXANDER PÖMPNER – CHIEF FINANCIAL OFFICER (INTERNATIONAL BUSINESS), GMM PFAUDLER LIMITED
MR. MANISH PODDAR – CHIEF FINANCIAL OFFICER (INDIA BUSINESS), GMM PFAUDLER LIMITED
MS. PRIYANKA DAGA – DGM STRATEGIC FINANCE, GMM PFAUDLER LIMITED

Moderator: Good day Ladies and gentlemen, good day and welcome to the GMM Pfaudler Q4 and FY '23 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priyanka Daga from GMM Pfaudler. Thank you and over to you.

Priyanka Daga: Thank you, Ryan. Good afternoon, ladies and gentlemen. A very warm welcome to all of you into the Q4 FY '23 Earnings Call of GMM Pfaudler Ltd.

The earnings presentation was uploaded on the Stock Exchanges last evening and is also available on our website. Hope all of you had a chance to go through it. From the management, we have with us our Managing Director, Mr. Tarak Patel; our CEO of International Business, Mr. Thomas Kehl; our CEO of India business, Mr. Aseem Joshi; CFO of International Business, Mr. Alexander Pömpner; and CFO of India business, Mr. Manish Poddar. We will give you a brief overview of the performance of the company, after which, we will get into the Q&A.

Before we begin with the overview, a brief disclaimer. The presentation which we uploaded on the stock exchange and our website, including of all discussions that will happen now, contains or may have certain forward-looking statements regarding our business prospects and profitability, which is subject to certain risks and uncertainties. The actual results could materially differ from those in such forward-looking statements.

I will now hand over the call to Mr. Patel to provide an overview of the performance. Over to you, Tarak.

Tarak Patel: Thank you, Priyanka. So let me start off with -- by giving you a snapshot for the financial year that we've completed. We closed the year at INR 3,178 crores of revenue, a significant increase over the previous year number, INR 431 crores of EBITDA, which translates to a 13.6% EBITDA margin, INR 235 crores of profit after tax, which translates to a 7.4% PAT margin, EPS of about INR 43 or so.

The order intake for the year also was quite strong and we did about INR 3,392 crores of order intake, which translates to a current backlog on April 1, 2023, of INR 2,162 crores. This backlog is quite evenly spread between the international and the India business. The International business has a current visibility of about 8 to 9 months in most geographies, with certain geographies having even a longer backlog.

For the India business, we have about a 6 to 7 months of backlog. And we are quite confident that, going forward, from what we've seen in the beginning of this year, the order intake continues to remain quite strong.

Like I mentioned, the revenue growth was in excess of 20%, which was driven by the international business, which grew at 21% and the India business, which grew at 32%. The main drivers of the order intake were basically our technology platform, which includes glass-lined equipment, filtration & drying, mixing and heavy engineering, and also on the services business. Our systems business, which has a very strong opportunity pipeline, continues to remain behind the budget. But we expect that in the coming months, some of these orders, which were actually going to be finalized, will now get finalized. And that will give us a nice bump to our order intake as well.

The profitability in the international business has seen a significant improvement. It is now close to about 11%. When we acquired the international business, we had an EBITDA margin of close to 7.5% to 8%. So the International business has performed quite well.

The Indian margins obviously have remained quite stable, 15%. And we have seen some pressure on the India margins, mainly driven by higher input costs and a slight slowdown in investments in both chemical and pharmaceutical.

Some of the other highlights for the year, both our factories in Vatva and Hyderabad are fully up and running now. These facilities accounted for more than INR 300 crores of revenue. Do keep in mind that not a very long time ago, both these factories was zero in terms of revenue. So we are quite happy with the startup.

We've completed an operational excellence program in Vatva. And now we have actually started one more operational efficiency program in Hyderabad as well. Cost reduction measures continue across geographies. We have seen some stabilization in India, especially on the metal prices. We've also seen a steep reduction in energy cost starting this quarter as well, mainly natural gas. So that's going to give us a nice positive outlook for the year.

And one of the higher kind of materials that goes into glass lining, which is the lithium carbonate, has also seen a 50% reduction in cost. So, if these costs continue to remain at this level, that would obviously have a positive impact on profitability as well. In terms of some manufacturing highlights, we recently manufactured India's biggest glass-lined vessel, 80,000 liters. We have a backlog of more than 5 or 6 of these large sizes currently in our factory. And our Chinese facility also manufactured probably the world's biggest glass-lined vessel, which is about 140,000 litres.

From a corporate perspective, we've completed the balance acquisition of the 46% of GMM International; 100% is now owned by GMM Pfaudler Ltd and all the profits now accrued to the shareholders of GMM Pfaudler. During the year, we also completed the acquisition of Hydro Air Research in Italy, JDS Manufacturing in USA and Mixel Group, which has factories in France and China.

So in terms of outlook, we are quite positive with our outlook forecast. We expect the growth rate to continue in the same region of maybe about the 15%. From a margin perspective, we also do plan and we do hope to see an improvement in the current margins, which currently stood at 13.6%. We do plan to increase this margin, which will be driven by both improvement in margins in the international business as well as in the India business. Manish, over to you, please.

Manish Poddar: Thank you, Tarak. Good afternoon, ladies and gentlemen. On the results, as Tarak mentioned, we ended the year on a strong note, with INR 3,178 crores of revenue, 25% higher Y-o-Y and an EBITDA of INR 431 crores, 52% higher Y-o-Y. We also achieved an EBITDA margin of 13.6%, which is 1.5% higher than last year. Last year, we at 11.2%.

On the quarter as well, Q4 ended up with 24% higher revenues Y-o-Y at INR 866 crores and 34% higher EBITDA at INR 96 crores. On international business, the EBITDA margins would improve by 0.5%, if we exclude the three new acquisition entities performance of HARI, JDS and Mixel. Therefore, we are absolutely on track to surpass our FY '25 target of INR 3,700 crores of revenues, EBITDA of INR 630 crores and ROCE of 25%.

For the quarter specifically, payroll cost was higher for the international business. This is an accumulation of 3 factors. There were 3 new acquisitions that we just spoke about. Also, the annual increment cycle on the international business starts on 1st of January. So therefore, you will expect increment on Q4 over Q3 and there were a few one-time payments as well.

On the similar lines, other expenses were higher due to the new entities and the annual catch up of the facilities expenses. Order intake, already, Tarak has already spoken about. On cash flow, specifically on slide number 11 in our presentation, there are a couple of callouts, I just wanted to share with you.

As part of the global POC alignment, there is an increase in the unbilled revenues for this year. This is a major portion in the negative INR 248 crores working capital number that we see in slide number 11. The second piece is due to the addition of the three new entities, the profit accumulated was only for 2 to 3 months. However, working capital being a balance sheet item was added for the full year as a closing balance sheet item. So, these two items are distorting the cash generation picture as we see in the numbers.

If you eliminate these two items, we have a healthy free cash flow of 50% vis-a-vis the EBITDA. On the similar line, on the standalone cash flow, refer slide number 25, we have shown the annual cash flow into two halves to reflect upon the improvement in the working capital in India in the second half. And we believe that we can continue this journey of improving the working capital for additional 3 to 4 days in the upcoming years. Over to you, Priyanka.

Priyanka Daga: Thank you, Manish. Hi Ryan, we can probably now open the Q&A session.

Moderator: Our first question is from Venkatesh Balasubramaniam with Axis Capital. Please go ahead.

Venkatesh B.: **Thanks for the opportunity.** I had a few questions. So the first one is, in the fourth quarter, there was a dip in the international margins quarter-on-quarter. I think last quarter, I think we were at 12.7%. We have moved down to 8.9%. That's a sharp decrease. Now this dip, is this like a cyclical thing that every year, we will have a dip in the fourth quarter on the international side? Or is it just like we had something specifically negative in this quarter, which pulled down the margins? So that is the first question.

Tarak Patel: Sure. So Venkatesh, let me start off and then, both the CFOs are here, who can also jump in. But yes, so I think the way that you should look at it or company should look at it that internationally, historically, fourth quarter has always been weak in terms of margin.

Usually, there are two reasons for this. One is obviously, as Manish mentioned, that the new increment cycle in international business starts on January 1. So you will always see that kind of bump up happening. But also, there is sometimes the catch-up cost that you have in some of the factories, which gets allocated right at the end of the year in Q4.

So our expectation is that international business margins will stabilize to the earlier numbers in Q1 and Q2 and so on and so forth. This is obviously a phenomenon that will continue. And you can always kind of probably building the fact that Q4 in the international business will always be slightly lower than the past 3 quarters. Maybe, Alex, do you want to jump in and just...

Alexander Pompner: Hello, exactly what just Tarak said and in general, if you look on and let me say, 12-month basis, we definitely confirm that we are on track with our growth trend in international business.

Venkatesh B.: Okay. Okay. The second question, I think what you said that this year, you are expecting around roughly 15% kind of top line growth. Do you have like a margin guidance target, whatever; what you can get to this year in terms of consolidated margins?

Tarak Patel: So, I would say that the international business is currently tracking between 11% to 12% or so. We would expect 100 bps improvement there, somewhere in between that. At least, that's the minimum that we are targeting. And we are quite confident that we can achieve.

India is around 15% to 16%. We are also hoping or expecting an improvement there in the same kind of range. These are conservative estimates and obviously, if our cost efficiency, energy cost, metal costs continue to go down, if there is a kind of an improved, I guess, investment cycle that gets kicked in this will obviously add to that. But there are currently quite a few measures that we have taken, both in India and internationally, to make sure that margin improvement is a prime focus within the group.

And looking at the order inflow in Q1 and our expectation for Q1 shipment as well, we are quite confident that margins would normalize to earlier levels, if not improve upon them.

Venkatesh B.: Okay. Okay. Now just on -- if you could spare some thought on this aspect. I think you had guided for around INR 3,700 crores top line for FY '25 and around INR 630 crores EBITDA. That basically means 17% EBITDA margins in FY '25. We are currently at 13.6%.

Looking at your numbers, it looks like achieving the top line guidance will be very easy, whereas the margin guidance looks a tad bit tougher, 13.6% to 17%. Is it more like given that the top line is higher, we don't need to get to 17% margins to get to that fix. And that is what is the plan? Or we will get to the 17% margin irrespective of the higher top line, which we might end up achieving?

Tarak Patel: Yes. So when we put out the guidance with a revenue number of INR 3,700 crores, like you rightly said and INR 630 crores EBITDA number and a 25% ROCE, I think we are on target to achieve all 3 of them.

Obviously, the INR 630 crores is not going to mean that our margin can be as low as, let's say 10% and we do like INR 6,000 crores of revenue. So that's not going to happen. But it is going to be exactly 17% or not, that's something that really is something I can't really commit but INR 630 crores is something that we will definitely do.

How much of revenue that requires? We obviously hope that it requires something very close to INR 3,700 crores because that's our internal plan and that's the target. We do have some challenges that we are facing currently in the market, in chemical and pharma here in India. But we are quite confident that when the cycle will turn and we have enough visibility to make sure that we have a few quarters before the cycles return and the kind of action plans that we have for the next financial year, we believe that we will be very close to all these 3 numbers.

Having said that, it's a good opportunity for me right now to also just give you a little bit of outlook in terms of what we are hearing from both chemical and pharma. So chemical and pharma both are seeing a challenging environment, some headwinds. But we do expect a strong recovery at the end of this financial year end of this year rather, the calendar year.

Many of our pharma customers are now looking at large capex for the investments. And most of these will start sometime in the end of 2023, early 2024, because a lot of them are planning for the cycle; the ordering cycle to turn, which is expected sometime in mid-2024, 2025.So I think that's something that we will see.

Chemical is seeing a slightly slower order intake right now here in India, but we do have a large kind of opportunity in pipeline. So, we believe chemicals will also start ordering again. And with the backlog that we have, obviously, we believe that we are quite in a comfortable position.

Internationally, both chemical and pharma have remained kind of stable. But Thomas, if you could just jump in and give an overview of the German market as well.

Thomas Kehl: Thank you, Tarak. This is Thomas Kehl. Yes, I think I can only second that, that the markets, the chemicals and pharmaceuticals in Germany and in Europe, especially are very strong, so growing. We are experiencing, not only in Germany but in other countries in Europe, still a shortage of basic medicals, especially treating children. That's why the government to motivate and incentivize the pharmaceutical industries to invest locally in Germany and in other European countries and that will go on for quite a while. That will be seen this year, next year and maybe the years after. And this is something that we feel very strong about. We are well positioned to serve those markets and industries and expect that demand to be strong.

In chemicals, we have seen some chemical companies making plans to move to another regions, like BASF, with some of their products. However, those products that we are making in China in the future are not related to the equipment that we make, fortunately. In the chemicals that we serve, the demand is right now at a normal or normal plus level, I would say.

Venkatesh B.: Okay. Now just a couple of other data questions. I think first 2 quarters of this year, you had like a INR 22 crores kind of FX gain in the other income. Third quarter, you had an INR 18.5 crores loss. In the fourth quarter, did you have a gain or a loss?

Manish Poddar: I don't think this is a substantial number.

Tarak Patel: Yes, I think it was kind of small, nothing significant.

Manish Poddar: Nothing significant because the euro dollar didn't move and that was the biggest lever in the first 3 quarters, actually. And that's why we didn't want to call it out separately because it's business as usual.

Venkatesh B.: Okay. One last question from my side. What is the expected effective tax rate for the overall consolidated entity for the next year? Some kind of broad range would be helpful.

Tarak Patel: So on a go-forward basis, it should be something like 26%, 26% to 27%.

Moderator: Our next question comes from Sandeep Tulsiyan with JM Financial. Please go ahead.

Sandeep Tulsiyan: First question is regarding all these acquisitions that you made in the last financial year, that's JDS, Mixel and Hydro Air. If you could give some sense, where are the capacity utilizations across these plants today, when we acquired? And over the next 2 to 3 years, what kind of additional revenue generation capacity these plants have? And out of that, how much you look to add within the INR 3,700 crores target that has been mentioned?

Tarak Patel: Right. Sandeep, so let's just go through quickly the acquisitions. So like I had mentioned earlier, we closed 3 acquisitions this year. Hydro Air was kind of done earlier during the year and that company currently does about $7 million to $8 million of revenue, has been performing quite well and we expect that company to at least double in the next 3 years.

This company, in terms of manufacturing capacity, is an engineering company. So it doesn't really have or need any kind of capacity or capacity utilization numbers, because they basically just order things from different vendors, put the entire thing together and then sell it to the customer. So no real factory that is linked to this acquisition.

We bought a small company in the south part of the United States, near Houston. This is a glass-lining spare parts and reglass facility. We wanted to be closer to the chemical zone in Texas and this puts us very near to that. That is currently under the start-up phase and we expect that, over the next few months, we will get that started up. And that we'll be able to cater to that local market as well and improve our spares and services business on that site.

Lastly, the Mixel acquisition was completed only in February this year. So we only had 2 months of revenue that we have accounted for. Having said that, the backlog in that business continues to remain strong. Mixel is an important opportunity for us because it fits into our overall global strategy of really growing our mixing business into something or something as big as glass line. So that fits in quite well.

We are already seeing synergies between some of our units and Mixel as well. The idea is to now to kind of put it under one global brand umbrella and launch that brand as a mixing platform, for us. So that company currently does about, about EUR 15 million. Has a strong backlog. And again, we expect that this business will at least double over the next 3 to 5 years. And that's the idea. And that's pretty much how these 3 acquisitions are going.

What we are also doing is we are not adding a lot of capacity or new people. We want to use the same kind of factories across new geographies but have more throughput. And we have more material moving to these factories by moving some of the production either to India but also moving a lot of the engineering, documentation, calculations and stuff to India.

So one of the things that we are just starting and we have just recently launched within the company is the India engineering office, where we are going to now look at bringing in people to take off and do some of the non-value add; not really non-value add but non-critical maybe work that is done in some of these western countries, which will also help us improve our costs.

Sandeep Tulsiyan: Got it. Second question is on your related party transactions, which you disclosed, when you look at the scene, it's gone up materially in the last year, somewhere in excess of INR 500 crores is the sales we do to our other group entities. And of course, there is an overall plan to shift some of the manufacturing to India factories, which were underutilized at that point in time.

So if you could just give us a sense of how this ramp-up has happened? How should we reintroduce more, this whole like now that you're shifting manufacturing from China, Germany and U.S. to India and try to take advantage of the low-cost manufacturing. And from INR 500 crores, how should this number pan out over the next 1-2 years? If you could give us some broad outlook.

Tarak Patel: Yes. So the related party numbers do include a lot of intercompany sales that we do within the group as well. Obviously, our stock and sale program that we currently have with Germany, I think that's a key driver to that. We are also doing a lot of job work or orders for some of the other Pfaudler units. Only this year; in this financial year, in Q1, we received a large order from the U.S., a company called Cargill. This is for heavy engineering equipment that is going to be made here in India.

So, there is quite a bit of work that's being done. We also now do work for Mavag. About 80% of Mavag's manufacturing is done locally here in India. On top of that, we have also supplied quite a few; yes, but that was earlier, but we've also supplied to other units as well.

I'm not sure; I don't have the break up with all the related party transactions with me. But if you want an exact number in terms of what it used to be and where it's increasing, we can give that to you, just offline..

Maybe, Aseem, you want to just talk a little bit about the India sourcing program right now and some of the stuff that we are working on?

Aseem Joshi: Sure. Sandeep, as far as sourcing from India is concerned, I think Tarak talked about it. I'll just take a minute to explain how we're thinking about expanding that portfolio.

As we had discussed in the past, for our glass line equipment's we have, over the past 1.5 years, started exports from India. So two things, one is to cover underpenetrated geographies, especially Southern Europe, Eastern Europe, Southeast Asia, kind of locations. As well as have a stock and sale program, which Tarak had talked about in the past. So that has started, has gone off successfully with the number of equipment that have shipped and we have a standard cadence going of things manufactured in this past year.

In addition, for our other product lines that cover the systems and non-glasslined portfolios, we also find opportunity to manufacture in India and sell into other geographies. And a good example is oil and gas opportunity we had in China, fairly large, about 7 million, I believe in sales value, where the relationship is in China, the manufacturing is in India but the engineering is in the U.S. in this instance. So, it's a good example of where we can leverage our global strengths wherever they exist to be able to serve our customers better and we continue to drive that.

Sandeep Tulsiyan: Got it. Just lastly, if you could quickly give some perspective on this debt capital allocation. Of course, you've been very aggressive in acquiring companies as well as adding capacities here in India for last 3 years. How should we look at the capex number going forward for the next few years on an ongoing basis? Will it be more acquisitive? Or will it be more expanding the existing facilities?

Manish Poddar: Sure. So Sandeep, last 2 to 3 years, we have acquired capacity in Hyderabad and Vatva, as you know. And for our guidance period of FY '25, for achieving INR 3,700 crores, we have sufficient capex. And we generally believe that we can probably do closer to INR 4,000, INR 4,000-plus crores of the turnover out of the existing capex infrastructure that we have.

Of course, maybe 2%-2.5% of maintenance capex every year on a sustainment basis will definitely be needed. But no enhancement capex is planned for any deliveries up to FY '25.

Moderator: Our next question comes from Nitin Agarwal with DAM Capital Advisors. Please go ahead.

Nitin Agarwal: Just a couple of questions on the Q4 results, you have two line items. One is on the cost of goods and the other expenses. There is a meaningful change on a Q-o-Q basis. Is there a seasonality element to either both of these elements? If you can just help us explain those 2 elements? The COGS has gone up quite a bit and the other expense is also up quite a bit on a Q-o-Q basis.

Tarak Patel: Yes. So like I mentioned there is seasonality. There is always some margin reduction. If you look at the last year numbers as well, the Q4 numbers were lower by about 100 to 200 bps because of the seasonality. We have an increment cycle that kicks in on January 1st. So that's something, we had a couple of one-off payments that we had to make.

Manish Poddar: And yes, basically, that's on the payroll side. And of course, the 3 new entities come up and their expenses do distort the picture on a comparative quarterly basis. And on the other expenses side, like we said, there are annual facilities catch-up expenses that happen. And therefore, probably the full year is a right reflection to see, on a consistent basis, how do we expect these numbers to go ahead.

Nitin Agarwal: And in our GPMs, how do we account, what is the impact of the metal price movement that typically gets passed through as a inventory loss, again, typically in our gross margin line through the quarter?

Manish Poddar: So there's a concept called MAUC, moving average unit cost. So every time you purchase a inventory, the existing inventory gets re-rated to the new pricing. And therefore, you can see that last year, we had the price benefit in the first half in the price and that the reality struck in the H2, and therefore, you had a margin improvement increase in the H1 last year and H2 in the subsequent period. So, every time we buy a new material, the inventory gets impacted by the total COGS on the average basis.

Nitin Agarwal: Okay. And lastly, in terms of the recent acquisitions you've done, they're fully accounted for from Q4? Or there is some element, which is yet to be captured in the number?

Manish Poddar: Yes, they have been fully accounted for in this year. Of course, the PPA, as the accounting concept allow us for 1-year period, to do the PPA revision. We don't expect any material numbers coming out of that from either of the 3 acquisitions. But otherwise, yes, they are now pretty much part and parcel of our revenues and assets and JDS and Mixel and all, except the revenue is only 2 months. Yes, Mixel is just 2 months. HARI started in the first week of August. JDS, end of this November.

Tarak Patel: But it's not even started production, yes, we are not getting any kind of revenue. It's a cost with no revenue coming in.

Manish Poddar: Exactly. Exactly. And that is the reason that on a like-to-like basis, if you exclude these 3 entities, where the international margin is higher by 0.5%, maybe.

Nitin Agarwal: And lastly, what is our annualized interest costs now in the current environment?

Manish Poddar: Yes. So I think we have been, because of the healthy financials that we enjoy, the weighted average cost of capital is at 7.7% sub 8% on a global basis. And India also is at 8.3%.

Nitin Agarwal: So about 8%, 8.5% on average?

Manish Poddar: Yes, on a global basis, we are at 7.7%. India, we are at 8.3%.

Moderator: Our next question comes from Rohit Ohri with Progressive Shares. Please go ahead.

Rohit Ohri: Tarak, two questions and two parts to that. The first one being, we have been speaking about bioplastic, bioproteins and certain mock meats which are currently small industries, have a lot of potential to grow. So what is GMM Pfaudler doing over there in that domain? And secondly, if you could share some more details on the EV space and GMM Pfaudler playing a role in that?

Tarak Patel: Yes, I think Aseem will have.

Aseem Joshi: This is Aseem. I'll take the question. So yes, we are closely watching these and other mega trends. You mentioned 2 of them, bioproteins and then lithium. We actually have opportunities in both those areas.

As far as bioproteins goes, the HARI acquisition that we made last year has some very interesting membrane separation technology that is applicable there. In fact, we have already worked with a couple of leading players in that space in Europe. And we are very hopeful that we can expand in Europe.

As far as lithium is concerned, there, too, we have a play, we are actually exploring what else we can do. But we already have a large project. I think it was about $10 million of acid recovery, which is already installed in our systems business. This was a project we won in Korea for the acid recovery for a lithium plant.

So, our acid recovery solutions traditionally have gone into chemicals, explosives kind of applications, minerals kind of applications. But thanks to lithium, thanks to some of the environmental norms that are coming in that apply to the power industry, we see additional segments where we can apply these technologies.

We have, for example, in India, an order that we are executing now for Hindalco for a power plant. This is a flue gas desulfurization application where sulphur is removed out of flue gases, and that neat sulphuric acid that comes out of it is then compensated up so that it can be reused or it could be used or sold into the market. So, it's an exciting area for us and we're keenly following the developments in this space.

Rohit Ohri: Okay. Tarak, GMM has become a global organization with 16 manufacturing units across the globe. Somehow, if you see the world map, we see GMM Pfaudler, everywhere, except for Japan and ANZ. So do you think that these markets are not lucrative for our portfolio since we don't have our presence over there?

Tarak Patel: So, okay. So firstly, let me just clarify that even though we have a lot of dots around the map, all of them are not manufacturing facilities. There are about 8 key manufacturing facilities. Some of the other sites are small, kind of engineering offices or kind of centers where we kind of bring in stuff and just kind of assemble and things like that.

So, yes, so 8 is really big; that are big sites but very few manufacturing sites around the world, a few of which are in India and one of which is in China. So, 4 really for the rest of the world.

Now in Japan, we already have a relationship and have had a very strong relationship with a Japanese manufacturer of glass line equipment, a company called Kobelco Eco-Solutions. In the past, we currently have also supplies that we supply to them, which we buy from India and we sell in the local Japanese market.

Keep in mind that Japan historically has been a very closed market. They usually buy only Japanese equipment and there are currently 3 manufacturers. So, there is no real need for us to penetrate and it's quite, it's kind of tough also to penetrate the Japanese market. Having said that, because of our relationships in Japan, some of our products are already being sold there. The Japanese company also buys the pharma glass, the glass that we actually spray onto the reactors, from us. It's the Pfaudler glass that we sell in Japan.

So the Pfaudler brand name is quite popular in Japan as well. So indirectly, we are there in Japan. Directly, it doesn't make really a lot of sense for us to kind of go in and try to take over or be a part of the Japanese market. Our real focus now in terms of glass line growth is going to be really the China market. The China market for us is something that we probably have a much lower market share than the rest of the world. The China factory was started about 1.5 years ago. It's fully operational now. They're fully up and running. The momentum is very strong. We have good people there, a good site director as well. So, China really can double or triple in the next few years and that's where we have a focus and hope.

Rohit Ohri: Okay. Okay. And my last question is, probably Manish can take it. You did touch up on the fact that with the current capacity, we can be around INR 4,000 crores or so. And your target is INR 3,700 crores. My question is, are you looking at INR 5,000 crores by '27, '28 growing at around 14%-15% CAGR?

Manish Poddar: Tarak, do you want to take that?

Tarak Patel: So unfortunately, since the guidance has already been given for 2025, I think the first order of business for us is to achieve that and then re-guide. We obviously have internal targets. We have built some kind of internal plans. It's right now, too early to share what those numbers are. But I believe that, as a company, we would like to obviously grow and continue to grow.

We would also like to improve margin and really look at both of these as opportunities, both through organic as well as inorganic growth. So that's really the idea. And we're keeping a close eye on our markets. We also are looking to diversify.

So, if 1 or 2 industries were to slow down, we always have buffers in place. I think one of the things that you will also see now and this is a question that I used to get quite a bit about acquiring international businesses because most Indian companies who bought international businesses haven't done so well. But I think this year, you will also see that the international business is helping us significantly both in terms of revenue and the profitability.

So, let's say, for example, if India were to slow down for the next 6-9 months, I'm still confident that the numbers will be met because the international business, with such a larger part of it coming from services and aftermarket, we will still continue to make those numbers.

So, we have a kind of buffers in place. We have de-risked only from our India focus to now having really a global refocus, which makes, you know a little bit more comfort around the fact that these numbers will be made either through some certain geographies or business lines if one or the other ones were to slow down.

Moderator: Our next question comes from Ashit Kothi with Investore. Please go ahead.

Ashit Kothi: Just 2 questions. One is Hydro Air, you said is more of an assembling unit. So isn't that, that kind of activity would get transferred totally to India? That is one. And you have shown, I think, around INR 333 crores odd amount as a debt, which is majorly used towards increasing the stake of 46% buying out that 46%?

Tarak Patel: Yes. So let me first answer the Hydro Air question, and then you can take the debt question. The Hydro Air question, the idea so Hydro Air, well, it's a $7 million to $8 million company, is very localized. It caters to certain parts of Europe, Italy, Germany, Switzerland.

The idea of this acquisition was obviously to bring Hydro Air into, so we increase our product portfolio. We add new businesses and new industry that we can cater to. However, the real benefit will come now because Hydro Air has access to the Pfaudler's global network. The European business will still continue to cater to the Europe and U.S. markets. However, for India and China, we will now do the manufacturing, both the technology and the engineering will be done by the Hydro Air in Italy. However, the local cost structure of manufacturing and assembly will be done in India and China so that we can obviously compete more with the kind of local competitors that we would have and bring our cost down significantly, right? So that's the idea.

We have also quoted recently some of these Hydro Air kits to Biocon and other biotech industries as well. And that will all be manufactured locally. The engineering will be done in Italy. Manish, on the debt side.

Manish Poddar: On the debt, yes, there were 3 elements. One was, as you all know, the 46% acquisition led to a debt of something like INR 175 crores. And then in India, we had a short-term working capital debt of INR 50 crores. And the third piece was, for Mixel, we had taken some EUR 8.5 million of debt in the international business.

So collectively, these were the 3 elements, which led to the increase in the debt. And currently, our debt ratio.

Tarak Patel: Maybe you can just spend a minute.

Manish Poddar: Sure. So I think, as we mentioned, we continue to enjoy a healthy balance sheet from that perspective. On a consolidated basis, from net debt-to-EBITDA, we are at 1. And at India, we are at 1.7. Net debt-to-equity, we are at 0.5 only. So, it's absolutely healthy and comfortable from a debt perspective.

And I think maybe also for the benefit of the group, I think most of the acquisitions that we have planned have been completed, the larger acquisitions, right? I don't think there's any significant kind of major acquisition that we have a plan for the foreseeable future. So, the focus will obviously be now on reducing and repaying debt.

I mean, we have pretty much repaid quite a bit of it but then we had to take some more for the acquisition of the 100%, which we've now done. And we'll see over the next 2 to 3 years that the debt will be reduced.

Manish Poddar: And the interest coverage ratio is at 6.5x and the DSCR is at 1.7x on a consolidated basis.

Ashit Kohli: And maybe, you want to give the updated numbers on the pension plan as well as the debt-like item

Manish Poddar: Yes. So, the pension plans, when we started the year, we had something like INR 373 crores. And now, what we have is at INR 280 crores, primarily because of the interest rate increase. The present value of the liabilities have gone down. So that has helped us in the OCI or other comprehensive income and that is where it stands.

And these are the as we mentioned earlier, these are the closed pension plans. So, there's no new additions and we have closed quite a few years back. The average age is something like 79-80 years. So, there's a natural progression to exit to these plans. And the U.S. funded plan was there and that the asset and liabilities have been knocked off. And so that volatility in the P&L has been taken care of in this year.

Ashit Kothi: So, we assume that INR 283 crores, what is there over a period of say, 5, 7 years, would reduce by maybe 50% or odd percent?

Manish Poddar: INR 283 crores, probably will have a much longer period. But kindly appreciate, as the interest rate cycle turns and reverses, so then you'll have a reverse movement as well.

Tarak Patel: No, no, he is asking a different question. He is not asking about the pension liabilities. He is asking about the other debt, when will you, will you repay the other debts?

Manish Poddar: The other debts. Okay.

Tarak Patel: He said 5 to 12 years or something like that.

Manish Poddar: So, debt of this INR 800 crores broadly yes, although we have INR 300 crores of cash but the gross debt of INR 800 crores. We have these original payments scheduled till FY '28. But we feel, in the next 2 to 3 years, we should generate enough cash. If we don't do any further acquisitions and all that, we should be able to pay off our debt in the next 3 years.

Moderator: Our next question comes from Sanjay Shah with KSA Securities Private Limited. Please go ahead.

Sanjay Shah: Sir, just to get some understanding about our vertical-wise business, then in India, majority is skewed towards the technology side. And when we see international, I understand this is because of Pfaudler but it's rarely equally divided among technology, services, systems and all.

So, Tarak sir, can you help me, how do you see that coming in the next 2, 3 years? How do you see that opportunity of improving our business on system side, services side in India too?

Aseem Joshi: Yes. Sanjay, this is Aseem. I'll take it. So, you're right. When you look at the pie, certainly in India, our, more the bulk of our revenue comes from the technology segment, both glass line and non-glass line.

Now we do recognize the benefit of having a more greater balance with more systems and more services and that's our focus. The services piece, we have increased our emphasis on that segment. That's currently less than 10% of our revenue and we are focused on growing that.

As you know, India is still a strongly growing market. So, the installed base is being built out. In the next 5 to 8 years, when this installed base matures, there is definitely a need for service that will come. And we anticipate it will be looking for quality service and for that GMM Pfaudler will be ready.

As far as systems is concerned, these 2, I think will follow the installed base. And so as the market starts maturing, we will be able to grow our systems. Yes, we are certainly improving our capacity in India as far as engineering is concerned and sale is concerned to drive those. So over time, we expect to improve this balance.

Sanjay Shah: Now, in technology side, how was the progress in our non-glass line segment? Could we do any good inroads into it?

Aseem Joshi: Yes, very much so. So, we have delivered very strong results in our mixing business. Actually our engineered systems the wiped film evaporators kind of business has done well. And also our Equilloy business, which also falls in technology, has grown really well as well. We are actually quite pleased with the kind of growth rates; very high double-digit growth rates that we witnessed across our non-glass line technologies portfolio.

Tarak Patel: Yes. So let me just add to this. Our mixing business in India used to be close to INR 25 crores to INR 30 crores. This year, we already told that we were at INR 150-odd crores of revenue just from mixing itself, right?

Again, very technology-focused product range, quite high in terms of profitability. We had large orders for fermentation reactor from 3 main customers here in India, who are going to manufacture benzene. So that really boosted our growth. For next year as well, we have a strong backlog in mixing.

The acquisition of Mixel, I think that mixing business is really going to be a nice growth area for us and also adds to our profitability, but also it's very complementary in nature to our glass line business.

Let me also step one step back. We talked a little bit about heavy engineering. So last year, keep in mind, so this financial year that we just completed, our heavy engineering business was pretty much breakeven. We had some struggles there with higher input costs, materials rising and some of the large orders that we have, INR 100 crores worth of orders that we receive from one single vendor, were not lucrative in terms of margin.

So having said that, the backlog now for the next financial year is really more -- definitely more accretive in terms of margin. We've been very careful in terms of our strategy, what we're trying to book and how we book it. We have a good mix of export business as well as an heavy engineering business as well. So all in all, we're quite confident that the growth in heavy engineering will continue, while the margin improvement in heavy engineering will be significantly better than the previous year.

That's another kind of a positive aspect of the business. So that's something that we are watching quite carefully and we hope that, that will continue as well. And our ability to maintain and differentiate ourselves, we'll be able to improve margins as well.

Moderator: Our next question comes from the line of Nitin Agarwal with DAM Capital Advisors. Please go ahead.

Nitin Agarwal: Just one housekeeping item. On the international business, what would be our organic growth this year, excluding the consolidation that we made for this year, the acquisition we made this year?

Tarak Patel: So it's pretty much all organic, except for about $5 million or $6 million of -- $11 million is the revenue that we add. So you add, basically, Hydro Air for about 7 months, 8 months, and 2 months of Mixel, should be in the range of $5 million to $7 million. JDS hasn't already started. So everything else is really organic coming from within the Pfaudler, portfolio. And obviously, next year, going forward, once these businesses -- the businesses start producing and growing, they would then have a bigger share than we have in terms of the growth rate.

Moderator: Our next question comes from the line of Rohit Ohri with Progressive Shares. Please go ahead.

Rohit Ohri: Tarak, I just wanted to know if there's any increase or decrease in the market share for GLE, non-GLE or mixing?

Tarak Patel: So mixing, definitely an improvement in market share is our range of INR 30 crores of revenue a few years ago to now INR 150 crores, definitely growth in market share.

In China, we've also probably grown market share in glass line. In India, with the two factories that we have now, I would say, our market share is stable. We had opened about a smarter sale strategy in glass line where we were really kind of going after high-margin business. And obviously, that is something that we continue to do.

However, we are also now being a little bit more aggressive in the market. But otherwise, generally, I think globally, if you see our market share would have remained around the same, keeping it -- everything equal, I think our market share would be pretty much around the same, except for China, where glass line market has increased.

Rohit Ohri: Is it possible to put a number there? As per your estimates, what is the market share may be that 45% or 50%? If you can put a number.

Tarak Patel: Yes. I would say in China, it's about 10%. India, more than 50%. Europe about 40%. U.S. anywhere between 30%to 35%, something like that.

Rohit Ohri: Okay. Last question is related to Hydro Air or HARI. Do you think that GMM has an opportunity open in the water treatment because it is rendering treatment at the end of the day. So, do you think that there are certain opportunities with the help of ion exchange and water treatment as such?

Aseem Joshi: Yes. So that technology, as you rightly pointed out, is certainly applicable to water treatment, both fresh, as well as waste. However, we will carefully evaluate the commercials of such deals because we have to make sure that they make sense for us. And sometimes in the water area, we are not perhaps as attractive as some of the other segments where HARI currently serves.

Thomas Kehl: This is Thomas Kehl. The HARI acquisition was mainly driven by adding companies that are now available that have technology and process on how that is somewhat superior and the water treatment basically is what we would call the commodity in this industry. We can serve it but it's not necessarily our major target. So, we look at a more -- highly more demanding specialized application.

Moderator: Our next question comes from Ashit Kothi with Investore. Please go ahead.

Ashit Kothi: Pfaudler Inc, still holding 14% share? And will there be any, again, disinvestments in next 1 year or so?

Tarak Patel: Yes. So DBAG, the private equity fund through Pfaudler Inc. continues to own 14%. Out of which we have disclosed, at the time we had disclosed that we would acquire 1%. We are waiting for the final clearances from FDI France for the clearance on that and then we will acquire 1% from DBAG through Pfaudler Inc., which will then put the family in excess of 25%.

The balance stake of DBAG of 13%, like you know, DBAG has been now around for about 9 years or so. And I think the time has come that they will eventually exit. The exact date and time of that exit and the way of the exit has also has not been decided yet. And that's something that's still open. Keeping in mind; do keep in mind that, again, they've been very strong supporter of the business. They have been part of the business and supported the business for now 9 to 10 years.

We have very strong relationship with them and they are responsible investors as well. So, as and when we find the right solution, they will consider selling their last little bit and then de-promoterizing themselves as well.

Ashit Kothi: And sir, as a promoter, you plan to not immediately but in the foreseeable future, again, go back to your the way you used to hold shares, I mean, say, more than 50% or so. So do you plan to do that?

Tarak Patel: So I have officially and this is probably in the public domain, said that being in the at least possible future closer to the 30% mark is something that I would like to do. Again, there's a lot of dependence on a lot of things but that is a goal that I do have in mind.

Having said that, how long that takes? I really can't give you a time line. But of course and the most important thing for us as promoters, is to cross the to 25% mark. That obviously kind of helps us in terms of hostile takeovers, gives us more rights as promoters and also allows us to buy from the market up to 5% every year without triggering open offer, right?

So we think that's something that we would like to do. This is a good opportunity for us to do it and that's what we will do. And then this is the time and if everything is great and then start down on the line, we would then lot at increasing our stake even further.

Ashit Kothi: And then just last question. With regards to the market share, what earlier, responded by like U.S., we have got 25% and China, 10%. So, we would be more keen on increasing market share in China or in U.S?

Tarak Patel: No. Sorry, just to clarify, again, in both Europe, in any Western market, which are basically the United States and Europe, we have somewhere between 35% to 40%. So that kind of fluctuates but we are the number one market leaders in both these geographies. In India, we have a market share in excess of 50%. So we are definitely the market leader here.

In China, it's a slightly different situation. We have a new factory that just came online 1.5 years ago. The first idea is to stabilize and get it up and running, which we have done now. And now the focus is to really go after market share and build our market share in China, which we expect to do.

Market share in China is below 10%. So the ability to grow market share there is significantly better than the rest of the world, where we already have very high market share. So China is definitely the focus there.

Moderator: Thank you. Ladies and gentlemen, we have reached to the end of the question-and-answer session. I would now like to hand the conference over to Ms. Priyanka Daga for closing comments.

Priyanka Daga: Thank you. Thank you, everybody, for joining us today. It was a pleasure interacting with you and we look forward to many more such interactions. Thank you, take care and see you soon.

Tarak Patel: Thank you.

Manish Poddar: Thank you. Bye.

Moderator: Thank you. On behalf of GMM Pfaudler, that concludes this conference. Thank you for joining us and you may now disconnect your lines.