GMM/SEC/2023-24/86

February 7, 2024

To,
BSE Limited
Scrip Code: 505255

National Stock Exchange of India Limited
Symbol: GMMPFAUDLR

Sub.: Earnings Call Q3 FY24 - Transcript

Dear Sir/ Ma'am,

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 and nine months ended December 31, 2023 conducted on February 1, 2024, for your information and records.

The above information is also being made available on the website of the Company at www.gmmpfaudler.com.

Thanking you.

Yours faithfully,

For **GMM Pfaudler Ltd**

MITTAL KARTIK MEHTA

Digitally signed by MITTAL KARTIK MEHTA
Date: 2024.02.07 17:27:14 +05'30'

Mittal Mehta
Company Secretary & Compliance Officer
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Encl.: As above

"GMM Pfaudler Limited Q3-FY24 Earnings Conference Call"

February 01, 2024

MANAGEMENT: **MR. TARAK PATEL – MANAGING DIRECTOR, GMM PFAUDLER LIMITED**
MR. THOMAS KEHL – CHIEF EXECUTIVE OFFICER (INTERNATIONAL BUSINESS), GMM PFAUDLER
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. MITTAL MEHTA – COMPLIANCE OFFICER, GMM PFAUDLER LIMITED
MS. PRIYANKA DAGA – DGM STRATEGIC FINANCE, GMM PFAUDLER LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'24 Earnings Conference Call for GMM Pfaudler Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priyanka Daga. Thank you and over to you ma'am.

Priyanka Daga: Thank you, Sagar. Good evening, ladies and gentlemen. Welcome all of you into the Q3 FY'24 Earnings Call of GMM Pfaudler Limited. The "Earnings Presentation" was uploaded on the stock exchanges today 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; CFO of India business – Mr. Manish Poddar; and Compliance Officer – Ms. Mittal Mehta.

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 our call discussions that will happen now contains or may have certain forward-looking statements regarding our business prospects and profitability, which are subject to several risks and uncertainty. 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, Sir.

Tarak Patel: Thanks, Priyanka. Good evening, everybody. We are happy to report a strong performance this quarter with stable revenue across the international and India business.

The business environment continues to remain challenging, driven primarily by a weakness in the chemicals sector. But we see an improvement in terms of order intake; in Q3, we had an order intake that grew by about 20% over the previous quarter. So, that's definitely a positive sign. And looking into Q4, which I'll speak about a little bit later, we also see that the order intake looks like it's going to pick up as well.

Like I mentioned, the order intake was up 21% at Rs 756 crores. This is also partly driven by the fact that we have diversified and kind of increased the technology portfolio besides glass lined, we also have non-glass lined that adds a large chunk in terms of our order intake. And I think what has worked very well for us as well is that we have diversified away from chemical and pharma. And a lot of the new order intake that we have seen, some of the shortfall in glasslined that have been made up, has come from these adjacent industries, mainly oil and gas, metals and minerals and petrochemicals as well. Further, we currently have a strong opportunity pipeline, and we expect large deals to close in the next few months and we believe that the order intake for Q4 will also continue in a similar trend.

In terms of financial performance:

Our consolidated revenues for the quarter grew by about 8% at Rs 856 crores. We had an EBITDA of Rs 114 crores and a margin of 13.3%. Our nine months revenue was up 17% to Rs 2,706 crores, while our EBITDA increased 16% to Rs 388 crores during the same period. Profitability in international business remains stable. However, India margins have seen a bit of decline due to intense competition in the glasslined business. This is mainly driven by a slowdown in the chemicals industry, mainly the agrochemicals industry. We continue to focus on costs and improving our efficiency.

In terms of corporate updates:

We completed the acquisition of MixPro, Canada. However, the MixPro numbers have not been consolidated this quarter and they will be consolidated from next quarter onwards.

I have also spoken about our mixing platform and MixPro is the third step in terms of our acquisition. This gives us access to of course the American market. With our last acquisition Mixel, we had access to Europe and to China, and obviously, as you know, we have a very strong presence in the mixing business here in India. So, as part of our mixing platform growth, our acquisition has been completed and now the focus is on the business there and focus on the go-to-market strategies for this business line. On this specific platform as well, we have now a new head of platform that we have hired. That person has now joined us. He comes with a lot of experience in the mixing industry, and I believe he will be a welcome addition to the management team as well.

Lastly, just wanted to also add that the Patel family has completed the acquisition of the 1% stake from DBAG. DBAG has filed for de-promoterization and once those approvals have been received, they will no longer continue to be promoters of GMM Pfaudler Limited.

With that, I now open the call to questions. Thank you very much and I am happy to answer any questions that you may have.

Moderator: We will now begin the question and answer session. The first question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead.

V. Balasubramaniam: I had around three or four questions. Firstly, if I look at your international revenues, they have been consistently growing at 15% to 20% for quite a few quarters now. Now, what we understand is the international markets which you're operating in, namely Europe and US are mature markets. So, how are you able to achieve this kind of growth? Are you gaining market share in glasslined equipment outside in Europe and US?

Tarak Patel: Thank you for the question and let me just kind of give you some more color. So, I think one of the things that we have seen in international business especially over the last couple of years is that we've seen a significant improvement in revenue. So, I think a couple of things have happened. Firstly, our new facilities, mainly our German, Italian facilities have obviously shown a lot of traction when it came to improving the revenues and output from these factories. I think that has been important pillar in terms of improving revenues. With these new factories coming online, we were able to deliver equipment in a very timely manner for our customers, right. So, the ability for customers to now trust and have comfort in the Pfaudler brand and the ability of order to complete the deliveries in that respected time-period has improved, which means we now have seen as somebody who will be able to deliver the equipment in the right time period. So, more customers are now coming to us for at least the glasslined business. The other growth has come from the non-glasslined business, and these have been mainly the acquisitions that we have made. I will talk a little bit more about that in a minute, but before that our services and systems revenue as well in the international business continue to grow; services accounts for nearly 30% to 35% of international revenues. We have added about 24 service personnel over the last maybe six to 12 months, we have also opened four service centers recently. So, service is a big push for us. Service is something that is very profitable for us and service is an area that we definitely want to grow. So, really all the engines have been firing. From an order intake standpoint, the last couple of quarters have been slow, not only for the international business but also for the India business. I think what's important to highlight now like I mentioned, Q3 saw an improvement in order intake by about 20%. So, far, Q1 also looks very good. Just to kind of bring to the notice of the entire group, we received a very large order. Finally, a systems order that has come through from the US market for $11.4 million. This was booked in the system yesterday. So, that's a very large new order that has come in, something that we have been trying for quite some time, and we will have the international team speak a little bit more about that. Also, looking into India, we see some resurgence now in the glasslined business, we see some of the projects that have been held back for many, many months are now getting finalized, we did receive a couple of very large orders for the glasslined business. And having said that, our other businesses here in India continue to do well; so our heavy engineering business, because obviously it's not driven by the chemicals sector, is more focused towards let's say metal and minerals, oil and gas petrochemicals, has already seen a lot of traction. We have a very large backlog here and then even our proprietary business and systems business has seen a good amount of traction. So, all in all, it seems that the general market outlook looks a little bit better. Again, we have to keep our heads down, focus internally on where we can save costs and be a little bit more aggressive in the market which we are doing. But, as I speak this evening, I think we have reached the bottom and things are starting to look a little bit better. And we need to focus on making sure that the order intake improves over the next few months as well. Just maybe for a second. Thomas, if you want to jump in and just talk a little bit about the growth of the international business and where do you see growth coming from for the next few quarters?

Thomas Kehl: Yes, I think Tarak made a lot of points that are correct in supporting the business growth that we have encountered. And one comment on the International business – it is not just reflecting only Europe as a region, but also reflecting North America, South America and a lot of parts of Asia as well, the situation is a little different from Europe in many cases. We also had inorganic growth through our acquisition as Tarak mentioned that are kicking in now and helping us diversifying from the glasslined and sustain and supporting the growth that we encountered. And we also believe that this good delivery also from our EPIQ program that we were able to acquire some market share.

Tarak Patel: Sorry, maybe I can just add here. I know we spoke about the international business, but I believe and maybe Aseem, you can just maybe jump in. In terms of market share in glasslined here in India, I think we've probably seen some improvement there as well, right?

Aseem Joshi: As Tarak did mention, the chemicals sector, especially the agrochemical sector had been not as active as last year, but we're seeing a sign of resurgence. Through this, we have ensured that we've maintained and grown our market share. We're confident that in a tight market, this is the time to ensure that we have and continue to capture more than our fair share business, which we have done this year. So, we expect to come out of this next year with an even stronger position in the market.

V. Balasubramaniam: While answering my first question, you did give a flavor about the orders. Now, I have a couple of different questions on the orders. See, first of all, obviously this quarter was better than last quarter. There has been a slight rebound in orders on a quarter-on-quarter basis. But when do you think we can get to a run rate of closer to 1,000 crores kind of orders in a quarter -- does that happen in the 4th Quarter, or this is something which might take a longer time going into the next year? That is the first part of the question. The second part of the question is, while we understand that there has been a slowdown in the India chemicals and pharma capex, why are orders not coming in the international side? See, because even if I take a metric like your outstanding backlog divided by your sales in that particular quarter, what we are observing is even on the international side, the coverage level seems to be coming down. Is there a slowdown outside India also when it comes to chemicals capex or is it just an India phenomenon? And why does each of those rebound, what will make it rebound?

Tarak Patel: Good question again. I think the chemical slowdown is a global slowdown. I think it's across the world. Maybe it's a little bit more, I would say significant here in India, but there's definitely slowdown across the world. We see a big slowdown in China. So, we've seen order intake in China, obviously slowed down very, very significantly. Luckily for us, our China facility is obviously not that large. So, we can still find enough orders to kind of work on. But having said that, I think two or three things are happening which you need to be aware of. I think one, the India chemicals sector has been under some pressure for the last few quarters, but we do see some resurgence. Like I mentioned to you, there are large projects that have recently been finalized. PI Industries is one such example. I think there's a large Aarti project that's being kind of spoken about right now and multiple other projects as well, right. So, we do see some decision-making. These projects have been spoken about for the last maybe six to eight months and things are now finally moving. So, I think as the market settles down, commodity prices also settle down, I think people will start looking at their investment cycles again. We've been seeing and following a lot of chemical companies this quarter as well. Many of them have announced long-term capex plans as well, right. So, people have allocated money to new facilities, and I think it's only a matter of time before they come in. Now, coming back to the international business, I think what we are seeing now and what we kind of know internally is both Germany or Western Europe and the US markets are doing better. We are seeing some significant order intake. They were a little slow maybe six months ago, but we've seen some improvements here in terms of order intake, but there's still a lot of work to be done. India as well this quarter has been okay in terms of glasslined, but again, not to the level that we would be very, very happy with. So, there is still a lot of work to be done and the focus now is to make sure that we build enough backlog for next year, right. So, we all know that on March 31st we need to make sure that at least sufficient backlog is there for us for the first two quarters and that would give us a good amount of visibility and that's what the focus is. Lastly, just to mention that there was one product line of ours, one platform which is called systems and we had kind of spoken this in the last two quarters as well. Systems was behind budget significantly and that's why you saw that little bit of order intake slowdown. In international business, it was mainly driven by one product line not performing up to the mark. This is the same product line that received a large $11.4 million order just two days ago. So, now that product line has now come back to a level where that decent order intake has come in, right. So, all in all, it's been a general slowdown across most of the kind of products that we have. Obviously, some are not focused on chemicals and have seen significant improvement, but glasslined business has been driven by the slowdown and now we're seeing some kind of positivity coming back to that business line.

V Balasubramaniam: Now, a very pointed question to Manish. See, every quarter you share international numbers and standalone numbers. Now, when I take your international EBITDA, I take your standalone EBITDA. For the first two quarters of this year, when I added it up, it was lesser than the consolidated EBITDA. So, the consolidated EBITDA was slightly higher. So, for example, in the first quarter, the difference was 6 crores, second quarter was around 2.4 crores. Now, in the 3rd Quarter, it is a negative 2.7 crores. Now, is my understanding right that this is the EBITDA which is basically products which are made in India and then exported to Europe or US where they are finished and sold, and this is the value add for that. Now, if the understanding is correct, then secondly, how do I interpret a positive number and how do I interpret a negative number in a quarter?

Manish Poddar: So, yes, it's a typical timing difference on a cut-off date. So, for example, India ships to the German entity in Q1. So, in the standalone you'll have the profit, but in consol you'll not have a profit because it's still lying within the group from an India warehouse to a German warehouse. Therefore, India profits will be higher, consol will be lower. However, in Q2, for example, that German entity ships out to the third-party. Entire profits of India and Germany will be there in consol, will not be there in standalone in Q2. So, in one quarter you'll have a positive, in next quarter you'll have a negative. Overall, it will knock off, because it's just inventory in, inventory out, sometimes you have an opening higher inventory, sometimes you have a closing higher inventory.

Moderator: The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My basic question is when we had a conference call, I think, maybe 20th November, you gave some guidance performance versus FY'25 guidance, and there of course there were some numbers on FY'24, but in this presentation I think that slide is probably missing. So, I just wanted to know how are we positioned for '24 and what is your view on '25?

Tarak Patel: Yes, so I think from that perspective, we had given guidance of Rs 3,700-odd crores for Revenue of FY25 and Rs 630 crores of EBITDA. This year we will probably close the year with revenue of Rs 3,600 crores. From a revenue perspective, we're definitely tracking well towards the guidance that we have given. From the EBITDA perspective, obviously, there seems to be a slight shortfall. I mean, if you kind of extrapolate 430-530-630 for FY23, 24 and 25, we should have been around the 530 mark this year. We will be around the 500 or so mark. There is some work to be done in terms of margin improvement. And that's something that we hope to kind of bring in with obviously better kind and quality of orders, but at the same time, we are looking at EBITDA improvement projects both here in India and internationally. We've also looked at reducing costs. We have taken already some action where we have kind of downside and hopefully some of these kind of cost improvements will show up next quarter. We'll show up from Q1 of next year. What we are also trying to work on is obviously our procurement strategies and to make sure that at least if there is some savings that we can kind of bring in due to better procurement policies and systems and we kind of procure a lot of steel and metal, right. So, that's something that we're working on where the project is ongoing. And generally, I think we have to kind of just keep our heads down, I mean it's not the greatest time for the chemicals industry, but I'm sure that India will remain a strong player in the chemicals, manufacturing space and it's only a matter of time where things will kind of come back to normal, right? So, right now, the focus is to make sure that we remain strong, and we remain cost in control, and then when things turn to improve, then we can really ride and extract all that benefit, right. And like I said, it's going to be a matter of time before we see the same kind of order intake that we've noticed in the last two or three years. That kind of level of activity will probably take another six to nine months in my personal opinion.

Rajesh Kothari: So, just a follow up question on my side. It means you are saying you will stick to revenue despite the 3rd Quarter has not been that great. So, basically it means that correct me if I'm wrong, nine months revenue is 2,300 crores, it means you have visibility of 1,200 crores in the 4th Quarter?

Tarak Patel: No, no. So, let me just say again. What I was trying to tell you that if you look at the nine months number -

Manish Poddar: Nine months just to clarify, we have clocked Rs 2,706 crores, Rs 3,600 crores would mean, we need to do just under Rs 900 crores for Q4.

Rajesh Kothari: Basically 3,600 minus 2712. So, you are saying roughly about 900 crores. You are saying revenue is going to be in line, margins basically need to work upon. And then how do you see FY'25 based on the order intake and kind of margins what you would have assumed while taking these orders because the market will become more competitive, so how close you think you will be on both revenue and EBITDA for FY'25?

Tarak Patel: Let me put it this way. I think the order quality have not been the best, but we do see some amount of improvement there. With the product mix that we have in place, I think that we are okay, because our focus, and as a company we were close to maybe 80% glasslined which over the last maybe four or five years come down to now 60% glasslined, right. So, we have other industries, we have other products that we are now catering to. So, not everything is driven by chemicals and pharma, which gives us a lot of comfort that if glasslined were to slow down, something else will come in and make up for the shortfall. For example, let me tell you a little bit about the large orders that we have won in the heavy engineering space, right. So, heavy engineering today is a business that obviously is not as lucrative as glasslined, but we are now seeing that with the kind of strategies we have in place, the choice we are making in terms of either metal, the material of construction, the size, the thicknesses, the weight, we are able to differentiate and really improve our profitability, right. So, we have a very large order close to about 80-odd crores where we believe we can very easily make about 15% EBITDA margin, right? So, we are trying to compensate some of the erosion in the glasslined kind of the margin by our other product line. And like I mentioned to you, there are businesses such as engineered systems like the order that we just got in the US for $ 7.4 million, currently they are very profitable, right? Our mixing business, our services business, again is very profitable, right? So, if there is a bit of a slowdown, we expect some of these other businesses to compensate. And then lastly, let me not also forget about exports, I think exports for the Indian business is something that we are focusing on, we have some large enquiries that we are working on and should materialize also in the next few months. And obviously, our programs are sourcing from India into the Europe and Western markets will also definitely add to profitability improvement. All in all, not the greatest environment, but all these internal things that we are working on should help us minimize the gap between what we have planned and what we finally achieve.

Moderator: The next question is from the line of Rahul Misra from RTL Investments. Please go ahead.

Rahul Misra: Just on the glasslined business, we get to hear that the number three player from Hyderabad have become aggressive with pricing. Could you share some color on that?

Tarak Patel: Yes, sure. So, I wouldn't point to one single vendor. I think pricing is something that most of our competitors have kind of been focusing on. There is definitely more competitive intensity today than there was maybe one year ago. Having said that for us being the market leader, being the quality leader, being the technology leader, we are able to at least kind of command some kind of premium or in the worst cases if we match prices, customers will want to give with us, right. So, all the large orders, all the large projects over the last maybe 12 months, we have been very aggressive, we've been very much active in terms of meeting customers, having people on the ground and I don't believe we have lost significant orders in the glasslined business, right. So, we have been aggressive, we have been more active, pricing is obviously under pressure, but we haven't lost business, right? So, that's unfortunately the kind of market scenario that we have today. And as and when we see some improvement in order intake and demand, automatically, we will see some improvement in pricing as well. But that is unfortunately the realistic situation today and we are doing our best to kind of bring back pricing either through differentiation or selling something that gives the comfort to the customer either in terms of increasing the life of the equipment or making the process that he operates is much easier and more efficient for him, right? Maybe Aseem wants to jump in and just add something on India level pricing.

Aseem Joshi: I think Tarak really covered most of the points. We are focused on, first of all, ensuring we gain market share in this kind of environment, especially with the large customers. At the same time, we're very conscious of the need to maintain or continue to improve pricing. In order to do this, we have a number of projects underway where we are looking at smarter ways to price based on application, based on customer needs, etc., So, all of those are starting to come in and we expect those will start having benefits from next quarter. From a margin perspective, we've also taken a look at our costs, and we have worked on reducing both our variable and fixed costs in our two glasslined factories. So, the benefit of that will also start to accrue to us again starting really from this quarter onwards, but really picking up in the next year.

Rahul Misra: I'm sorry to harp on this. Just I'm trying to understand in terms of the structure of the industry, because it also seems that a much smaller player can actually come in and take order, for example, without advances, etc., and then grow, I mean from what some numbers revealed to be almost as big as probably the number two player now. I'm just trying to think in terms of the structure or the entry barrier to the industry so to speak.

Tarak Patel: It's a very good question and it's obviously from an outside in view, you would wonder why somebody who is reputed is into manufacturing pharma or chemicals, why would they risk taking an equipment which has not obviously had any prior kind of the performance or have that technology, right? But I think India is changing. Do keep in mind that more and more customers, when it comes to glasslined, especially customers in the chemicals sector, agrochemicals sector, they do obviously now look at quality more, more critically. It's no longer only pride that especially the tier-1 customers have changed over time. For example, the PI Industries entire order was received by us, right. So, that company because of its quality and safety kind of requirements will not compromise on glasslined quality. So, we will be the preferred supplier and they would like to buy most of their equipment from us. And this is probably the same for many of the other agrochemicals and chemicals players. Do keep in mind as well when the sizes of these reactors increase, there is more chance of something going wrong. So, as your reactor sizes increase, more and more people would want to go with reputed manufacturing. There is definitely let's say a value market in India. These are markets where these are smaller companies not as quality conscious, have two or three reactors, I think that's where they really make a lot of inroads. The third thing that has happened is many of these competitors have come in maybe three, four years ago, and now we are seeing that customers are realizing that some of these quality is not lasting as long as what they were promised, right? So, many of customers who had tried these players, maybe three, four years ago during their new orders and new projects, they are now definitely coming back to us because they tried something else, it's cheaper, but the quality was not in line of what they were requiring, and now they are coming back and we have seen this with maybe four or five other customers who were buying from our competitors but now have come back and started buying only from us, right? So, there is no structural fundamental change in the industry. We are still the market leaders with the highest market share. There has been growth. But if you really look at maybe the last six months and the next six months from now, you will see that a large amount of order intake in glasslined has been kind of catered to by GMM Pfaudler and when there is a slowdown, then the ability of us to take business is obviously something that we will definitely try and use because the order in the market itself are much lower, right? So, there is no competition, but again, happy to say that we have been the preferred vendor and continue to remain the preferred vendor when it comes to grass-lined.

Moderator: The next question is from the line of Kaushik Mohan from Ashika Institutional Equities. Please go ahead.

Kaushik Mohan: Majorly, I have one question on this quarter. Why is that margin has been depressed, any little bit more clarity on this?

Tarak Patel: Manish and maybe Alex, you guys want to speak about your respective margin profiles? So, there's obviously seasonality with the business and I think what you should really look at both the businesses from a nine month period because looking at really from a quarter is not really the best way because there is some seasonality like we mentioned, obviously Q3 in Europe, has the Christmas period and then Q4 has the seasonality of the new payment and the salary cycle, right, like India has some amount of seasonality as well. But generally, the margins have seen depression because the environment driven by chemical softness has obviously reduced the glasslined order intake, which in turn has impacted margins. That's the overall situation.

Manish Poddar I can start off on the standalone basis and then maybe Alex can jump in for the international bit. So, yes, for the quarter-on-quarter, we have reduced by 2%-2.5% of EBITDA margins, primarily as we just discussed earlier in the call, the glass lining pricing pressure continues and as a result, the heavy engineering mix also increases, and also I think for this quarter specifically we had a lower export shipments, so all these combinations led to a relatively lower margin but as Tarak mentioned probably three months or 90 days of a relatively shorter period for all these calculations and understanding. So, maybe as mentioned if you refer it to on a YTD basis we are at like 13.5%-14% of EBITDA margin. On the cost saving, as Tarak mentioned, we have been focusing primarily on the factory to reduce every bit of cost on account of material consumption, wastage, scrap and logistics, procurement, all the functions during the SG&A and the fixed cost. That's where we are, and we continue to work on that. We hope that the full year impact has started keeping in, in Q3 and it should increase in Q4 and going forward in Q1 onwards as well.

Alexander Pömpner: I think Tarak already said something, Manish already said something in general, we have a fluctuation between the quarters. This is mainly driven by the mix of the businesses. So, the share of services in relation for example to glasslined, not to the systems. And especially what Manish mentioned, we look regarding margin development, more or less on an LTM basis through the last five months basis or the year-to-date basis, however, you would like to do it, and there we see a continuous improvement and this is for us the key KPI and therefore we are not really worried if there's a quarter where maybe the margin is a little bit lower than the previous quarter because on the 12-months basis, we see the upper trend.

Kaushik Mohan: My second question is on like when are we going to see a bigger kind of growth coming from our non-glasslined business and majorly from the mixing business that I'm talking about?

Tarak Patel: So, just to start off this answer, the non-glasslined business today accounts for maybe Priyanka, as of this quarter, how much of total revenues, is it 30%? I think there's a significant improvement and we were looking at the numbers today. So, compared to 2021, if you look at the contribution of the non-glasslined business that was maybe early or late teens, maybe today around the 30% mark in 2024 YTD, so about 10% improvement in terms of the share of non-glasslined business. Now with the acquisition that we have made, definitely we will see the non-glasslined picking up and growing faster because these products obviously are in the markets that are growing much faster, they're not as a mature product as glasslined and specifically within the non-glasslined platform we have mixing which we believe will be a high part growth market. I now invite Thomas maybe to speak a little bit more about our strategy in mixing and how we are doing in that platform as well.

Thomas Kehl: The mixing platform is one part of our strategy moving forward, diversifying away a little bit from glasslined and more technology is getting more independent. The mixing opportunity and platform give us also the capability to tap other markets and applications and that turns out to be true. The acquisitions are now being integrated into one platform and leading by a specialist that we just hired and came in and Tarak talked about this one as well in the introduction and the opportunity is still there and this is clearly our target that our overall goals should also provide us with a different mix of product lines, less glasslined, meaning not shrinking but growing the others at a faster pace.

Tarak Patel: Correct the numbers, I have in front of me now, in FY'21, we had about 45% of our revenues coming in from glasslined business alone, that today has come down to 32% and non-glasslined technologies have grown from 12% to 29%. So, you see that about 25% improvement in terms of the pie, so the non-glasslined is nearly as big as our glasslined, right. So, the whole idea of diversification of product portfolio to shift the focus away from glasslined. The glasslined will remain an important part, but again glasslined doesn't grow as fast as these other product lines and non-glasslined we definitely see a good chance to improve our growth rate as well as maintaining our profitability. The last thing is also to maintain on this. I have to speak about is also the adjacent industries. If you look at the share that we have in terms of chemicals and pharma versus the adjacent industries, in FY'21, we had about 84% of our revenues coming from chemicals and pharma, today it's closer to about 60%, right? So, again, as part of our strategy over the last three to four years, we have completely changed the face of the company to be less glasslined focused and really provide a solution provider for the chemicals and pharmaceutical space and now we cater to a wider range of industry segments as well. So, as part of this journey, not only have we kind of grown our business in the glasslined business, but we've also added other opportunities that gives us a little bit more flexibility when it comes to one or two product lines not performing up to the mark.

Kaushik Mohan: Another thought process is on the glasslined. Any assumptions - by which year we can make our glasslined and non-glasslined revenues to be equal?

Tarak Patel: Sooner the better. I think by the way that it's looking, it's not too far away, right. We expect the 50-50 mark to happen in the next couple of years I would think. If the mixing platform and everything has picked up like we planned it, it could be even faster.

Manish Poddar The way I would characterize it is, look, roughly speaking, we want 50-50, but the idea is not to nestle into 50-50 each year, it's really to give us that strategic diversification so that if one industry is going down, the other one allows us to continue our growth trajectory which was not the case four years back when we were very tightly tied to capex cycles in chemical and pharma, right. So, that strategic sort of diversification is what we've been aiming for and we believe to a large extent we've achieved it.

Tarak Patel: And maybe one more thing that we've seen in India, because of the slowdown in this space, we've seen a couple of glasslined competitors also shut down, right. So, there has been some amount of consolidation in this period because of the lack of business and the lack of demand, you will see some competitors or smaller companies facing a lot more difficulties, right? So, from that there's also this aspect of a slowdown that you must consider. There is obviously pricing pressure, but on the flip side, there's also maybe lesser competition that survives something like this as well, right. So, that's one of the other outcomes that may be associated with the general market slowdown.

Moderator: The next question is from the line of Jonas Bhutta from Birla Mutual Funds. Please go ahead.

Jonas Bhutta: Just a quick question on our backlog. So, our backlog is down almost 30% year-over-year. So, it's an indication of the next year sales potential. By when do you think that even if to a flat sales in FY'25 compared to FY'24, latest by when do you need to see those orders flow through so as to we can at least manage flattish top line or is it fair to say that next year top line is likely to remain lower than FY'24 and we may end up meeting our sales guidance for FY'25 nonetheless because we've done that in FY'24 as well. But in general, how should one think of next year sales?

Tarak Patel: Jonas, I think the way that I would look at it is one is obviously as management today we know how important a strong opening backlog is. So, the focus is definitely to build more backlog. We are being aggressive like I mentioned in the market. We have seen a significant order intake improvement in Q3, and we expect Q4 to be around similar lines as well. Like I mentioned a large $11.4 million order will add immediately Rs 100-120 crores, whatever it is into the backlog, right, which obviously goes into next year. Do also keep in mind that there will be spare parts and services that get kind of built and booked over the next couple of months. Again, so that's always been coming. But we do expect the next couple of months to be active in terms of order intake, I think the people across the organization know how important it is. So, we do believe that we should be able to grow revenues next year, that's the idea, and we will try and be as kind of aggressive as we need to be to make sure at least that we kind of have enough of orders at the beginning of the year. So, from a business perspective, right now, I think the only area where we need to probably bring in a little bit more orders are currently in glasslined especially in India and that's where the focus is. And like I said, we are seeing some amount of improvement in order intake and finalization, right. But we've also taken calls internally to say if glasslined is not there, let's also make sure that the other product lines have maybe a little bit more higher order intake, maybe be a little bit more aggressive in heavy engineering or the proprietary or the mixing space, right. Similarly, we're looking here in India for re-glassing and refurbishing and spare parts. So, we're trying all avenues. The idea is to grow our backlog as soon as possible. And even though maybe let's say we are down definitely year-on-year, the backlog number where we were probably the highest backlog that we ever had was around Rs 2,200 crores. I know it was probably the highest and maybe it was a little bit abnormal I would say that maybe not the usual, it was the highest, but maybe the Rs 2,000 crores level is probably a better number to kind of have in terms of what our backlog should be like, right or what the backlog should be. So, I think that's what the focus is. We're not too far away from it. So, I think it's achievable. It really depends on how the market kind of plays out. But we do expect, and we do hope some very large projects are getting finalized.

Thomas Kehl: Yes, I think you said it rightly, that the focus is on order intake and we have seen in Q3 also the order intake to improve over the quarter that we have in a quarter before, just the order that from systems that came in on is US$12 billion is showing us that the decision-making process is now coming on stream again, and that we expect better larger orders over the next few months and we believe that the backlog will be at a healthy stage at the beginning of the year.

Aseem Joshi: I sort of echo what Tarak and Thomas said. I think in India as well, you would have noticed that Q3 was better than Q2 and we expect Q4 to be better than Q3. So, we certainly focused on driving that backlog number and again the benefit of diversification is very clear to see where we are seeing our heavy engineering, our mixing, our other non-chemical and pharmaceutical focused businesses really come in and help us get the additional set of orders. So, I think we're riding through a sort of a lull patch, but we should be out certainly in the next couple of quarters.

Moderator: The next question is from the line of Omkar Kamataker from Bonanza Portfolio. Please go ahead.

Omkar Kamataker: The first question is with respect to the orders. I wanted to understand as to with respect to the pharma and the chemical industry, are the management so like for example, the PI Industries order that you mentioned has been received by us. So, how are the counter companies whom we are dependent on? Are they at the negotiation table or they are still away from the negotiation table, both in respect of the chemical and the pharma players at domestic and the international level, how is that playing out?

Tarak Patel: So, there are definitely more people on the table today discussing and closing than we had maybe last quarter or a quarter before that. Activity has improved here in India. There are currently maybe 10-12 large projects that we are now discussing with. So, these have been something that have been planned over the last maybe 12 months, 15 months, 16 months and now coming back online. So, again, people are coming back to the table. This is mainly in chemicals. Pharma has been decent in the last few quarters as well. So, I would say compared to chemicals, there's more positive activity in pharma. We are seeing some pharma activity as well, and what we hear from some of our main customers is that their new projects are being planned as well. So, pharma will continue to do quite well for us. Internationally, are you seeing Thomas some amount of resurgence in terms of orders being finalized now?

Thomas Kehl: Yes, as I just said to the other question that I think the bigger project was a good signal that decision-making is moving on and as Tarak said, we have much, much more activity now around decision-making and new projects coming in. The pipelines are remaining very strong in all our segments. And therefore, I think we have good momentum again.

Omkar Kamataker: So, the sense that I'm getting is, there are large orders in the line, and they are dominantly pharma facing and chemicals is looking much better, would that be correct?

Tarak Patel: I said chemicals is looking better, but again there are a few large projects in the chemicals sector that have been lined, but with the market as it is changing overnight, right? So, before you know it, you might have 30 people waiting for the reactors. So, we can't really time it perfectly, but I do see and from what I've been hearing that, most chemical companies have now said that they've kind of reached the bottom, I think things are looking better now; commodity prices have stabilized. They've finally figured out what they want to do, how they want to compete with China. Their customers are now telling them which products they need to manufacture. So, inspite of their factories running at 60%-odd, they are still adding more capacity because 60% is for existing products and new capacities being built for new products that the customers are giving them, right. So, that's a whole different kind of investment that is going to come and then at some point, hopefully, we also see some amount of replacement and refurbishment business that comes through, right. So, now that we have been supplying reactors to the Indian market for the last 15, 20 years in that entire chemicals cycle, these reactors are aging, they will come back for replacement and they will come back for refurbishment, so that could be an additional business stream for us. But, I think generally the outlook today seems a little bit more positive, but again, the focus today is to reduce internal costs and make sure that we are ready and we are aggressive in the marketplace.

Omkar Kamataker: With respect to the position of the cash, so what is the cash on the books as on date? So, the question is with respect to pairing of debt. What is the timeline that we're looking at to pair whatever debt we have?

Manish Poddar: Yes, we have some like Rs 275-280 crores of cash in hand.

Omkar Kamataker: Sorry sir, I did not get that. What was that?

Manish Poddar: So, we have something like Rs 275-280 crores of cash in hand and net debt-to-equity we have something like 0.5 and a debt-to-EBITDA is at 1, and from a debt repayment schedule we have till FY'28 to be paid. But we are confident to repay much earlier. That is as per the agreements with the banks, but we are quite hopeful of the paying is even much better.

Moderator: The next question is from the line of Pramod Dangi from Unifi Investment Management. Please go ahead.

Pramod Dangi: My question is if you can give the like-to-like revenue figure for the international business? I believe there are some acquisitions which are done during the year. If I look at the year-on-year, what would be like-to-like sales?

Manish Poddar: So, maybe I can just give a broad sense. So, broadly, if you see international business has been growing at something like 20%, I think that's what Venkatesh was alluding to in the first question that he made. You can say half of it is going growing through inorganic growth and half of it is coming from the organic growth.

Tarak Patel: And like I mentioned, please keep in mind that the latest acquisition of MixPro has not been consolidated yet. So, this only includes our certain acquisitions, mainly Mixel and HARI I would say a little bit more, maybe 12% coming broadly something like that.

Pramod Dangi: The 10% growth which you are having on the organic side, is it coming more from the mixing or is it coming from both glasslining and the mixing technology for the international business?

Tarak Patel: Growth in international besides the M&A where it is really coming from.

Thomas Kehl: It's coming from non-glasslined technologies maybe. So, from the business that we already had earlier and glasslined was in revenue also working off the backlog.

Pramod Dangi: The order which we are getting in the international market also we are facing the pricing pressure or is it more confined to the Indian market?

Alexander Pömpner: I just would like to add also where we see really good growth is in the service business which should be considered, a higher margin business.

Tarak Patel: So, service business has done exceedingly well, both in America and Europe have been kind of outperforming the budget from a service perspective. Sorry, what was your last question? We missed that.

Pramod Dangi: My last question was like, as you said that there is a pricing pressure building up in India, prices are very competitive in Indian market, are you facing any kind of a price pressure in international market as well?

Tarak Patel: So, it's definitely not like India, there the competitors are a little bit more, I would say, understanding of the market and I think the pricing obviously is probably lower than what it was one year ago, but again it's not down to a level like we see here, it's a couple of percentage points of discount, nothing significant. And like I mentioned to you, because in Europe and the US, they don't buy material until they receive an order. So, for that orders I have already the pricing kind of priced in, right? So, versus in India where we kind of taken orders and new steel that has been pre-procured, here the procurement happens after the order is reached. So, that's a slightly different nuance. But pricing internationally has remained stable, and you will see that from the EBITDA margin level as well, they have been pretty stable and growing. So, that's a direct relation to the pricing strategy and the ability to keep pricing at a specific level.

Moderator: The next question is from the line of Venkatesh Balasubramaniam. Please go ahead.

V Balasubramaniam: I had a couple of follow up questions. Now, usually what happens is in your international business, in the 4th Quarter, what I remember is you pay out the bonuses and things like that and because of that in the 4th Quarter, your international business margins are lower than normal. So, are we expecting a similar thing to play out in this time 4th Quarter also because given that now the business is not in such a strong footing, will we have a similar level of impact in the international business in the 4th Quarter?

Thomas Kehl: It's definitely correct. In the 4th Quarter, there are also some specific impacts as you mentioned. However, as I said before, please compare that to the prior year quarter, and considering this, we are confident that we also are on track with an improvement, or we see an improvement versus prior year quarter.

V Balasubramaniam: On services, I remember that almost 40% of your international revenues were services at one point in time. I don't know what it is now. Do your clients go for annual maintenance contract or is it like they give you the services orders on an ad hoc basis?

Tarak Patel: I think, Venkatesh, both things happen. We do have AMC with certain large customers like BASF where we have people staying at the customer site and we provide these services with the AMC contract, but more often than not they are direct kind of request for service and spare parts that we deal with.

Thomas Kehl: In terms of share and structure of our revenue and order intake, we have seen for the last quarter that the revenue may have made up 36% out from services and the order intake even a bigger portion is 46% of service. And the key on service is response time and response time in terms of people at the customers place and having spare parts available that are needed badly.

V Balasubramaniam: On this 11.5 crores forex loss in this quarter, why was there a forex loss?

Alexander Pömpner: I think we also faced this before. We have on this accounting loan which we have an entire company loan between the euro-denominated entity and the USD-denominated entity and therefore we have a swing, just due to an intercompany loan which is it's accounting, it's not really a cash impact, it's just a mark-to-market impact, we have sometimes some upside, sometimes some downside, but at the end, it does not really impact our cash position.

Manish Poddar: So, during the quarter euro appreciated by 2% and hence there is an impact.

V Balasubramaniam: But if this is a mark-to-market kind of a thing, it should come every quarter. So, why was this not there in the 4th Quarter of FY'23, in first quarter of FY'24 and in second quarter of FY’24? Suddenly this year it has come only in the 3rd Quarter.

Manish Poddar Venkatesh, that depend upon the forex fluctuations. If you don't have euro depreciation in a particular quarter, you will not have that loss.

Moderator: Ladies and gentlemen, we would take that as a last question for today. I would now like to hand the conference over to the management for closing comments.

Tarak Patel: Yes. So, Thank you everybody. Just maybe a couple of things that we probably didn't speak about. Besides the cost improvement and the sales and order intake that we are working on, we also are looking at some kind of improvements internationally, maybe some kind of footprint consolidation as well and here in India also as well, we're looking at ways in terms of improving our profitability when it comes to the glasslined business. So, that's something that we're working on. Like I mentioned, order intake this quarter has improved by about 20%, and we expect that to continue. The focus is on building a strong backlog for next year and hopefully we will be able to perform better than this year when it comes to next year's performance as well. So, that's where the focus is, and we are quite confident that we should be in a strong position to do so. Thank you very much and I look forward to speaking to you again.

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