

GMM/SEC/2022-23/83

February 10, 2023

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

Scrip Code: 505255

Symbol: GMMPFADLR

Dear Sir/ Ma'am,

Sub.: Earnings Call Q3 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 December 31, 2022 conducted on February 03, 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**

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“GMM Pfaudler Limited Q3 Earnings Conference Call”

February 03, 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: Ladies and gentlemen, good day, and welcome to GMM Pfaudler Limited Q3 and 9 Months 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 this conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. 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, Ms. Daga.

Priyanka Daga: Thank you, Nirav. Good afternoon, ladies and gentlemen. A very warm welcome to all of you into the Q3 FY '23 Earnings Call of GMM Pfaudler Limited. 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; our CFO of International business – Mr. Alexander Pömpner; and our 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 our call discussions that will happen now, contained or may have certain forward-looking statements regarding our business prospects and profitability, which are subject to several 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. Good afternoon, everyone. I am pleased to report another good quarter driven by strong execution across geographies.

Our overall performance remains on track, and we are confident of meeting our FY '25 guidance. In terms of financial performance this quarter, we reported a revenue of Rs. 792 crores, which is a growth of about 23% and EBITDA of Rs. 118 crores, translating to a growth of 44% with an EBITDA margin of 14.9%.

I would like to also highlight here that there are 2 one-time exceptional items:

One is on the basis of an inventory provision where we were actually going to supply a large reactor from U.K. to China, and the application of this export license was rejected by the U.K., the government. Obviously, we have taken the most conservative approach and provided for the entire order. However, we will be reapplying for the export license, and there is a good chance that this export license will come through. And obviously, at that point of time, we would then provide for this in a deposited manner. The other option for this equipment is obviously we would sell it to somebody else. And if this export license is rejected again, we would then look at selling to somebody else or then finding another way where we could probably remove the glass and then send it into China and have it reglased over there. So, there are multiple options there.

The other one is for the acquisition-related expenses, again, one-time and that is to the tune of about Rs. 8 crore. The PAT was also impacted by a onetime mark-to-market forex loss which is a non-cash item. And obviously, in the first 2 quarters, we had a forex gain, but in this quarter because of intercompany loans, we had a forex net loss. In terms of our business performance, our shipment and order intake for the year is ahead of plan, and the outlook remains positive. Our Technologies and Services platforms are seeing good traction across geographies and our systems business, the opportunity pipeline remained quite strong.

The order backlog as it stands today is about Rs. 2,247 crores, which gives us about 6 to 9 months of revenue visibility. We've also done a large stock in sale order had been fulfilled. 24 vessels have been shipped to Germany. Out of these, 7 have been sold and the reordering of new equipment are in process. At the same time, I would still like to mention that commodity and energy costs do remain a concern. However, we are working on cost control measures across geographies and hopefully, that will help mitigate some of these costs.

In terms of other updates, we recently, as of this morning, completed the acquisition of Mixel France SAS and its wholly owned subsidiary Mixel Agitator Company Limited in France and China. The total consideration for this was about EUR 7 million. Mixel has a revenue of EUR 13.2 million, with an EBITDA margin of about 12%, and the backlog and the business visibility remains quite strong. This is a good acquisition for us as it helps us improve our mixing the portfolio, gives us access to new industries and to new technologies.

Lastly, I would also like to make a statement regarding the recent liquidity event. DBAG is a responsible shareholder and has been a strong supporter of our business and management team since 2014. The lock-in agreement was between Patel family and DBAG so that DBAG would not exit until the successful integration of the Pfaudler International was completed. This was estimated to be around 3 years.

But as many of you know, we outperformed and completed our 2020 guidance 1 year ahead of plan, and it was hence decided that this was the right time to start DBAG's divestment. The recent liquidity event and sale of nearly 17.3% stake held by DBAG to high-quality investors shows that the strong demand and interest in our business. The Patel family is now the largest single shareholder and have continually increased our stake post 2020. Further, we have also agreed to purchase an additional 1% in the business from DBAG at a price of Rs. 1,700. Regarding the balance stake of DBAG, it will be sold to the right set of investors at the right time.

At this point of time, I would like to now pass on this to Manish, our CFO of the India business, and he will take you through the numbers in more detail. Thank you.

Manish Poddar:

Thank you, Tarak. Good afternoon, all. We start with the consolidated numbers. The revenues for Q3 of FY '23 stood at Rs. 792 crores, a decent 23% growth Y-o-Y. EBITDA margin stood at 15% at Rs. 118 crores. This is a 2% increase in the margins Y-o-Y. PAT also is up Y-o-Y. However, in the current quarter, we were hit by a couple of exceptional items worth Rs. 22 crores, first one was the inventory provision of Rs. 14 crores that Tarak explained. This was a GLE equipment shipment plant from U.K. to China. Because of the rejection of the export license, we could not ship it out. And therefore, we took a conservative view of providing 100% of the Rs. 14 crores.

The second exceptional item was on the legal costs on the recent acquisitions and the Edlon sale back proposed of Rs. 8 crore. Apart from these 2 exceptional items, we also had a forex MTM loss of Rs. 18 crores, which is a non-cash item on the foreign currency forex. This is on intercompany loans in Euro and as you know, this quarter Euro appreciated, hence the resultant loss. Again, this is a noncash item. And likewise, on the YTD performance, revenue stood at Rs. 2,300 crores, up 26%. EBITDA stands at 14.5% at Rs. 335 crores, up 3% margin Y-o-Y. PAT also stands at Rs. 199 crores, up 2.5x versus last year. Therefore, you will observe that we are on track to achieve our guidance for FY '25, which is Rs. 3,700 crores of top line and Rs. 630 crores of EBITDA.

Over to you, Priyanka.

Priyanka Daga:

Thank you, Manish. Nirav, we can now open the line for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Utsav Mehta from Edelweiss Asset Management. Please go ahead.

- Utsav Mehta:** First one, what is the gross debt as it stands currently and how much of that is in foreign currency?
- Manish Poddar:** Utsav, the gross debt stands at Rs. 800 crores of which Rs. 400 crores is in the international business, which is obviously all in foreign currency, local currency in those countries. And another \$5 million of ECB, which is there in India. Apart from that, we, of course, have some \$25 million of cash to net debt will be there to that.
- Utsav Mehta:** And this excludes the employee liabilities, right, pension liabilities?
- Manish Poddar:** Yes, this is the total debt. This is the only debt to the bank.
- Utsav Mehta:** I just wanted to understand the Rs. 18 crore foreign currency translation loss on an international debt of Rs. 400 crores, that's almost 5% for a quarter.
- Manish Poddar:** So, this is not on the bank debt. This is an intercompany loan, a legacy loan once we acquired the business from DBAG itself. This is a loan from a euro entity to a dollar entity. The loan is in euro. So, while the debt gets knocked off as we consolidate between the loan received and the loan paid, the FOREX fluctuation gets impacted because the dollar entity has to pay in euros. Therefore, you would have seen Q1 and Q2, we had a positive impact of Rs. 22 crores, Rs. 22 crores each quarter because the euro depreciated. This quarter, euro appreciated, therefore, there is a loss of in Rs. 18 crores. This is not on the Rs. 400 crores of PFI debt.
- Utsav Mehta:** Sorry, how much was the gains that were booked in the earlier quarters?
- Manish Poddar:** 22 plus 22, something like Rs. 44 crores in H1 of this year.
- Tarak Patel:** So, maybe want to just add for the 9 months, we are still positive, where there is gain on the 9 months
- Manish Poddar:** Rs. 24 crores, Rs. 25 crores of net gain is still there.
- Utsav Mehta:** And that gain is in other income, is it?
- Manish Poddar:** Yes, this entire piece sits in the other income. Just to conclude this point. So, therefore, you see the other income for 9 months is Rs. 37 crores versus Rs. 5 crores. So, majority of that is, as Tarak mentioned is net of gain.
- Utsav Mehta:** Tarak, you guys have given a sort of a guidepost in terms of the EBITDA that you want to achieve. But I also wanted to understand this Rs. 800 crores of debt, sort of what is the target in terms of bringing this number down? And how will you go about achieving it over the next 3 years?

- Tarak Patel:** Yes. Hi, Utsav. So, we have a plan in place. So, the actual number is not 800 because we have cash on hand as well. So, it's lower than that. However, we do have a plan to be debt free by FY '28. However, we believe that it will be sooner than that. We do have some small acquisitions lined up, but nothing significant. So, most of the cash that we will generate now and we have a track record of generating good cash flows. So, I think over time, you will see that the debt number will reduce significantly. And we obviously have a plan to remain below the 1x Debt to EBITDA. And it was lower until we acquired, obviously, the 46% held by DBAG very recently, and then we made this new acquisition in Mixel. But I think over time, you will see that the number will start to reduce and come significantly below the 1x mark.
- Utsav Mehta:** So, from this Rs. 800 crore number, should I assume will be a peak number? From here on in it should decline?
- Tarak Patel:** Yes. So, I think that is around where we will be. I don't think this number is going to increase significantly at all, if anything, you'll see it going down over time.
- Utsav Mehta:** Wonderful. And one last question from my side.
- Tarak Patel:** But just to clarify, net debt today is how much?
- Manish Poddar:** so net debt would be something like Rs. 500 crores.
- Tarak Patel:** Yes. So, Rs. 500 crore, because we have cash on hand, so the net debt is about Rs. 500-odd crores.
- Utsav Mehta:** One last question from my side. At the analyst meet, you had mentioned that high-cost inventory, especially in India will be sort of done by the second quarter. And in the third quarter itself, you'll start seeing some benefits of that. But the standalone business in India this quarter has still shown a sort of 50% gross margin and 15% EBITDA margin. So, just wanted to understand how this number will trend over the next few quarters?
- Tarak Patel:** So, let me just start out by saying that you're absolutely right. We were hoping for some positive impact of metal pricing reducing and old inventory actually moving out. But again, this quarter, we had a very large shipment of 1 specific job for heavy engineering. So, there is a significant change in product mix. The India team, Aseem and Manish, are both working on improving the margins here in India. Obviously, material costs still remain a concern. We are still about twice the amount it was about 12 to 18 months ago. There has been significant increases. We tried to pass on as much as we can to customers. The heavy engineering business, like we know, is definitely not as lucrative as the glass trend part of the business and the product mix itself is having an impact on margin.

But we do believe that we have taken some actions over the last few months where the order intake in heavy engineering, obviously, is more profitable. We are working on increasing prices in the glass-lined business. The proprietary products is obviously doing quite well. So, we do have a plan that over the next few quarters, we will start seeing an improvement in margins. Maybe Aseem you want to jump in and just kind of talk a little bit more about what really impacted the Q3 margins here in India and how do you see them going forward?

Aseem Joshi:

Yes. Thanks, Tarak. So, Utsav, I think Tarak covered most of the points. I think I'll just elaborate on Heavy Engineering a little bit. As you know, this is a line of business that we've really accelerated this year given the backlog we had. In the last 3 to 6 months, as we have shared earlier, we've been a lot more selective about the kind of orders we take in this business and happy to see the change in the margin and the backlog profile that are starting to be shipped. So, we expect the benefits of that to come really in the following financial year. And at the same time, our filtration drying and systems business, both continue to ramp up as well as the mixing business continue to ramp up very nicely, and we start to see profitability there. I think Manish will just add a couple more points.

Manish Poddar:

So, Utsav, just to give you a perspective, heavy engineering was more than 25% of the business this time in this quarter. So, therefore, you see there is sudden spurt in Q3 standalone numbers to Rs. 276 crores vis-à-vis versus Rs. 256 crores in Q2. And on top of it, the major order that we had, the Rs. 100 crore order that we had, Rs. 30 crore was shipped out this quarter in Q3. And we expect the balance leftover of something like Rs. 20 crores to be shipped out in current quarter Q4. And then we're done with that big order where it was really margin dilutive. We did get something like 1% of material reduction impact, had a positive impact in our P&L. However, this was more than done by this higher share of the heavy engineering business. If we take out the heavy engineering business, the rest of the standalone business stands at 20-plus percent EBITDA margin.

Tarak Patel:

And maybe just to add in terms of business strategy, we've also kind of taken a relook at heavy engineering. We are kind of thinking of reducing our exposure there, keeping the revenues to a smaller number while filling that factory up with other products like mixing, like proprietary. And hopefully, that will help us also kind of improve the margins coming out of the new facility in **Vatva**.

Utsav Mehta:

Is there a difference in working capital between the HE business and the glass lining business?

Manish Poddar:

Yes, it does consume significantly higher amount of working capital, both on the inventory and on the receivables side, simply because on the inventory side, the manufacturing cycle is that much longer. So, GLE would have normally 3 months of manufacturing cycle. HE may go from 6 months, 9 months as well.

Utsav Mehta: Thank you so much.

Moderator: Next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Just following up on the margin question on international side. I think when we had guided originally to improve our margins to somewhere about 16%, the expectation was that although we maintain standard margins around 20%, there would be a significant step up in the international margins, which has kind of played out in the first 9-month period. So, just want to understand where all do you further see scope of improvement in international margins from this 12.7% what is reported in the current quarter? Or do you think largely all of those improvement plan has materialized and this is where steady state margins should sustain?

Tarak Patel: So, yes, I think the international business today is in par with our India business. In the past, India business was accounting to nearly 70-odd percent of our total profit. While today, the international business is nearly as big and as strong as the India business. So, that's definitely a very kind of a heartening situation for us. We also see that this margin in the international business will continue. Some of the new acquisitions that we've done will only help us kind of improve and maybe grow this margin as well. One of the recent acquisitions that we've done with Mixel, again, mixing is a business that we really are focusing on. We're trying to create mixing as a new kind of business line for us, again, because it really has good margins. It's a technology play, it really helps our customers improve, let's say, batch time, heat transfer, reduced power consumption. So, it's really becoming more and more popular. Again, you don't have too much competition again, and it cross-sells with the blast line very well, right?

So, across the board, it ticks all the boxes. It opens up a wide new set of industries, metals and minerals, water, waste treatment, cosmetics, food and beverages, besides chemical and pharma, right? So, mixing for us is something that we really want to focus on. We really want to create a brand, a global brand where we can really be one of the top key players in mixing globally, and that's what we are working towards. We are looking at some small acquisitions that will help us reach this kind of size and scale and hopefully, that's something that we can announce shortly.

But generally, in international business, the acquisitions that we've made will only help us improve the margins. Hydro Air has done quite well. We've seen a significant order intake. Again, a very kind of good technology products, again, with high margins. The services businesses are growing, again high margin. Interseal are doing quite well, again very high margin. So, overall, we are quite confident that the international business margins should sustain. You will also note that now internationally in Europe, especially in Germany, we are now seeing prices of the gas and electricity coming down. So, that's only going to have a positive impact. We've already taken cost reduction measures.

For example, we have gone down to a 4-day work week in Germany which has helped us. So, we are working on a lot of different things. But generally, to answer your question, yes, I do believe the international business will continue to perform and maybe even do a little bit better.

We have our CEO of International business here with us today, so maybe he wants to jump in and just say a few words. Thomas?

Thomas Kehl:

Yes. So, thank you very much, Tarak. The international business is going quite well. We're seeing very strong order intake. The inquiries are still at a very high level and we don't see any projects being postponed or cancelled anything from our customers and marketplace. And as Tarak said, we have taken a lot of actions in countering the cost increases in material, energy prices.

However, the overall energy consumption and the cost of energy is less than 5% of the total revenue but the impact is absorbable. And with energy prices coming down now will positively impact us because the current margin already includes higher energy costs that we have been absorbing. And so far, we are looking into, let's say, good foreseeable future on that part. So, overall, business International is intact. Also in the Americas, we have good business activities, a lot of activities going on and the order intake, especially on the service side, is pretty good.

Sandeep Tulsian:

That's quite elaborate. Second question that I have was on these acquisitions that we had done in India, specifically the De Dietrich facility, Hindustan Dorr-Oliver facility. If you could give us some color how those acquisitions have panned out in terms of ramp-up in production? What are the capacity utilization rates at these manufacturing plants? Where are they in terms of what you envisioned 3 years back to the scale and size that you can grow these businesses which you acquired? A bit more color with some quantification should help over there.

Aseem Joshi:

So, this is Aseem. I'll take this one. There are 2 acquisitions that we've done in recent times in India, the De Dietrich plant in Hyderabad and the HDO, Hindustan Dorr-Oliver plant in Vatva, Ahmedabad. We're actually very pleased with the way both these facilities are ramping up. First, the plant in Hyderabad, this is a glass lining plant. The idea was to be able to be local to the Andhra Pradesh-Telangana belt, where we have a key set of customers. I'm happy to report that, over the last 2 years, we have ramped-up production to a point where we were doing roughly 2.5 times what that plant had achieved in the past, in terms of revenue output. So, we're very pleased with the way that developed. And we continue to ensure that our processes are standardized, streamlined and work just like a GMM Pfaudler plant.

At the same time in our Vatva facility, which is a Heavy Engineering factory, again that's ramped-up very nicely. And while we have had the margin dilutive issue related to the order, the production itself has come up very nicely. And so, from operation standpoint, we are quite pleased with the way this factory has done for us as well. Tarak, anything to add?

Tarak Patel:

Yes. Maybe that we've added a furnace in Hyderabad, the new furnace in Hyderabad where we have expanded capacity there. We've added some factory space as well. We also are manufacturing some agitators for Mixion in Hyderabad. We've also manufactured new products in Vatva.

So, we're really using all the real estate as much as possible. We also at the same time just commissioned our big furnace here in Karamsad, 80,000 liters. We have received 6 orders for 80,000-liter tanks. These are the biggest vessels that can be made in India and the timing was perfect. Just when we started this new furnace, we actually got these orders for CPVC project. So, timing was good and we do have the capabilities now to make super large vessel here in India.

Moderator: Next question is from the line of Salil Desai from Marcellus investments. Please go ahead.

Salil Desai: Hi Team, I have a question. Manish, if you can help me understand this. If I look at EBITDA in the International business, this is the number on Slide #21 of your presentation, this is about Rs. 71 crores odd, right, which is the International businesses EBITDA, right? And if look at the EBIT in the overseas business, I'm assuming these are like-to-like comparison and the EBITDA is close to Rs. 14 crores odd, Rs. 14.15 crores. The part of the difference obviously is depreciation, which I did --

Tarak Patel: Salil, we can't hear you very clearly. Can you maybe just slow it down a little bit and speak up a little bit, so we can hear you a little bit more clearly.

Salil Desai: Sure, sure, I'll do that. So, I think EBITDA in the International business is Rs. 71 crores and the EBIT in overseas business, which is part of the segment results is some Rs. 14.15 crores. So, I'm just trying to see how do we get from Rs. 71 crores to Rs. 14 crores, right? I saw some depreciation could be about Rs. 20 crores odd. But if you could help understand the rest of the bridge, it would be really helpful? This seems like a pretty large difference.

Manish Poddar: So, Salil, you're right. So, if we start with the segmental EBIT of Rs. 14 crores in Q3. So, from that, we add another inventory provision of Rs. 14 crores. We add exceptional legal cost of Rs. 8 crores, so that's Rs. 22 crores, plus we add this FX on the intercompany loan of Rs. 18 crores. So, Rs. 14 crores plus Rs. 22 crores plus Rs. 18 crores makes it Rs. 54 crores, right?

So, that's the basic construct of this Q3. And likewise, if we see like-for-like, Q2 of EBIT said Rs. 69 crores, right? Now Rs. 69 crores had a Rs. 22 crore FX gain, right? So, that Rs. 69 crore minus Rs. 22 crores actually makes it Rs. 47 crore on a like-to-like business-business performance perspective. So, Q2 EBIT adjusted would be Rs. 47 crores, Q3 adjusted EBIT will be Rs. 54 crores.

Salil Desai: And the next question, Tarak, this is for you, now, when you said that since you have some more acquisitions, some planned or thought off. You're looking to add products, geographies, if you can just explain how, I mean, how much more we need to acquire before say the portfolio you think is the complete?

Tarak Patel:

So, this is part of our strategy. So, when I spoke about mixing and mixing becoming a business, a standalone business that we really want to focus on. With the Mixel acquisition, we have now presence in Europe. Mixel has a factory in China. So, we have a presence, automatically in China and through our Mixion Business line here in India, we have business here in India. So, India, China, Europe taken care of, that leaves only the Americas as the place where we don't have a presence, so that's something, but is in the same space as mixing.

So, we want to kind of combine these 4 geographies and have a global mixing platform, where we can go out and we can sell or we can brand under 1 umbrella. We have one focused person. We've actually just hired a person who is going to take over as the Head of the Mixing business for the Company eventually. So, we're giving the mixing a focused and the ability to grow. Like I mentioned to you, the market side of mixing is much, much bigger than glass line. It's a technology play, so high margin business. It's something that involves a lot of simulation, software technology, and a proven track record. So, companies who have supplied equipment in the past, that automatically qualifies you with large oil and gas project, license the project. So, it really opens up a really wide range of application in that end and the industry that we can cater to. It's very much complementary to glass line. It's also very important today that companies are looking at ways to reduce batch time power consumption, improve heat transfer, improve product quality and yield. So, mixing has become an important part of their efficiency improvement program, right? Most of these Indian companies have 300-400 reactors, but if you can reduce the power consumption of each reactor from let's say 25 horsepower to 15 horsepower, tremendous saving would be possible.

So, mixing is something we are focusing on. Mixel acquisition was the first step. We have something planned as well, something smaller, something not too large. Again, the size of acquisition are not that big, it is between \$5 million to \$10 million range, but some of these acquisitions can double or triple in size, very quickly. And our eventual goal in mixing is to be, at least in the top 3 in the world and that would put us in the \$100 million to \$150 million mark, right? And that will happen eventually in 3 to 5 years from now and that's what we're aiming for.

Moderator:

Next question is from the line of Jonas Bhutta from Aditya Birla Mutual Fund. Please go ahead.

Jonas Bhutta:

Just trying to put in place the commentary to the numbers. So, basically, what we've seen is in the last 2 quarters, our order intake has sequentially declined from a peak of almost Rs. 990 crores odd down to Rs. 770 crores. But on the other hand, we also heard your comment where you said inquiries seem to be still robust. So, how should we think about this in terms of is this largely a timing issue where client seem to be taking longer or you are seeing genuine slow down while people seem to be talking to you, but there is a general slowdown happening particularly in Europe?

Tarak Patel:

So, I think it's a combination of multiple things, generally the business environment is a bit subdued over the last maybe 2 quarters. I think the Ukraine war, the global inflationary issues and problems going on. But the inquiry still continue, maybe the time they take to finalize has kind of increased. But we are seeing again some kind of a reversal in those trends. We have over the last quarter seen significant project here in the glass line part of our business here in India, like I mentioned to you. Yes, we've seen some slowdown in the systems business internationally, but the opportunity pipeline remains strong. We do expect some large orders to come in, in the fourth quarter.

Luckily for us, we have a large backlog in most geographies, 6 to 9 months, in some cases even more than that. So, that gives us good revenue visibility. We also have the ability now to kind of target some orders which earlier we could not target, now with India being part of the global sourcing program, we are ready to enter new markets like Eastern Europe, Southeast Asia, some parts of Spain and Africa. So, there is a lot of opportunity available. But generally, we have also been kind of selective in terms of what we take and I think one of the things in India especially that we've done that we've kind of been selective both in HE and in glass line.

But glass line has picked up last month and we expect that to pick-up as well. I think the other thing to keep in mind is, well, we said last couple of quarters, we had a large order from heavy engineering, but because of the large backlog that we have in that business, new orders will take some time because we already have our factories full for 9 months. So, we expect orders in HE to come in the next few quarters. And with Mavag for example, our Swiss subsidiary has a backlog of close to nearly 15 to 18 months, right? So, generally, the activity is there, they're still finalizing new orders. So, there is activity going on in Europe and in the US. India is also picking up. Maybe Thomas, Aseem, you want to add something on what you're seeing in Europe and in India?

Thomas Kehl:

So, looking at the European and American activities such as that before, I think they are quite normal on a high levels still. Demand is not really slowing down. I think we have seen the last couple of years and slightly overheated situation, that is coming now back to a normal situation. So, the decision-making process means that customers are not slowing down, more than they have been before. They were extremely fast over the last 2 years and that couldn't hold forever. So, we are not concerned about order intake, about these demand that we see in Europe or in America at this point.

Aseem Joshi:

Yes, I think we are seeing as Tarak mentioned a lot of activity, especially in the specialty chemical space, our order book there is actually growing quite nicely on the glass line there particularly. While pharma continues to remain somewhat subdued. Overall, we're pretty satisfied with the way our glass line has done.

Jonas Bhutta: And just given that we don't have too much of a history of how order book used to behave for PFI before it came in, given that we're sitting on a backlog of about Rs. 20 crores to Rs. 50 crores odd, and even if we sort of conservatively grow our sales next year by about 10%, we're talking of roughly 3,300 kind of number. With this kind of backlog, what kind of order intake that you think that we'll have to pull-through so that we can comfortably sort of reach at least 10%? So, it has typically order book-to-sales coverage being 0.7x or there seems to be on the lower side. Just from a historical perspective?

Tarak Patel: No. I think from a historical perspective, I think this is record order book. They used to be much, much lower. In India, obviously, we do try and start the year with at least half the order book of what the year is targeted. So, let's say, for example, if we have a Rs. 1,000 crore revenue target, we should have at least Rs. 500 crores of revenue on-hand. So, from that standpoint, half the order backlog is already on our books. We will book new orders in Q4.

Plus also what you probably don't consider in this is sales and services, right? These are ongoing and these are short delivery items and get booked continuously. So, that will only add to it. So, I think we are quite comfortable from an order backlog's endpoint, that why I mentioned, we have about 6 to 9 months of visibility. We won't have any kind of urgency in terms of building in orders or dropping prices. We can hold pricing. We know there are large orders in the pipeline. We know large projects here in India that are currently happening. We have good projects on hand in Europe as well. So, overall, I think we are in a strong position, but like there will be cyclicity in the market. There will be ups and down. But our recurring backlog gives us a strong kind of a base to build on.

Jonas Bhutta: And the last one that I had was on margin. So, you mentioned that the heavy engineering piece still has a legacy order book of Rs. 20 crores to Rs. 30 crores, which probably will get executed in the fourth quarter. So, is it fair to assume that the fourth quarter margins of the standalone piece would sort be similar to the Q3 or there are levers there also, which you think will help us better margins there?

Tarak Patel: So, obviously we are looking at internal measures to reduce costs, but I would stick with the current margins that we have been delivering. Obviously, there will be new orders coming in. But again, metal prices again have kind of stabilized now. There has been some talk that it might even go up. So, we have to be a little bit careful. But I think we definitely have opportunity to reduce cost internally, Aseem and Manish are working on that. There is currently a procurement activity going on with the help of a consultant to look at large contract and to find ways of buying them more efficiently.

So, all those things will be ongoing, but right now, I don't want to really give you or change that number from last quarter. We do always try and next year hopefully, we have some actions in place, where we can see some improvement in margins during the India standalone numbers.

Moderator: Next question is from the line of Bhavesh from Jeetay Investments. Please go ahead.

- Bhavesh:** I just wanted to understand on the valuation front. So, can you just give me a brief on the valuation, what we like acquired the pending or the remaining 46% which we acquired on that front?
- Tarak Patel:** Manish? Valuation of the 46%.
- Manish Poddar:** So, I think we have a detailed presentation penned out for this at the time of acquisition. And it compares all about I think both the EV EBITDA multiple, it was 6-6.5. That was the valuation multiple effect, that's what we're looking at.
- Bhavesh:** And just on the 2014 DBAG one?
- Tarak Patel:** DBAG had acquired in 2014. They acquired the Pfaudler Group. I'm not sure at that point it was done directly with another Company, what DBAG ended up paying, I have no idea. That's something that is not in the public domain and that was done between NOV, who is an American Company and DBAG. Not sure of those numbers. But the 2020 numbers as well as the 2022 numbers, both have been compared and they are on our website, you can have a look and all the details in terms of EV valuation multiples are all part of that presentation.
- Bhavesh:** And just one another question that in the chemical side, like is there any segment which we are not catering to other than like agro and specialty chemicals? Is there another sector or profile?
- Tarak Patel:** So, obviously agro-chemical and specialty chemicals are the big ones. We also do dyes and paints for glass line equipment. In pharma, we do API, basically bulk drugs and API. We don't do formulations really. There are certain applications like fluorination. Anytime you use fluorine, you can't use glass line because it reacts to glass. But besides that, chemical, agrochemical and specialty chemical, will require some kind of glass line equipment in their plants.
- Moderator:** Next question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead. .
- V. Balasubramaniam:** I actually had one question for Manish and one question for Tarak. Now, firstly, Manish, last year, if you actually see the fourth quarter results, fourth quarter last year, effective tax rate was almost 60% odd in the fourth quarter. Are we expecting a similar level of effective tax rate in the fourth quarter? This is a question for Manish.
- Manish Poddar:** So, effective tax rate for the organization stands at 27%. However, there have been fluctuations on the positive and the negative side through the quarters as we've seen. There have been deferred tax reversals and further credit in the last quarter as we saw.

Similarly, if you look at the current quarter, Q3, you have a PAT of Rs. 19 crores, a reported number. And if you add 27% of normal tax rate, you give us Rs. 5 crores of taxes. And then the FOREX MTM that we spoke about that Rs. 18 crores, that is obviously is nontaxable. So, that's a Rs. 6 crore impact. And these are the minor deferred tax accruals and deferrals. And because of that, we come to the number that we have.

V. Balasubramaniam: The other question is to Tarak. Now, obviously you are planning to buy 1% from DBAG fund and I believe that you need some regulatory approval. So, what exactly is this regulatory approval which you are waiting for? And when does this come to, that is first part of your question and when will this happen, this 1% stake purchase? Secondly, I guess when you actually buy from DBAG, it's an inter se purchase, so it doesn't trigger an open offer. So, does it also mean that when the next round of, the remaining 13% odd percent of DBAG, whenever that comes to the market, you will be looking to buy more? Because if you don't buy from them and you buy from the open market, it might end up causing an open offer. So, are you thinking about increasing the stake even further in the next round? So, if you could provide some color on that, that would be useful.

Tarak Patel: Sure. So, Venkatesh, let me start off first with the approvals required. There are 3 approvals required, the U.K. FDI, French FDI and Italian FDI. These 3 approvals are only getting triggered because we are crossing the 25% mark, when we acquired this 1% stake from DBAG. Those applications have already been made and we expect that and the CCI approval to come sometime in the mid of March. So, we expect those transactions to be completed in the March month, end of March, something like that. When we acquired this 1%, we will cross from 24.2% odd to 25.2%, so we would have crossed that threshold. After crossing the 25%-mark threshold, we can then free from the market, we can buy from the market to any more acquisitions of shares will not trigger any open offer, because we brought that 25%. Do I plan to buy more from DBAG? Obviously, when that time comes and when DBAG is looking to sell that stake, we will think about it, but right now, my first goal was to cross the 25% mark. I've also mentioned in the past that yes, as the dominant promoter, we would like to be somewhere around the 28% to 30% mark. If that is possible, I would like to do that. Timing, I'm not really sure, but if there is an opportunity to buy something from DBAG, sure, we'll consider it.

Moderator: Next question is from the line of Ronak Vora from AUM Fund Advisors. Please go ahead.

Ronak Vora: When we say our hands are full with the order book of 6 to 9 months, what kind of capacities do we have in hand currently, as in what kind of utilizations are we at and where can we reach?

Tarak Patel: So, I would definitely see that in our India glass line business, we are not at full capacity. India has a backlog of about 6 months. So, there is definitely potential to kind of improve the capacity in India and take more orders like I mentioned to you. Orders have been between choosing and picking orders carefully to make sure that we do a good margin business. But in Europe and the other geographies, we do have a higher capacity utilization and I think the order backlog there is much stronger. They have about 9 months in most of the glass line factories, so there the

utilization rates are much higher. I also mentioned that we've taken some steps to reduce costs in Germany, where we've gone to a 4-day work week, but we're still producing the amount of equipment. So, there the utilization has actually improved.

We are also working on a global operational excellence program. So, we have seen significant improvement in our China facility. China is really an area we want to grow market share. We have brand new facility there. We have new furnaces there. They just recently also finished manufacturing 140,000 liters glass line vessels, which is the first time that has been done at the Group. So, we have really big plans for the China facility and hopefully market share in China can increase significantly.

Manish Poddar: Just to add, as I recall from our guidance that we gave, we do not expect to make any significant CAPEX for our guidance of Rs. 3,700 crores. We actually think that we should be able to do something like Rs. 4,000 crores to Rs. 4,500 crores out of the current CAPEX. So, if that answers your question.

Ronak Vora: So, basically, currently, your gross block, which is a Rs. 1300 crores can do Rs. 4,000 cores to Rs. 4,500 crores of top line, correct?

Manish Poddar: Yes. Of course, there will be maintenance CAPEX throughout, as we mentioned in the guidance period, in the guidance presentation as well. So, you should expect 2.5%, 3% of CAPEX in our requisite.

Ronak Vora: Yes. I'm just getting rough figures; I don't want to ballpark this time. Secondly, you said that India is underutilized, and we are picking orders. Is it something because the pharma industry in India has been dull, the chemical has been pretty good. So, is it something that there are lack of orders in the market, which is leading to the 6 months of order backlog.

Tarak Patel: No, it's a combination of multiple things. I think one is that most of our furnaces in Gujarat are on gas. So, we try not to use the gas furnaces and use it at spot rate basis, so we try and consume the gas which is at the lower prices. So, we don't need to over kind of extend and use this furnace 24/7. So, we've been a little bit conscious about that.

Plus, we now have the Hyderabad facility, which also has capacity, like you rightly said, there has been a little bit of a slowdown when it comes to pharmaceutical, but then the agrochemical and specialty chemical sectors are making up for that shortfall, right? So, there are large projects in the pipeline, PI industries, and PP 12 and 13 is coming. SRF just announced a new agrochemical plant. Meghmani is putting up a CPVC project. These are all large reactors. Deccan Fine Chemicals is expanding as well. So, there is no shortage of orders. Expansions are happening. India will continue to invest in chemical and pharma. Obviously, in the past, earlier on, maybe if you look back 10 years, pharma used to account for nearly 60% of our glass line business, today only account for 30%. So, pharma has definitely slowed down because we

replaced it by chemical. Hopefully, pharma will start coming back and that will also add more orders coming into the market and it would definitely be more business for us as well.

Moderator: Next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Two questions. The first one is related to this holding of Pfaudler Inc. So, is there any binding clause or binding agreement or contract because we had some of these contracts in the past for 3 years. So, are there any more contracts or are they willing to extend it going forward?

Tarak Patel: No. So, there is no real contract in place. But again, I mentioned that DBAG is a responsible shareholder and they will only sell when the time is right and with the right set of investors. So, again, there is no specific timeframe. As and when the demand is there, the right price and the right set of investors, we would like to do the transaction. And obviously, the private equity investors, they have a financial timeframe that's been announced in 2014. It's already now nearly 9 years. So, the timeframe is probably at the end of the timeframe. So, when we find the right position for them, I'm sure they will be looking to exit and at the right time.

Rohit Ohri: And if you can just share like what is the timeline? Is it like September or October?

Tarak Patel: So, I can't really say any timelines right now. There is no specific timelines. Again, it all depends on what happens in terms of the demand, the interest levels. So, as I said, at the right time to the right set of investors, we will then plan that sale accordingly.

Rohit Ohri: My second question is related to the split if you do in the segments and sub-segments. We see that the standalone and international has been reducing in terms of the percentages for technologies. And on the same hand, the systems and the services is growing and it is inching slightly more towards the north side. So, any guidance you would like to give on this or will this trend continue with technologies becoming slightly weaker and system services going towards the north?

Manish Poddar: Maybe Tarak and Aseem and Thomas can explain. Just to give a perspective, technologies is growing naturally slower than systems and services because systems and services are the new businesses that we have. So, it's all relative because ultimately the pie has to stack up to 100.

Thomas Kehl: Thought you said it very well, Manish, thank you. This is our core business where we have high market shares in all the regions. And therefore, we grow consciously with the market. We are not growing the market share at any price. We mentioned selective decisions on what orders we take and whatever we're not going to take. And the other segments are our pure growth segments where we are investing in capacity and also in M&A. And those are the segments where we are looking for growing the pie and getting to the piece of the pie and they're naturally as Manish said, both ways we expect to be significantly high.

Moderator: Next question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: One question. If I remember right, I mean in the previous call, you had mentioned that the reason why you're not participating, especially in the kind of orders that your domestic competitor usually gets into is because these are on the lower end of the F&D. Now when I look at their margins, that is whether be the gross margin or the EBITDA margin, they seem much better despite having the higher mix of that lower end of F&D. So, could you just help me understand and probably provide your perspective as to how probably they are able to make better margins, despite being on the lower end?

Tarak Patel: I'm not sure what you're speaking about, but in terms of glass line, obviously, we are the market leader. In F&D, filtration and drying, we are definitely not the market leader, and we focus on the high end of any kind of filtration and drying which requires technology, that's what we're really focus on. I mean, I have access to my competitor's numbers, I don't really know how and why those numbers are the way they are. What we can tell you is that being a market leader, we drive price.

Price is important for us, and we make sure that we will only do business in the glass-lined segment at a price that makes sense to us as the price leader, and we do command a premium when it comes to glass-line because of our quality and our technology. Even in the F&D business that we do, we have specific products like the spherical dryers, glass lined ANFD, like VCD, again, very specific, very kind of critical. And hence, again, the margin profile there is significantly better, and that's what we really focus on.

Moderator: I now hand the conference over to Mr. Tarak Patel from GMM Pfaudler for closing comments.

Tarak Patel: Thank you very much, everybody, for joining the call. Have a nice weekend, and we will talk to you after our Q4 results. Thank you very much.

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