



GMM/SEC/2023-24/40

August 14, 2023

To,
BSE Limited
Scrip Code: 505255

NSE Limited
Symbol: GMPFAUDLR

Dear Sir/ Ma'am,

Sub.: Earnings Call Q1 FY24- 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 June 30, 2023 conducted on August 10, 2023, 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 Mehta
Company Secretary & Compliance Officer
FCS No.: 7848

Encl.: As above

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“GMM Pfaudler Limited Q1 FY-24 Earnings Conference Call”

August 10, 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. 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 Q1 FY24 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 call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now had the conference over to Ms. Priyanka Daga. Thank you and over to you, ma’am.

Priyanka Daga: Thank you Rayo. Good evening, ladies and gentlemen. A very warm welcome to all of you into the Q1 FY24 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; our CFO of International Business – Mr. Alexander Pömpner; our CFO of India business – Mr. Manish Poddar and our 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 also on our website, including of all discussions that will happen now, contains or may have certain forward-looking statements regarding our business prospects and profitability, which are subject to several certain risks and uncertainties. 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 evening, everybody. We are happy to announce a strong start to the year and remain on track to meet our FY25 guidance.

Our business today is much more diverse and resilient than ever before, and we cater to an increased number of geographies and a wider range of products in our portfolio. We will continue to leverage our strengths, i.e., our market share, technology, the position as well as a global sales and service network to grow our business across regions. There is clearly a slowdown in the chemical industry and because of this, our order intake remains subdued. However, our opportunity pipeline remains strong across all business platforms and geographies. And we expect some of this, the customer decision making, which has been quite delayed for a

few months will come through in quarter two. We have also seen good traction in our technology and services business. However, our systems business is behind budget.

Further our new market segments that we have kind of now acquired through our acquisition will also help us to enter new market segments and will also help us in reducing our dependence on chemical and pharma segments in the long term. Our order backlog remains stable at INR 2000 crores which translates to about eight months of visibility in the international business and about six months of India business.

In terms of financial performance, our consolidated revenue for the quarter grew by 23% to INR 912 crores within an EBITDA of INR 132 crores, which is 35% higher than last year. Our current quarters improvement in profitability was driven by International Business largely due to strong execution, pricing improvement as well as lower raw material and energy costs. Having said that, cost reduction measures continue across geographies. Operational excellence projects have been initiated at Mavag, Switzerland and Mixel, France and on the manufacturing front, I'm also pleased to announce that we have completed our first, the acid recovery the project here in India.

Our long-term growth strategy remains intact and as management we are continuously working on growing revenues and margins. Looking at the current performance, we will most likely surpass the FY25 revenue guidance of INR 3700 crores and we are on track to meet our EBITDA guidance of INR 630 crores. As FY25 is not too far away and many of you have asked about our growth plans beyond FY25. What I can say, as a general rule of thumb, is that we as management are confident that we can achieve similar levels of growth going forward. As per our guidance document, which was from FY22 to FY25, we had planned to deliver about 15% CAGR growth in revenue and 25% CAGR growth in EBITDA. Beyond FY25 we expect the revenue growth to continue in the range of 13% to 15% and EBITDA growth in the range of 18% to 20%. That growth in revenue will come from newer geographies that we will now cater to, our non-glass line portfolio is growing faster, as our market share is lower in these products and our services business continues to grow across geographies.

Our India business will grow faster than our international business. We expect the India business revenue to increase at CAGR of 17% to 18% and the EBITDA to grow at a CAGR of about 20%.

I will now hand over the call to Manish, our CFO of the India business, and he will take you to the performance in more detail. Thank you.

Manish Poddar:

Thank you, Tarak. Good evening, everyone. We are pleased to share our 1st Quarter results for FY24. As Tarak mentioned, at consolidated level our top line and EBITDA grew by 23% and 35% respectively on Y-o-Y basis.

Our international business perform very well with significant improvement in EBITDA margin, driven mainly by strong execution, pricing improvements and lower raw material and energy costs. Also, a higher share of services has improved the margins.

Our India business continue to perform well. However, there is margin pressure due to increased competitive intensity and a general slowdown in Chemical segment. We also had lower shipment in Q1 which is the usual thing, for any year and a lower share of exports in this quarter also impacted margins. We have undertaken cost saving initiatives and operational excellence programs across the organization, we should have a positive impact on margins going forward.

Further, some of you have inquired about the CAPEX plan. I would like to reiterate that for achieving FY25 guidance, we do not need any enhancement CAPEX other than the regular maintenance CAPEX of around 2% to 3% of the total revenue. Beyond FY25, to maintain growth trajectory we would need enhancement CAPEX; we would ensure that the additions are value accretive with total CAPEX to be about 3% to 5% of the total revenue including the maintenance CAPEX.

With this back to you Priyanka.

Priyanka Daga:

Thank you Manish. Rayo, you may now open the line for questions. Thank you.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Venkatesh Balasubramaniam with Axis Capital. Please go ahead.

V. Balasubramaniam:

Is it possible to repeat your guidance beyond FY25, did I get this correctly, revenue growth of 13% to 15% and EBITDA growth of 18% to 20%?

Tarak Patel:

Right. So, again, Venkatesh this is not guidance per se, it's a general rule of thumb. We've been asked this question that 2025 is pretty much going to happen in the foreseeable future. And what kind of plans do we have after that? So, yes, like I rightly said, in terms of the consolidated revenue growth, it will be in the range of about 13% to 15% CAGR and the EBITDA growth will be in the range of 18% to 20%. If you compare it to the vision document that we gave out in last August, it is at similar levels. Obviously, we have grown significantly in the last few years and with the work that has happened in terms of the glass line business, the restructuring that we've done in Europe, we expect this growth to continue in terms of revenue, but on the EBITDA number we are a little bit more conservative because we've already seen significant improvement in the international business. And we probably feel that kind of tapering off, the 20% growth rate CAGR in EBITDA growth is still possible.

V. Balasubramaniam:

Okay, understood. So, this is like your internal target that, beyond FY25 this is what you would like, aspire to do?

Tarak Patel:

Yes, so as management this is what we would expect of ourselves. This is what we will aspire for, and this is what we will work towards. Obviously, the market should be conducive which

we believe it will be. And it's important for people to understand that some of these things are long term initiatives, we've planted the seeds, but we do expect over the next few years that some of these initiatives that we're working on will start to take shape. And at the same time, we've also kind of said that, glass line is a very important part of the business, we already are the market leaders, having a high market share that business can only grow so much. So, we need to focus on new areas which we have been doing and hopefully now, we have planned and you have seen the acquisition that we made, especially in the state of the mixing, where we believe we can add significant growth as well.

V. Balasubramaniam: Okay, understood. The second question is on the standalone business margin, which were at around 14.4%. Last year margins were subdued because you were sitting on an inventory of high-cost steel, what we remember is in the fourth quarter result it was mentioned that the high-cost inventory of steel has been exhausted. And hence 1st Quarter onwards, you should see a margin improvement. But that has actually not played out. So, I understand that revenue growth at around 12% on the standalone is slightly muted. So, you could have had negative operating leverage. But didn't you get any benefits of, what we call it lower raw material costs, because when your GP margins, that is your raw material margin has also contracted on a Y-o-Y basis, from 50% to like 48% odd?

Tarak Patel: Right. So, couple of things to kind of think about at an India margin level and I'll add and let Aseem also add to this. But generally speaking, India usually has a slower Q1. Obviously, Q4 is always the big month, the big quarter and then Q1 is a little bit subdued. Having said that, we could have had a little bit more, the shipment as well, which could have impacted the margin positively. And like Manish said, the ratio of exports in this quarter shipment was obviously lower than what we expect. Having said that, we are working on internal measures to improve margins, there is definitely some benefit that we will see in India, because of lower steel price and energy cost. We were hoping to see them this quarter, but at the same time do keep in mind that there is competitive intensity that has increased, there has been over the last maybe two quarters or so a lot more, I would say the competitive activity where we have seen a slight slowdown in terms of investments especially, in the chemical sector. So, that has probably made the pricing strategies a little bit more aggressive. Having said that, we do believe that we are in a good position, we had a good order intake in Q1, but we see that Q2 is slightly more encouraging as well. And we are being more aggressive and as you know, we are the market leaders, we are the choice when it comes to glass line equipment. And that's really where we have the right of first refusal. So, having said that, we expect the margins to kind of stabilize around 15% to 16%. That's what we are hoping for this year and that's what we can expect. And if there's further improvement in the market, and there's further improvements in our internal cost structure, maybe that will be a slightly higher number as well.

V. Balasubramaniam: Okay, understood. Now a different question on your international business, so growth in your international business is quite surprisingly strong because we were all believing that the international business is basically a mature economy. You should be growing at maybe single digit, at best double digit but growing at almost 18%, 20% kind of like what exactly is happening

there, is it because you have offshored manufacturing to India, you are being able to offer better prices, and you are actually gaining market share outside India. Is that something which is playing off, or there is something else which is at play?

Tarak Patel:

Yes. So, that's playing out. But I would not say it is significant in terms of the improvement. The improvements have been years in the making, we have put in place a lot of initiatives, like I mentioned, especially in Germany, in Italy, in China, we build our service network across the world, we build our systems business as well. So, all in all, it's multiple different things that are fired at the same time. In spite of the slowdown even internationally we've been able to have a very strong Q1, we have about eight to nine months of backlog. And on top of that yes, we have been able to enter new markets, new geographies with product made in India, we've also started the stock and sale program, which obviously it's something that we expect to kind of gain some traction in the next few months. We also now look at supplying some of the stainless steel and filter drying components out of India. So, we are working on that, that is a slow process, there's a lot of acceptance issues. There's a mindset issue that we have to work around, but all in all we've had a very good start. Very positive start and we hope to build on that going forward. Maybe, Thomas you want to step in ?

Thomas Kehl:

Yes, Thomas Kehl speaking. One thing to mention is that our overall strategy of growing into non-glass lined application technologies is playing out quite well. You remember, we made the acquisition last year with the company in Italy, company for filtration, liquidation, separation, HARI, we acquired and close the deal with our company in France, Mixel for the mixing industry. And we created the joint venture for re-glassing business in the US. So, this is playing out and helping us increase the order intake and diversifying all industries;, really helping us in the performance this year as demonstrated.

V. Balasubramaniam:

Okay. Tarak, I had a question for you, you were supposed to buy another 1% of the company. And this was supposed to happen by somewhere around April or so. Now it is almost August, but that 1% stake purchase which was supposed to happen at INR 1700 price, that has actually not happened. So, why is that, why is there a delay in that particular thing happening?

Tarak Patel:

So, yes, Venkatesh good question. And I'm glad you asked it, because I'm sure everybody is waiting in line, will probably ask the same question. So, the only reason that has not happened is because of French FDI approval, I am still 100% committed to do the trade at INR 1700 for 1%, it will get done and most likely the timeline is sometime in September. I'm giving you the higher end of the timeline; if it will happen before that, this will get done. There is no change in mindset, there's no change in agreement, this 1% will be bought by the Patel family at INR 1700.

V. Balasubramaniam:

Okay. One last one from my side. There is still a residual, there will still be a 14% of stake with the private equity fund, which they want to exit. Now what is the thought process behind that particular exit, because the stock price obviously is stuck at levels below the previous levels where they sold shares. Now, are you open to they doing a sale below the INR 1700 level or is it like you would want it to go to above INR 1700 when that trade happens because it's become

like a chicken and egg kind of a problem, it's a catch 22 situation, because there is overhang of that block trade not happening the stock is not going up.

Tarak Patel: Right.

V. Balasubramaniam: And because it is below INR 1700 the block trade is not happening. So, what exactly can you throw some light on that?

Tarak Patel: So, firstly, I really can't comment on stock price and stock movements. I would not say anything on that front. On the second part of the question obviously, let me start off by saying that DBAG, the private equity company is a responsible shareholder. They have supported us since 2014, they've been part of the journey, they made significant returns for themselves, obviously, but they have also really enjoyed working with and building this company from, I was just telling somebody yesterday not so long ago, we had INR 500 crores of revenue. Today we are tracking INR 500 crores of EBITDA, this has happened in a matter of five to seven years. So, significant transformation and for an Indian company to have a global play like we do today it's not something not to be proud of. So, from that perspective everybody involved in the business over the last so many years is proud of the performance. Having said that, there will be at some point the solution for this, we do understand there could be an overhang as well. And again, like I said, they will sell to the right investor, long term marquee investor at the right time.

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

Jonas Bhutta: So, the question was on the order intake and subsequent sort of flattish order book that we have, so this is the fifth straight quarter that we have seen index sort of trend downwards. So, we started Q1 of last year with INR 980 crores and we are now with INR 770 crores. So, but also this while we have maintained the opportunity pipeline remains strong. So, if you can throw some light on whether conversions are now taking longer, or competitive intensity is so high that we are losing market share, can you talk about that and then I'll follow up with some other questions.

Tarak Patel: So, if you see our numbers and compare them with any other company who is also giving numbers in the public space, you will see, not only have we grown market share this quarter, but we will continue to probably grow market share. So, I don't think that's happening at all. We are being aggressive in the market, there is pricing pressure, but like I mentioned to you, we have a clear idea in terms of what we want to do and the idea across not only the Indian business, but the international business as well, is that the order intake has to increase and everybody in the company is working towards that. Having said that, you did make one more point comparing this quarter with some INR 900 odd crores or Q1 last year maybe, the only thing caveat to that point was the quarter before that it was about INR 400 odd crores. So, the average should be around 800 to 900 in my opinion, that's something that we should aim for. Maybe this quarter you will see some improvement there as well. There have been good order intake here especially

in the glass line business here in India, we do expect some big orders to materialize as well in the systems business, the services continue to do well. And maybe I'll have Aseem and Thomas also quickly jump in and tell you specifically what's happening in their regions. Aseem.

Aseem Joshi:

Hi Jonas. So, Tarak covered most of it, but looking India we recognize there is a slowdown in the chemicals industry. So, for us, it's a matter of ensuring that the opportunities that do exist in chemicals we capitalize on which we are doing and then double our efforts in the sort of segments outside chemical and pharma. There, I'm happy to report, we've been able to do pretty well, in the 1st Quarter in our heavy engineering business and mixing business. We've seen some good wins come through and I expect those will continue. So, based on this, the sort of the approach we've taken which is to diversify we feel confident that we'll be on track to meet our guidance numbers as Tarak said earlier.

Tarak Patel:

And Thomas.

Thomas Kehl:

I can second that for international business, yes, we have seen in the chemical industry a little bit cooling down the last two, three years were abnormally high and in a hot market, the quotations going out there and decision-making process at normal rate now, they have been very far in the last two years. Therefore, the order intake comes in slower, potential out there in quotations and the projects being open are still high, we are not losing more than in the past. So, our market share is stable, and we probably even increase it over time and again, we have made sure in our strategy that we work for diversification and some of the business segments are even above our expectation. One is our Edlon business PTFE lining, driven by demand from the semiconductor industry, although service business International is ahead of budget in order intake, providing extremely good mix for margin improvement and training. And in summary, yes we still believe in making up to our guidance.

Tarak Patel:

And let me just add something here Jonas as well. Obviously as management, we are conservative with the market generally, we obviously want to kind of make sure that we have our initiatives in place in case the market would continue to slow down. But from what we've been hearing, what we've been speaking with owners, managing directors, promoters of chemical companies, even though there's some short-term pain, they all believe that we've already seen the bottom right, things are already cooling off in terms of the commodities as well. So, now you will see maybe an uptick in terms of investment and demand picking up. So, hopefully, it's not too long before we see some kind of turnaround and like I said a few large orders coming in in the systems business will definitely change the kind of outlook for us very, very quickly. But having said that, we all are working hard, quietly we are committed to take in as much orders as possible. And we will be on that till we are comfortable. So, from that perspective, this year is something that we are quite confident that we can hit the numbers and from an order perspective as well we will manage to do so.

- Jonas Bhutta:** Appreciate the management efforts to be sort of more feet on ground on an evolving market scenario. My second question was, as Thomas did mention that there is some good traction on the non-GLE side. So, if you can highlight what has been the growth in the non-GLE business this quarter, and we've seen a very good margin traction on the international subsidiary side which is effectively a consolidated minus standalone. So, what would you attribute that to, is it a sales mix which has been more in terms of non-GLE, If you can just sort of, help us for that?
- Tarak Patel:** So, maybe Alex can take that, Alex the question was, that what has driven the improvement in margins internationally, is it a product mix, is it a kind of a specific region and the first question was,
- Aseem Joshi:** Traction on the non-GLE.
- Tarak Patel:** Yes, the non-GLE.
- Alexander Pompner:** Let me start, Alex here, and so I would like to definitely mention through two aspects. First, the mix that you already mentioned, the service business is really strong, service business is by far the highest margin business in the international business. And secondly, please remember we were asked nine months ago last year August regarding the high energy costs, the raw material costs in Europe, and you did not really see a negative impact on the international markets. However, we of course increased the prices and now we have the benefits, in especially the glass line business that we have with reduced energy and raw material costs. We are now having invoiced orders, which we sold for the higher prices. So, we achieved a price increase and now benefit on top of this from a lower cost structure.
- Tarak Patel:** Okay. And in terms of other specific regions, or any other subsidiary businesses that have done extremely well over this quarter that was what he was asking about?
- Alexander Pompner:** Okay, the other question Thomas already mentioned that the Edlon business is a really strong unit now and it's linked to the semiconductor business in the US where you probably aware of it's a push, it's an additional investment into this market. So, Edlon is really outperforming our expectations and also causes a significant uplift in margins. But also, as already mentioned, in the European entities we see a margin improvement it's Germany, Italy as such we have good, priced orders shipped out of the door with a significant improved cost structure versus last year. So, it's everywhere where we see improvement.
- Jonas Bhutta:** So, sir how much has GLE sales versus the sales growth between GLE and non-GLE at a consolidating level for us?
- Tarak Patel:** At a consolidated level, I don't probably have the numbers offhand, but that's something maybe Manish will reach out to you after and just provide that information if you don't mind, Jonas?

Jonas Bhutta: Sure. And my last question was to Manish. So, the interest expense is clocking about INR 20 crores a quarter for the last three quarters, if you can break up that up the impact of the pension liability if any and the normal interest and bank charges cost. Because, at an INR 300-crore gross debt level, INR 20 crore of a quarter looks high, so I'm sure there's the pension liability sitting there, so if you can help us give us the breakup on that?

Manish Poddar: Sure. So, Jonas pension liabilities impacts are in OCI not in the finance cost, so that line is different altogether. So, that way, the finance cost does not include any impact positive or negative on account of pension liability. Broadly, we have got at consol level INR 800 crores of debt at broadly almost 7.7% or 7.8% interest cost. So, you can say broadly INR 64 crores or INR 62-64 crores of interest cost for this year, rest is all on account of bank charges. And related to forex expenses as well in case of some forex fluctuation. And of course, we get to mention that INR 800 crores of debt, we do have something like close to INR 300 crores of cash as well so net debt obviously remains in that INR 500 crore.

Jonas Bhutta: So, that is the point, so the INR 20crore rate on quarterly basis would add up to about INR 80 crore value guiding for more like a INR 60-65 crore interest expense. So, that doesn't seem to add up and also, if you have an INR 300-crore cash balance that should also throw up some bit of other income, which is in a way very insignificant if I see the quarterly run rate, except for Q4 that sort of spiked. So, maybe I can take that offline, but this is something I want to leave you guys with.

Tarak Patel: Sure, that's a good point and we look at that because Manish also said, you showed number of 65 so where is the gap between 80 and 65, so that's something maybe we can take offline.

Manish Poddar: Yes, that's primarily because of bank charges and the forex expenses so we are going to take offline. Jonas, I hope you have got the March 23 balance sheet, which will obviously have the much more details and we can discuss.

Tarak Patel: And maybe Manish good time now to just give them some idea in terms of repayment and when our debt levels will come down to.

Manish Poddar: So, we did INR 430 crores of EBITDA last year, that was INR 630 crores of EBITDA next year. Broadly, this whole three years we can say broadly will be at INR 1600 crores of EBITDA maybe at 50% we should be having free cash flows coming out to something like close to INR 800 crores, because something like INR 300 crores will go out of on the account of taxes, some INR 250 crores will go out on the interest repayments, and another INR 250 crores broadly on the working capital requirement in the business. So, probably INR 800 crores goes out, INR 800 crores is what remains so probably that's where the cash flow generation is there. So, we should be comfortable maybe in 24 months from now from a debt perspective. Of course, it will be up to the Board what they want to decide, whether they want to pay dividends or whatever they want to use the money for.

Moderator: Thank you. The next question is from the line of Mudit Bhandari from IIFL Securities. Please go ahead.

Mudit Bhandari: Just one question from my side. You mentioned in the opening remarks that there is a slowdown in chemical sector in the industry. So, firstly, whether it was on the domestic part or international part. And secondly, what are the specific, particular things that has happened led to the slowdown and what are the things that we should look in future to see if it is gaining any other particular event or any other things. That's all from my side?

Tarak Patel: Okay, first and foremost it is important for people on this call to realize that yes, the chemicals segment is a cyclical segment, there are going to be cycles, we have obviously been in a cycle for the last maybe four to five years that has been on the uptick, that has been kind of improving every year. This was obviously something that had not happened many times in the past, but it's been in the last five years have been very, very strong in terms of chemical investment, both internationally and in India. But again, do keep in mind, the chemical business, both agro chemicals and specialty chemicals, is cyclical in nature. And that's one of the things as management we do realize and hence, we want to have diversification. That means if one year or two years chemicals will slow down, we have something else that will make up for the shortfall. Today, the slowdown is generally across the industry, both in India and internationally. The reason for this slowdown are, from what I have read seem to be over stocking to this, these guys have all bought the specialty, agro chemicals, they stock them for many years, because coming out of the pandemic, they didn't have line of sight but now they have overstocking that happened in Europe, in the US, so until those get kind of sold off, new ordering cycle won't start, which also has led to Indian companies who were stocking inventory to dispose of their inventory at much lower prices, which is obviously impacting margins. The third thing that has also happened is that China over the last couple of months last quarter, have also dumped chemicals in the global market at a much lower price line. So, again, that has caused weakness in demand. And then lastly, on the positive side at least on the commodity side perspective we see some kind of stabilization now. So, the bottom has been hit, might be the same for maybe a few weeks, months or something but in the near term we should see some kind of revival.

Moderator: Thank you. The next question is from the line of Jasmine Surana from VT Capital. Please go ahead.

Jasmine Surana: So, I had a few questions. First one was on the raw material side, so last fall and some moments ago, so you did mention that raw materials is stabilizing for you. I wanted to just on the gas prices, the steel prices—methane carbon prices, currently?

Tarak Patel: Sure, let me then break it up into international and India businesses, maybe starting international this time, steel prices and gas prices Thomas you can give your comments. And where do you see that panning out?

Thomas Kehl: Yes. Steel prices have come back down to the levels that we have seen before was at peak at the 1st Quarter of last year, but it came down now. And we are enjoying a little bit of windfall over here, but we have orders at a higher steel price calculation and now pay a little less as an opportunity and it's not really impacting negatively our business right now. The gas price development in Germany of all the energy price, the gas prices directly did not impact us because in Europe or in Germany we are not using gas or firing up our furnaces, it is electrical power. The electric power is peaking at the 1st Quarter last year, but the excess that have been taken by the government and are taking now a shape in a positive way, so the energy level prices are significantly below the 1st Quarter of last year, they have more or less back to the times before the crisis. So, the negative impact has been absorbed. And in addition, we were able to put that through in our pricing to our customers and kept the margins at the levels where we wanted them.

Aseem Joshi: And as far as India is concerned, I'll address steel and power. So, steel similar to the international business, steel is down well, although not down to what it was say in late 21, early 22. So, it's come down and stabilized so I believe we are not seeing the volatility anymore. But it's not down to where it used to be a couple of years back. Energy is down as well and stable as well. So, in both those areas it's pretty comfortable that we have good line of sight into what those costs will be.

Jasmine Surana: All right. Thank you so much for that. Another question was on the stock and sales program. So, I wanted to understand whether you entered any new geographies, that are we getting any more revenues, or any higher the stock and sale program and basically a little overview from your side on how the business has done this quarter?

Tarak Patel: So, the one thing to say on profit sale, we've seen some good traction, they've been what 24 vessels that were ordered, out of which we've already sold eight. I was actually in Germany, we were in Germany last week, we saw the Indian vessels in the German factory. So, that program is ongoing. It's a new program for us, we obviously building stock basis our analysis of what kind of equipment will be required, there will be some trial and error here. But overall, the strategy makes sense. Our client today in Europe, when he has a breakdown, we'll have to wait eight, nine months to get new equipment, we have something available that can be given to him in maybe four weeks' time that's a huge benefit. And any customer in the right mind would prefer to have a factory up and running versus eight months of downtime. So, as a concept, this really makes a lot of sense, we have seen some traction can I say it's 100% of success not yet. But, over the next few years, I do believe that this can become an important cornerstone of our strategy.

Jasmine Surana: Thank you so much for that. My last question is on the services and the systems segment. So, we see on the order intake, we're seeing more services as compared to system. So, should we see this is as a one-off where most of the components and having a repair or replacement value or do we see this change of higher services and systems to stabilize going forward?

Tarak Patel:

So, a couple of things to keep in mind here. One is that we as management and as a company have been focusing more of resources and money to our services business. We have over the last maybe year or so, made an acquisition in the US where we bought out a small competitor in the Southern area of the US where we will start doing services like realigning and re-lapping. We just opened up last week, a new service center in Brazil, we also have a new service center in Houston, we are now opening up a new service center in Switzerland and in China, in India as well we continuously want to build and add more service capabilities. We also believe as an organization that there's an opportunity, especially in India and China, where our service revenues are so small compared to the rest of the world, to really grow that part of our business. And we will push to make services maybe a 15%-20% of our total revenues in India and in China. Also, keep in mind that India and China have a very large installed base nearly 40,000-50,000 reactors have been supplied over the last 10 odd years. Now, equipment are aging so at some point, these equipment will come in for servicing, for replacement, and so on and so forth. And then lastly, keep in mind also that the mindset of customers is changing. What was acceptable maybe five-seven years ago in terms of quality and services is not acceptable now. There's too many rules and regulations, regular audits, approvals required, so people are changing, and they will track by services and spare parts from the original equipment manufacturer. So, hopefully that means there are a service business that will continue to grow. We as management believe in this strategy 100% and we want this to be a big part of our total business and that is what we are aiming for.

Moderator:

Thank you. The next question is from the line of Amar from AlfAccurate. Please go ahead.

Amar:

Sir, wanted to understand, beyond 25, we are confident about 15% kind of a CAGR for international business and 17% kind of a CAGR for India business. But then, if I see your near-term guidance, we are pretty conservative even in 25 about our revenue growth. So, are we seeing some serious kind of slowdown in the overall business environment?

Tarak Patel:

No. So, when we gave the guidance of FY25, this was last year in August, there was no specific slowdown, it is still a significant growth that we have planned for both in terms of revenue and margins. Obviously, maybe as management we might be a little bit more conservative than others, but we do feel that the strategy for us to obviously be conservative, but then out the performed the expectations right. And we did that already during our last guidance period when we actually met the guidance number, one year before what we had promised. So, obviously that time the outlook and the industry were really booming, today there is a bit of a slow slowdown and that's why management sometimes we built the numbers more conservatively because there is something that obviously is not in our hands. And there could be maybe six months, eight months of volatility which obviously would impact growth for that specific year. But having said that, the outlook on the longer term, the next up to 2025 and then three to four years after

that. We do believe that overall, we can maintain these growth rates. And again, just to clarify again, I'm not sure what numbers you said but when I told you my numbers again, after FY25, 13% to 15% growth in terms of revenue, CAGR growth in terms of revenue, and about an 18% to 20% growth in terms of EBITDA at consolidated level. And like I said, India business will grow faster, and we expect the India business to maybe grow at 17%-18% or so and then, the EBITDA, CAGR to be 20% odd.

Amar: And internationally you are saying 13%-14% ?

Tarak Patel: No, 13%-15% consol numbers we said.

Amar: Okay. And secondly, in terms of your order intake, like if I see order intake or even an order book as well as order intake has been muted, in this quarter and we are sounding for kind of muted kind of an environment even in the chemical as well as overall customer level. So, just wanted to understand, is that the deal closure is becoming delayed or there are deals which are becoming canceling or people are delaying their expenditures?

Aseem Joshi: Look, we see a lot of the funnel is strong. So, there's a lot of stuff that we are in discussion with customers about, but it is taking longer often the decisions are being pushed out by a quarter or two. That's what we're seeing primarily in, for the glass line, chemical space.

Tarak Patel: Cancellations not so much, maybe you ask me one cancel, one big project was cancelled this year, but everything else is either pushed out or finalized and they have to finalize maybe a month or two later, I think the international business is pretty much the same for you, Thomas right.

Thomas Kehl: Picture is pretty much the same at the same chemicals the process of making decisions is a little bit slow down. So, we are waiting for the project to be decided, but no projects are taken out or taken back, we have no cancellations. So, the funnel is strong and good sales versus good project. And we are not losing the project more than we did in the past or the market share is not decreasing, it's rather stable or slightly increasing anyway.

Moderator: Thank you. The next question is from the line of Sarang Sanil from RW Investment Advisors. Please go ahead.

Sarang Sanil: I have a couple of questions. My first question is, in the last few weeks a couple of German specialty chemical companies have been cutting down on their forecast for the year, high energy price and weak demand. So, has there been any delay in decision making, especially in the Europe region lately, in the ongoing quarter?

Tarak Patel: So, the question was Thomas, we've seen a lot of European and especially German chemical companies cutting guidance and things like that. Is that impacting business for you specifically in Germany, that was the question.

- Thomas Kehl:** Again, the overall chemical industry is slowing down a little bit, we see that midterm, long term, we don't see any major impact on that. A couple of changes in some of the big chemical industries like the BASF making announcement moving towards China, some of the products or products that are not necessarily been guided by our company and our products. So, the impact that we see is not really foreseeable, not really there.
- Sarang Sanil:** Sure. Sir my second question will be, what would be the effective tax rate for the year, since you have mentioned in the previous call that it could be in the range of 26% to 27% for the year as this quarter we saw that to be a little elevated, are you still sticking to that, 26%, 27% range for the year?
- Manish Poddar:** Yes, overall for the year there's no change in the tax guidance. But quarterly fluctuations depending on the deferred tax impact will, continue to happen because of so many geographies, but overall we did maintain that.
- Sarang Sanil:** Sure. Sir my last question is regarding Mavag, is it possible to give the domestic market share of this technology?
- Tarak Patel:** Sorry, did you say Mavag?
- Sarang Sanil:** Yes, sir.
- Tarak Patel:** So, Mavag generally kind of participate in a business that we call filtration and drying, this is where anywhere where you separate a solid from a liquid, and then you dry it. So, in this space, there are multiple different technologies that we have and Mavag is a brand name that has all the technology. So, in terms of market share it will be very difficult to say, having one of the two things that I can definitely make clear for you is, there is a big market here in India for a product called filter dryer or ANFD, where there's a lot of competitive intensity, there's four or five different players, and it's kind of very competitive. So, that's not where we participate. We do some stuff in ANFD, but only for very critical application. Well, we do focus in India as one, we supply components to our Swiss subsidiary. So, 80% of that manufacturing that happens within it happens actually in India. And then we also focus on specific drying equipment like VCD, vertical cone dryers, we do spherical dryers and other such equipment. So, the idea as a company is always to move towards highly technological advantage that you have where you solve customer's problem, either you're helping him reduce batch time or have been improved heat transfer, or power consumption. So, anytime you can make a difference for the customer, that's when you really move up in terms of value. And that's what the focus is on. We try and exit any business areas where there's too much competitive intensity and customers don't value technology.
- Moderator:** Thank you. We take the next question from the line of Shyam Maheshwari from Aditya Birla Mutual Fund. Please go ahead.

Shyam Maheshwari: So, just wanted to understand the outlook on a Chinese entity. Looking at the annual report, the Chinese entity has been a significant contributor of growth for the last couple of years in the international segment. But with things now slowing down in China, what is the outlook that you're seeing?

Tarak Patel: Yes, I will start and maybe Thomas can jump in. So, again, on Chinese facility, our new facility getting it up to speed and ramping it up took some time, we started the move from the old factory to new factory during COVID so we lost some time, but definitely happy to report the momentum is there, the factory is completely now up and running. And it had performed very well. In fact, the largest vessels ever produced within our group, in all the years of history that we have actually was produced by the Chinese facility only last month, 140,000 litres, and three of them I believe. So, incredible improvement for the Chinese facility and their order backlog also remains quite strong. But again, like you rightly said, there is definitely a slowdown in China. And again, the competitive intensity there is going to kind of increase over time, maybe for the short term and then as the market turns maybe then decrease. But all in all, we're in a strong position keep in mind our China business is very small about \$20 million of equipment that goes into China from the Chinese factory. So, it's not a huge number and China for that kind of market size we have very large market, the whole Chinese market could be about close to a billion dollars out of which our addressable market is about \$200 odd million, which would still mean that there's a lot of potential for growth. And I'll just hand it over to Thomas now, maybe he'll give you an update on China as well.

Thomas Kehl: Thank you Tarak, that summarizes quite well the story of the new plan that is up and running and gaining momentum, the COVID levels are at the level that we expected and planned for, the capabilities on the China plant are well set for the future with the new processes is that we have amended operation activities that we have implemented there, we are highly competitive in the segment that we are playing. We have a lot of projects going in the funnel that are not yet decided. And again, more or less the same story of the slowdown chemical industry is there. However, the plan is quite busy, because we have a strong backlog with good margins. And China is performing quite well. And we believe that this slip in the demand and China is going to be over very soon. Just the bottom has been reached already and momentum will come back on order intake.

Shyam Maheshwari: Understood. And my second question was on the lines of services. So, what are the steps that we are taking in order to increase this share of services in our overall revenue, because let's say even if the outlook is a little muted on the glass line side, if we can get some annuity side of revenue from services, that would be very helpful so what are some of the steps that we are taking to increase this share?

Tarak Patel: Yes, so as a starting point, keep in mind a very important relationship between new CAPEX and services. When you see the CAPEX cycle slowed down, you will see the spend on services go up. So, that's always something that has happened, it usually means that if I'm not buying new equipment, I will make sure that the equipment that I have in my factory runs well and doesn't

break down. So, you see that relationship obviously, so if the CAPEX cycle were to slow down a little bit you would see the services revenues increase. Like I mentioned before, there's multiple things we've done in both international as well as the India business and maybe Thomas and Aseem can add a little bit more in terms of what specific actions have we taken to grow our services business.

Thomas Kehl:

Any specific actions that we have taken started the journey a couple of years ago, we increase the number of service technicians engineers on the ground from a little over 20 to 40 in 2017. And today we are little bit over 60 service technician engineers in the field. We have increased the number of service centers over time significantly, we started off with less than six, now we have 12 and going to look for 14 and 16 service centers. With our M&A strategy being a new technology non-glass led technologies, all those technologies always provide service opportunities as well, we with our array of service products is becoming bigger, and therefore we believe that we could change to win more service business and increase of share at high margins and contribute to the overall performance quite significantly.

Aseem Joshi:

Yes, and I will add for India, in India we are just starting off on the services journey, it's been a very small portion of our business. Thankfully, we have the international business template to follow as far as structuring and organization is concerned. So, we've done a lot of things that they've already done, which is first, we carved out a separate organization that's focused on service, which did not exist in the past. We've also worked with the factories to ensure that we have enough stock of parts, replacement parts that are required for our customers. And there's a lot of analytics one can do about your install base and figure out how to go after your installed base and with service offering so we are now engaged on that process. All in all, we are quite pleased with all that coming along. And we expect to continue that journey for the next probably two to three years and bring up the service share of our revenue in India.

Tarak Patel:

And just to add to what both these gentlemen said, in terms of service personnel today, we are by far the biggest in number of people, both internationally and India. So, that gives us a significant advantage. The idea between management teams here today is also to kind of look at if there is other equipment within a chemical or a pharmaceutical plant that we could also cater to. So, why talk only at equipment may or manufactured by us, why can't we not also service other equipment. So, that's the next step and overtime we will look at that and see if that is something that is possible as well.

Moderator:

Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri:

Two or three questions, the first one being related to the services and the systems that we are talking about. In terms of the large system orders which we had done in China somewhere around INR 50-52 odd crores and acid recovery orders of some INR 22-23 odd crores do we have any more of these orders, and our clients approaching us for these kinds of big orders in future.

Tarak Patel: So, there are three acid recovery plants that are under the commissioning now, there's one in China, there's one in South Korea, and there's one in India. These are the three that we're working on. We just commissioned our first asset recovery plant here in India, we actually committed or the agreement that we said that we have to give them 80% concentration. And we actually crossed that and we are now giving the client 81.6% concentration. So, of course plant is up and running, gives us a great example of what we can do with a track record that we have created here in India. And hopefully over time we can build on that success and add more businesses. So, yes, we have multiple opportunities again that we're working on. And over time, some of these will kind of hopefully convert into actual orders.

Rohit Ohri: So, when we talk about the pie for services systems, do you think the pie will shift more towards systems or is it going to be only on the services that you are going to focus?

Tarak Patel: So, currently 60% odd of our revenue is coming from glass line equipment, over time and I am not seeing a timeframe right now but in an ideal situation, 1/3, 1/3, 1/3, would be an ideal because all these businesses have their own sets of pros and cons. Glass line is what we are known for so we still need to focus on that and maintain market share. Systems is obviously a much more, I'll say volatile business, you could get five big orders in one month and then not have something for six months. So, every business has its own nuances. We have to work around that, over time we just want to stabilize the business, we want to make sure that we have a good amount of order intake, there always will be ups and downs. But by this strategy of diversification, we kind of mitigate some of the risks associated with this. So, it's really a work in progress we really don't have a specific number in terms of what the ratio should be, but we definitely want systems and services to be a much bigger part of the pie than they currently are.

Rohit Ohri: You're looking at setting up a dedicated engineering center somewhere in India, which will probably cater the global business needs. Can you share some more insights on that, some numbers on that and how much do you intend to spend on which geography are you looking at?

Tarak Patel: So, the concept of bringing engineering, documentation and the calculation kinds of resources to India is ongoing. It is something that's going to be a game changer in the first year or two, I don't think so. But over time, as an organization we are very much clear that we will have to do this, we will have to do a lot of the heavy lifting to India. I don't think you should really think of this as a short-term kind of a play, it's going to be more long term. It's not going to be a needle mover in terms of improving margins, significant margins today but yet three years, five years down the line, it could definitely well be. Also keep in mind their mindset issues, when we move stuff from Europe or the US to India, there's always that difficulty it will take a bit of time. But, as management we are quite clear that we have to do this, and we are working on it.

Moderator: Thank you. The next question is from the line of Amrish, who is an Individual Investor. Please go ahead.

Amrish: I have two questions for Manish one is, if you look at the profit before tax for June last year, it was around INR 83.4 versus June this year is around INR 85.8. So, that's roughly around 3% increase. But if the current tax charge have increased from INR 22 crore to INR 36 crore, so if you can share some insight in terms of why the 70% increase in the current tax has happened. And my second last question is that if you look at the other expense line in the P&L, that's the third largest spent in the P&L after employee payouts and cost of raw material consumed. So, if you can share some insights in the top two or top three items which comprise of this other expense, and one suggestion probably you may want to think of calling it out separately in the P&L one of the top two or top three items in other expense on the face of the P&L rather than probably merging it as one line item.

Manish Poddar: Sure so Amrish, the first question on the tax part. So, there was some deferred tax adjustments in the international business because of which and that has been happening for if you notice past five or six quarters that is how it has been happening in international business because of so many geographies there on. So, over a period of time, over a full year period is what probably it is more like-to-like comparison and that is where the effective tax rate in the early question of supply 27% comes into play. That's part one, part two on the other expenses, this is more like a SEBI format so that's fair, if we can let see, explore if we can accommodate a few lines into this would be, but this all includes your repairs and maintenance, your consumables, your factory, travel, legal, professional, all those expenses in the world that the entire SG&A pack as well,

Tarak Patel: but maybe we can look at that and see if there's any other line item that are significantly good, we could look at that, and let's understand that.

Moderator: Thank you very much. That was the last question in the queue. I would now like to hand the conference back to the management team for closing comments.

Tarak Patel: So, thank you everybody. I just have one more kind of point to speak about. I have spoken about our mixing business as you know very clearly, we have a very large mixing business in India today. INR 150 crores worth of mixing probably the number one mixing company here in India called Mixion. We recently acquired Mixel in France, it's about \$12-\$13 million company and has a facility also in China. So, now we have Mixion in India, Mixel in France and in China. And the last piece of the puzzle is actually having something in North America. I have spoken about this earlier as well just would like to reiterate that we are now in advanced stages of this acquisition. It's not a very large acquisition but will be perfect for us to complete the global footprint. And then like I had mentioned in the past, we would launch a global brand and really aim to grow this business significantly over the next three to five years. So, hopefully in the next maybe a few months, we should have some kind of decision on this acquisition. And at that point in time, we will come back and speak to you more about it and what it means from a growth perspective as well as what we are trying to create. Having said that, thank you very much for your time, and I look forward to interacting you again in the future. Thank you very much and have a good evening.

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