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November 17, 2023

To,
BSE Limited
Scrip Code: 505255

NSE Limited
Symbol: GMMPFAUDLR

Sub.: Earnings Call Q2 FY24 - Transcript

Dear Sir/ Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter ended September 30, 2023 conducted on November 9, 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 KARTIK MEHTA

Digitally signed by MITTAL KARTIK MEHTA
Date: 2023.11.17 15:50:29 +05'30'

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

Encl.: As above

"GMM Pfaudler Limited Q2 FY24 Earnings Conference Call"

November 9, 2023

MANAGEMENT: **MR. TARAK PATEL – MANAGING DIRECTOR**
MR. THOMAS KEHL – CEO (INTERNATIONAL BUSINESS)
MR. ASEEM JOSHI – CEO (INDIA BUSINESS)
MR. ALEXANDER PÖMPNER – CFO (INTERNATIONAL BUSINESS)
MR. MANISH PODDAR – CFO (INDIA BUSINESS)
MS. MITTAL MEHTA – COMPLIANCE OFFICER
MS. PRIYANKA DAGA – DGM STRATEGIC FINANCE

Moderator: Ladies and gentlemen, good day and welcome to GMM Pfaudler Limited Q2 FY '24 Earnings Conference Call.

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

I now hand the conference call over to Ms. Priyanka Daga from GMM Pfaudler Limited. Please, thank you and over to you, ma'am.

Priyanka Daga: Thank you, Sagar. Good evening, ladies and gentlemen. A very warm welcome to all of you into the Q2 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; and 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 on our website, including our call discussions that will happen now, contains or may have certain forward-looking statements regarding our business prospects and profitability, which are subject to several risks and 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 report a strong performance this quarter with both revenue and profitability in line with our FY25 guidance. Revenue growth was driven by strong execution across international and the India businesses, profitably improvement in the international business driven by operational excellence and pricing improvements. A good point to note today is that the international business has recorded the highest ever profitability in this quarter.

Order intake, however, remains a bit subdued in technologies and systems due to a general weakness in the chemical sector. Services remains on track. However, our strategy of diversification and entering new industry segment has led to a strong opportunity pipeline across all business platforms, and we continue to focus our efforts on strengthening our market share in the next few quarters.

Having said that, our order backlog stands at about INR 1,705 crores, which translates to about 6 months of order visibility in India and about 7 to 8 months in the international business. Our order intake for the month of October has been quite strong, and it's around between the INR 250 to 270 crore mark. So, October has been a good month in terms of order intake.

Some of the other salient points about this quarter. We had a global strategy meet in Munich where 30 of our senior professionals from across geographies participated. This is in line with building a long-term strategic plan, and hopefully, by the end of this financial year, we should be able to host an Investor Day to update investors in terms of our long-term vision.

We also opened up two new service centers, one in Brazil and one in Italy. Both these service centers are for the mechanical seal – Interseal business – and will add to improved services in these regions.

In terms of financial performance, our consolidated revenues for the quarter grew by 20% to INR 937 crores with an EBITDA of INR 142 crores, which translates to about 15% EBITDA margin, which is around 20% higher than last year. Our current quarter, like I mentioned, the improvement in profitability was mainly driven by the international business, largely due to the strong execution and pricing improvements.

We are also continuing to look at internal cost efficiencies, and this is something that we will keep our eyes on, and this is something that over the next few quarters will be quite important in terms of improving and maintaining profitability.

In terms of corporate updates, DBAG Fund VI has sold 13.6%, out of which 9.9% was bought by ChrysCapital. 1% still remains with DBAG, which obviously the Patel family has promised to acquire.

Now that all the approvals have been received, the French approval actually came only yesterday. We plan to complete this transaction in the next week or so probably around November 20th. This transaction will happen at INR 1,700 per share, which was agreed at the time of the last sell down.

DBAG's nominee directors, Mr. Malte Woweries and Harsh Gupta have both resigned since then. And today our current board has 6 Directors out of which 4 are Independent.

Lastly, I am also happy to inform you that we have signed an agreement to purchase 100% stake in MixPro. This is a mixing company based in Ontario, Canada for a consideration of about $7 million. The transaction is expected to complete by November 30th . And like I have said in the past few quarterly updates, that mixing is an important business for us. We have a strategy in place. We are building on that strategy, and mixing will continue to be a growth driver both in terms of revenue and profitability.

I will now hand over the call to Manish Poddar, our CFO of the India business, and he will take you through the financial performance of the company. Thank you.

Manish Poddar: Thank you, Tarak. Good evening, all.

So, YTD, our revenue was at INR 1,850 crores, up 22%, and the EBITDA is at INR 274 crores, up 27% at an EBITDA margin of 14.8% for H1.

Moving to the balance sheet, primarily, as an organization, we continue to focus on making the balance sheet stronger. With that intent, we have reduced our long-term debt by INR 77 crores in H1 which includes the INR 29 crores of prepayment. In H2, we have a planned repayments of INR 51 crores, but we think we should be able to prepay some more debt, a long-term debt during H2. And so, therefore, overall in this financial year, we should be reducing our long-term debt by something like INR 140 crores.

Our interest costs have also reduced in H1 by approximately 20 basis points, primarily in India, and now at consolidated, carries an interest rate of 7.5% and 8.1% in India. This reflects the confidence of our lenders in the business, and as a result, we continue to enjoy “AA-” credit rating at the peak of our debt versus when we were debt free.

Also on the other avenues, we continue to identify non-critical or non-core balance sheet items, and we will try to get a bit leaner. So, therefore, you see a small item on the asset held for sale for this year as well.

Moving on to, if you refer our slide number 9 on the working capital, our receivables are under control at 48 days. Inventories has also reduced in past 6 months by something like INR 70 crores.

However, if you see the customer advances, that have reduced from INR 406 crores to INR 270 crores. That's the biggest item for us as an area of improvement for us. That reduction is primarily on account of two reasons. One, our backlog has reduced in September versus March. And customer advances as a percentage to backlog was 19% in March has reduced to 16% in September. So, these two factors have led to this reduction in the customer advances.

Now, moving on to the cash flow. If you see on slide number 10, INR 251 crores of cash generation primarily got consumed within the business in H1. The biggest item of that is the working capital due to two reasons. One was the customer advances as we just discussed.

And the other reason has been the POC increase in Mavag for something like INR 50 crores for this half year, and as you know, Mavag, we have been running a huge Operational Excellence program, and as the manufacturing goes on and this POC reduces, we should be able to liquidate a lot in H2. With that, I will just transfer the call back to Priyanka.

Priyanka Daga: Thank you, Manish. Sagar, you may 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 Sanjay Shah from KSA Securities Private Limited. Please go ahead.

Sanjay Shah: Good evening Gentlemen, and first of all, Wish you all a Happy Diwali and a great year ahead. Sir, my question was regarding the order intake, which is drifting towards the service side which you have mentioned in the presentation also. So, Tarak sir, can you highlight upon the services side in detail to make us understand what is this? And how do you see that panning ahead, the other business too?

Tarak Patel: Sanjay, thank you so much and Happy Diwali to you as well. Just to understand the business, we break our businesses into three main verticals: technology, which includes Glasslined and non-Glasslined equipment. We have a systems business which is basically any of our equipment around which we build complete systems, automation etc. built into it. And then we have a services business, which is basically service mandates that we have internationally.

And in India, we have spare parts. We have re-glass, pipes and fitting. So, these are things that are used to service our equipment. And as a company today at a consolidated level, about 35% to 40% of our revenues comes from services.

One important aspect to consider is the backlog that is currently available of INR 1,700 odd crores does not have a lot of service components because these are obviously fast moving. So, over the next few months and quarters, you will see service revenue kind of be something that comes, it's quite stable. It will continue to happen, and it will continue to be shipped out. This is not really long-term backlog that gets added onto the backlog. So, over the next few months and quarters, you will see that the service business will continue to add to the backlog.

The other difference in terms of the international business and the India business, the international business obviously has a much larger component of services. India is currently around 9%-10%. We have plans to improve that and bring that up to a double digit. So, that's something that we are working on.

Services, like you know, is very profitable, and something that we have a lot of focus on creating service centers, placing service centers in the right geographies, and making sure that services is something that we can be proactive about.

Our future goals, you know, our strategic intent really is to not only stop at servicing our own equipment, but we should also be able to service other equipment as well in a chemical or pharmaceutical plant. So, as management, you know, we believe that service is going to continue to grow. It is very profitable, and we want to make sure that our service offerings increases over time.

You know, having said that, services again is something that gets kind of related to capex. So, when capex increases, services may decrease a little bit, but when capex slows down, people want to take better care of the equipment and make sure that they have much more uptime and hence their spend on services will increase. That's the general overview on services. Happy to answer any other questions that you may have.

Sanjay Shah: It's really helpful.

Moderator: Thank you so much. The next question is from the line of Shalin Choksey from Axis Capital. Please go ahead.

Shalin Choksey: I have a few questions. Firstly, on the order inflows which we know have been relatively weaker. Does this translate into any change in revenue or EBITDA guidance? And what sort of visibility on the domestic and international business does the current order backlog provide?

Tarak Patel: So, in terms of this year's outlook, I don't think anything changes. I think we are in a very strong position to finish the year as planned. As management, we are also very aligned in terms of what our strategic direction is in terms of order intake. We know that we have had a couple of quarters of slightly lower intake than what we would have liked, but having seen a strong October, we believe that over the next few months, quarters, we will be able to build the backlog.

There have been some large projects that we have won, and we still expect to win as well. These are projects that got pushed out just because of the slowdown in the chemical industry. We expect some of these projects to now materialize in November and in December. So, from that perspective, I think this year is completely sorted. We are at par as you would have known. Also, in terms of both revenue and profitability, we are perfectly on plan.

Our focus now really is changing to next year. As management we are aware, and we are ready for the fight. We are aggressive in the market. At the same time, we are also looking very, very strongly at our internal cost structure. Are there opportunities within the company to rationalize manufacturing footprint? Is there opportunity to reduce cost? All those things are being worked on.

But all in all, I think the next 6-9 months could be slightly slower than expected, but I believe that the chemical industry will come back strongly. Pharma has already seen a bit of pickup, and I believe that we are in a strong footing to kind of take advantage of that. So, no change in revenue or profitability guidance, and I think for this year, I think we are quite strong, and we expect to complete the year just like what we started.

Shalin Choksey: And my other question was on the standalone business where revenue growth has been pretty slow at about 4% and EBITDA margins have been flattish sequentially. Firstly, what slowed down the revenue growth in the standalone business? And you had earlier indicated that we can do about 15% to 16% EBITDA margins in the standalone business. How is that tracking? Because to achieve that, it means we will have to do about 17% in H2.

Manish Poddar: So, I think, Shalin, yes, on an EBITDA margin, we have been tracking at something like between 14%-14.5%, and as Tarak mentioned, next 6 to 9 months look not all that super exciting. So, better part of this year probably we should be in this range only, for rest of the year, in standalone numbers.

Aseem Joshi: I will just add. So, your line wasn't very clear, but I understood you are asking about top line growth in India in the standalone business, right? So, look, I think we all recognize that the market in India has been fairly challenging for the last 6-9 months, especially in the chemical and pharmaceutical segments. What we have done is been a lot more aggressive in the market in these segments and also focused on our exposure or increasing our exposure in other segments.

So, for example, oil and gas, minerals and mining and a few others with our mixing business with our Equilloy business and things like that. So, while the growth has not been as high as it used to be in the past, we believe once these core industrial segments return to growth, combined with our increased focus on other segments, I think, you know, we are pretty confident that we will get back to our traditional growth rates, and therefore, also get our margin profiles back to where we normally are.

Shalin Choksey: And if I may just another question? If you could provide some color on how the raw materials prices are tracking now and whether any high-cost inventory that still remains with us?

Aseem Joshi: Raw materials now have thankfully cooled down. They are now back to where they were before the spike, but, you know, they have been sort of up, then down than we have seen; but has steadied. Most of the high-cost inventory has now flushed out, and we are buying inventory at market and using it.

Moderator: Thank you so much. The next question is from the line of Koushik Mohan from Ashika Institutional Equities. Please go ahead.

Koushik Mohan: Sir, my major question is coming on the glasslined side, because our market share like if we talk about the entire TAM for this entire business is somewhere around $1 billion. That comes out to be Indian rupee of 8,000 crores or let assume like INR 8,300 crores. And because currently we are in a run rate of revenue somewhere around INR 3,178 crores, which is we closed in the last year, and also by seeing that last two quarters, we are also very near to INR 2,000 crores. That comes up to INR 1,900 crores. So, because of this reason, we are entering into MixPro, that is $3 billion market. I understand that. That means INR 25,000 crore market share is there. The market is there. We are getting into that, but how about this only the GMM Pfaudler core business that is glasslined? What are we looking out here? Are we going to take the market share of De Dietrich, which is the market leader in the world?

Aseem Joshi: I will start off and then perhaps Thomas or Tarak might want to add. Look, glasslined business is, as you rightly mentioned, our core business, and we have definitely focused on maintaining our share there.

While our share varies across different regions of the world, roughly speaking we are at 40% to 50% market share globally. You did mention correctly that the market globally is about $1 billion, but obviously, as the cycle in this, the capex cycle in the chemical, pharmaceutical segments has slowed down, you know, for a temporary period that market also slows down a little bit, right?

So, we are very confident that we are, if not protecting, actually, we believe we have gained share in the last 6 months, because we have been a lot more aggressive in ensuring that we capture the orders that are out there, and we are confident certainly all the major project orders have come to GMM Pfaudler.

As far as MixPro is concerned or the mixing business is concerned, that's a separate segment. We have always had a mixing business. We believe it's a good business, and therefore, we are expanding in it. But it's an independent separate business, you know, that gives us a little more diversification and breadth of exposure.

Thomas Kehl: From International point of view, the market shares also are quite high in all the regions that we serve. In major regions, we have a good position there, and our strategy always has been to maintain this market share.

However, during the last two-three years, we have been able to increase market share, especially in Europe, where we have been able to cater to some of the regions that we haven't been able to get a foothold in like Southern Europe, Eastern Europe, and this was due to the EPIQ program where we import vessels from India, Made in India, finishing them up in our sites in Europe and shipping to the customer. And this was incremental business for us and thus we have gained market share in the last few years. And our goal is still to maintain that.

Tarak Patel: And just to add on the mixing business, more strategic rather than what our plan is, so, as you know, we have always had a mixing business in India. It's close to about what? $20 odd million. That was the starting point.

We then acquired a company in France called Mixel around $12 million-$15 million of revenue, also having a facility in China. So, we are now present in India, in Europe, and in China. Recently we announced the acquisition of MixPro, which is in Canada. So, now we have access to North America and South America, right?

So, as part of the global strategy, we wanted to be a global player when it came to mixing, which is now completed. We have also looked at resources and organization for mixing. We have also kind of we are in the process of bringing in somebody to run the mixing business. I think that's something that will really help our dedicated focus on the business with the go-to-market strategy.

Mixing is something that again makes a lot of difference for the customer. It's a technology play. It helps reduce batch time. It helps improve our power consumption. It helps reduce cost, right? So, many more companies are looking at mixing now. People are talking to us about mixing in a more technical manner as well. So, this is definitely an area that we want to focus on.

And like Aseem mentioned, mixing goes across many different industries, right? So, metals and minerals, water treatment, paints. It goes into food and beverage. It goes into cosmetics. So, the list is really, really long. Obviously, we are not going to play in all the areas, but we are going to pick and choose areas where we have a strong footing. And our idea is to be in the top five mixing companies in the world. I mean, obviously, it's not going to happen overnight, but I think the progress that we have made so far both with the acquisition and both with the resources that we have added, I think over the next few years, you will see the mixing business really kind of grow at a much faster pace than our glasslined business.

The other thing just to kind of close out this question is that even though glasslined is what we are known for, glasslined at the start, maybe two or three years ago, accounted for nearly 70% of our revenue. Our idea of management is to bring that down to 50%, right? 50% should be glasslined, and the rest of the 50% should come from non-glasslined, services and systems, right? That is really the goal to mitigate the risk and the exposure that we have in glasslined.

We have kind of built a portfolio of non-glasslined products, right? And these products are growing much faster, have much bigger markets that we can cater to. Their TAMs are much bigger, and hence, we believe that this is going to be the kind of structural change in the business over the next maybe two or three years. We will always be the market leader in glasslined, but the share of glasslined within our total revenues will probably come down to close to 50%.

Koushik Mohan: So that means that our entire revenue of glasslined is currently around, if I assume on the broader terms in the last year, we have closed around INR 3178 crores. If I assume even, we'll do this year INR 3000 crores that means that in next coming five years we have another 50% market coming from only from mixing line. That means our entire sales will somewhere around look like to INR 6000 crores. Then what will be our margins, which line of margins will be taken? Because currently if we look at margins, the glasslined India business is doing great than the Pfaudler business that we have it. How about mixing, in mixing business what kind of margins that we'll do? If possible, can you give all the three segments which I'm talking about their EBITDA level margins if you have some guidance?

Tarak Patel: Yes. You went to the numbers quite fast and I'm not sure if I agree with all the numbers. I would just kind of give you an overview. Glasslined margins, yes, are quite strong, have been quite strong, but even our non-glasslined businesses today are generating similar levels of profitability, right. So, none of the business lines that we've added are going to be detrimental to margin. They're going to add and improve the margin profile. Our mixing business maybe in some cases is already higher than glasslined, right? So, there is definitely technology sale that we're doing in mixing, in systems where we're getting probably better margins than we are in glasslined. Again, the only business that we have today within the group that probably is slightly lower than glasslined would be the Heavy Engineering business. But again, there we have a clear strategy of picking and choosing the right metallurgy, export versus domestic and making sure that our margin profile is close to maybe 12%-15% there, right. But the rest of the product lines that we have, anything that goes into chemical processing should generate a 15%-20% margin profile, if not more, services and systems obviously will give you a lot more. And then our Interseal business again has a very high margin profile, right. So, I think that's the general overview. We don't expect a significant change in margin profile just because we are reducing the glasslined share. We're replacing that or we are adding new businesses that are also kind of margin accretive rather than dilutive.

Koushik Mohan: Sir, my repetitive question on this but little bit clarity in the glasslined business. India business currently is somewhere around (+16%). So, can we maintain this margins in India business and in non-India business that is international business somewhere around 12%, in mixing line what kind of percentage is that? In India business, what is our EBITDA margin, in non-India business that is international business Glasslined, what is our margin? In mixing line, what will be our margin?

Tarak Patel: I said that, those are the right numbers in terms of general guidelines. I think India margins can improve a little bit with operational efficiencies and things like that. If the market dynamics were to change and the market demand were to increase and automatically prices would increase and hence our margins would go up. Internationally also, glasslined margins will remain stable, and I didn't hear you clearly, but I think you said mixing line. I'm not sure what that meant but the mixing business is between the 15%-20% margin profile currently. The idea is obviously to grow that margin and improve that margin as we consolidate, as we have a clear strategy and as we have a clear go to market strategy, we want to improve margins definitely.

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

Pramod Dangi: Just the two questions, when you said that Pharma started seeing some momentum building up in India, but chemical is still sluggish. So, while our order book is still low, do you see any kind of announcement for the new capex building up in the pharma or the chemical where you can see that the customers are now planning for the new capex?

Tarak Patel: So, I think there's two points here. One is, I don't think our order book is low. I think we're comfortable. The problem is that the market was super-hot. So, our order book, obviously a few quarters ago was incredible. It was much higher, but it's not the general tendency to have such a high order book. So, I think that's something to just keep in mind. We are still at a very comfortable position, maybe not at the highest level that we were, but that market was definitely inflated and superhot. Keeping that in mind, like I said, we are at a comfortable level and that we believe that with orderbook can continue to grow because some of these opportunities that we are working on which are delayed with only kind of materialized in the coming quarters. And I think we should be in a good position then. Coming back to your question about pharmaceutical investment specifically and I'll let Thomas answer for the international business. In India, we do believe that things are kind of improving. We have been seeing some traction on the ground, especially in Hyderabad. We've seen some stuff happening in Gujarat and in Mumbai as well. Pharma is coming back. I think the real play for pharma is going to be in the next financial year. FY25 is where pharma will invest. I think some of them have already started building capacity to cater to the demand in FY25. Some of the bigger guys like Divis has already announced Unit 3. They've already placed the first round of orders, Laurus has expanded. Neuland is expanding. We have expansion in MSN as well. So, those guys are expanding. We have Cipla and Sun Pharma looking at small expansions, Pfizer is looking of small expansion. So, yes, there is definitely more momentum in pharmaceuticals and may be Thomas internationally you would like to say something on the pharma business or the pharma sector?

Thomas Kehl: Yes, the pharma sector is still strong going as well, in the Americas as well as in Europe. In Americas, our order intake that is driven by pharma, our projects is quite strong still. We also have increased basically our service above expectations in the Americas, Europe, we have to say that the pharma industry is still investing and the bottlenecking and repairing. So, what we are seeing is in the tech market there. However, the overheated mode is somewhat over. Things are back to normal. Decision times are taking a bit longer or back to normal times and this is quite good news. Where we see some significant weakness at this point is in China and China pharmaceutical as well as chemical markets are very, very slow right now. Their capacity seems to be at the at the high level at this point, but both the opportunities is quite large in China, as you know from a global point of view and those investments will come back and when they come back really they come back strong.

Pramod Dangi: And secondly on our stock and sales strategy where we are supposed to supply around 28-30 reactors to the Germany or the European facility, how's that shaping up? What kind of transaction we are seeing over there in terms of the customer of tech, if you can give some update on that.

Alexander Pömpner: Yes, thanks, difficult to understand but I think you want the question about the stock and sale program that we have initiated and started. We consider this is still huge success, it's ongoing, it's still going. We are replenishing our stock the second or third time as we speak. Shipments are on the way to Europe and usually the vessels that we have in stock and sales don't remain longer than two to three months on stock before they go and this is something that our customers appreciate having the opportunity in an emergency case to get fast supply and for that reason, it's a success story.

Pramod Dangi: Is it helping to gain some market share or to serving the client more in a limited time how is it helping overall profitability side as well as gaining the momentum of the client.

Tarak Patel: Sorry, your line is not very clear to understand the question. You mind logging back into the queue?

Pramod Dangi: Sure.

Moderator: Thank you so much. The next question is from the line of Omkar Kamtekar from Bonanza Portfolio. Please go ahead.

Omkar Kamtekar: Thank you. First of all, with respect to the execution, our order intake has been slow, that’s not the issue from my perspective. But the order backlog has fallen by approximately INR 300 crores on a quarter-on-quarter basis. So, we can say effectively on a positive side the execution had improved and we have done approximately INR 900 crores of revenue and every quarter there has been a fair bit of increase especially in the last three quarters on quarter-on-quarter basis. So, can we say that the execution is starting to ramp up and this this execution level can sustain or maybe even improve for H2 and ahead?

Tarak Patel: Yes, the problem is that I think too much improvement in execution means that you eat into your backlog much faster. Like you rightly said, but execution both in India, especially in international business has been quite strong. Like many of you will know we have 3 new facilities in Germany, in Italy and in China, which obviously are executing the momentum is there, these factories were started maybe 2.5-3 years ago and it took us some time to ramp up. That's why you're seeing a significant improvement in revenue. You might remember that when we acquired the business, international was about $175 million. Today they are close to $250 million-$300 million, right, so significant improvement in revenue and it's come from 2 main areas, one is operational excellence or improvement in execution and two pricing improvement, right. So, we used to have when we were moving factory or exchanging from the old factory to the new factory, a lot of delays in delivery but today customers are very confident. They're very comfortable that when Pfaudler says they are going to deliver in eight months, it's going to come in eight months. So, that's the benefit. We need to definitely continue with execution and that's what we are working on. There could be an opportunity to rationalize a little bit of manufacturing that we have and that's something that we're looking at as well. But otherwise, I think execution will continue. We need to focus on bringing in orders which we all are quite aligned. Order intake has been quite strong in October. We hope that November and December will also be quite strong when we are back at the decent level and like I said, our business is not only dependent today on glasslined, so we are not only dependent on chemical and pharma. We have other businesses that cater to other industries as well. So, in heavy engineering, for example, last month we got INR 75 crores order. We are currently working on a few other large projects, INR 50-60 crore. The two of them are going to materialize immediately. We are now at the INR 2000 crore backlog mark. So, again there is nothing has changed very quickly, and I believe that India will turn around much faster than the international business. India currently has a smaller backlog, so India needs to kind of run faster. In international business like I mentioned, 30% also comes from spare parts and services that's always ongoing. So, that's not part of the backlog and that will add to the backlog every month. So, that's the general overview in terms of backlog and in terms of the execution capabilities as well.

Omkar Kamtekar: And with respect to the guidance, so the guidance I think would remain relatively unchanged because at the current run rate, we might just about fall maybe by a percent or two short of the FY24 estimate that was given in Q1 and we might we should be in line with the FY25 guidance just to confirm.

Tarak Patel: Yes. So, as management, we are clear that FY25 guidance and I think in the past as management what we've kind of given out in terms of guidance we have delivered on and our primary goal and every single day when we wake up, we make sure that we are working towards achieving that goal. I don't see a reason why we should not be able to meet that goal. We might have to look at certain deviations of strategy, certain changes in our strategy, a little bit more aggressive on pricing, but I think we all are in the same page when it comes to that, we need to meet these numbers and we will work towards meeting these numbers and making sure That we deliver on the guidance.

Omkar Kamtekar: Just a view on the mixing business, so the MixPro acquisition that we have done, although it is a small scale vertical now, but how do you see that scaling up and what percentage of the total revenue that it might go say maybe FY25-FY26. What is the guide pathway for that? If you could help me with that?

Tarak Patel: When you add up a mixing business and both the Aseem and Thomas will jump in with their views as well. Today, India is around $20 million, Mixel is around $15 million, adds to the number $35 million and let's say MixPro was another $7-8 million, right. So, we have the $ 41-42 million mark, which puts us into kind of already in one of the bigger or the top five kind of companies in the world. Our focus is to build that business into at least $100 million business, double it in the near term, three-to-five-year period. And we believe that there are more acquisition opportunities here as well. So, that's something that we will always look at pursuing when something comes up. But even organically now that we have these three facilities we have PTR, we have access to new markets. We will then use our global sales network and our ability to kind of combine the three mixing platforms into one and offer the same product ranges to multiple customers across multiple regions, right? So, mixing is something that should grow quite fast. We've seen significant improvement in the mixing business here in India and we believe that internationally also over the next few quarters, you will see mixing becoming stronger and stronger. Thomas or Aseem do you want to say something here?

Thomas Kehl: Yes, thank you much. I think the mixing business again, market base is significantly bigger than the glasslined market base and this is one of the reasons why we have chosen the technology, the technology that we understand was very adjacent to what we already do. And at the same time, it opens for us market opportunities in the market segment that we haven't been serving with our other products so far. And therefore, a lot of opportunities are certainly there. We are making ourselves a stronger company by mixing, offering that and organizationally we are working right now diligently and setting up in our organization. And when we call it the mixing division with leading person coming from the industry, very experienced joining us beginning calendar year next year and putting all those things together. And as Tarak said, we are working on several acquisitions around mixing as we speak, and we have further potential to grow.

Aseem Joshi: Yes, I'll just add, I think Tarak and Thomas have covered most of the strategy things, I'll give you a couple of examples of how mixing makes a difference, right? So, in India recently we've had some nice wins in new segments. So, for example, in lithium processing, the specific agitators required, which we're working on. In biorefining, in gold beneficiation process as well. We're supplying our agitators. These are new areas from our traditional chemical and pharmaceutical space and it gives us the ability to really cover segments that we have traditionally not covered. We've selected a few areas where we think we can make a difference and we'll continue to build our expertise, our PTRs, so that we make a more compelling offers to our customer base.

Omkar Kamtekar: It would be prudent to assume that the mixing business will be growing much, much faster and it will it also already I think you mentioned 15% to 20% EBITDA margin. So, that would be good to assume.

Aseem Joshi: I think that's a reasonable assumption to make.

Omkar Kamtekar: And just a final word on the working capital. So, in the current quarter, we've seen approximately INR 220 crores hit because of the working capital. So, how are we going to optimize that or is this just a one-off thing or is this going to be maybe prolonged for sometime?

Manish Poddar: I think that has gone into the base now. So, I think as on 1st October, we start with a fresh base. So, H2 and H1 will be completely different part A. Part B, there are a few initiatives which we've already started working upon and you will see the results hopefully in 31st March results as and when we come up.

And to your previous question on maximizing couple of months back, we uploaded a mixing presentation and there's that much more detail if there is and you can refer that as well and there is a 25% growth guidance has been given on for the next four-five years on the mixing business.

Moderator: Thank you so much. The next question is from the line of Raj Shah from Marcellus investment managers. Please go ahead.

Raj Shah: My question was relating to the unbilled revenues amount. In March '23, the amount was around INR 100 crores, I just want to know how that amount was moved as on 30th September?

Manish Poddar: So, the Raj the unbilled revenue amount as I said with regard to Mavag primarily has increased by something INR 56-57 crore. So, to that extent that amount increases.

Raj Shah: How do you expect this amount to move by the year end?

Manish Poddar: I think it should be more or less be stable and it's a smaller reduction because as you grow the base, the revenue rate increases, but I think at this stage we are a slightly on the higher side. So, you can say a marginal reduction as we go along.

Moderator: Thank you so much. The next question is from the line of Ritesh Shah, from Investec Capital. Please go ahead.

Ritesh Shah: This is Ritesh from Investec Capital. So, I just wanted to understand the business case for mixing technology that's one. So, you did indicate examples for lithium and gold. This is quite niche as far as the Indian markets are there. Do we supply to any other non-ferrous majors likes of Hindalcos, Vedantas of this world and if yes, so what is it substituting right now or is it something which is new that we are offering to these companies?

Aseem Joshi: As far as minerals and mining are concerned, I gave those two examples. We do provide agitation solutions to a wider range of minerals and mining cases. While I can't take specific customer names for confidentiality reasons, certainly we do cover other areas. And as far as what we're replacing, There is usually an existing agitation solution but the way we design our agitator, it gives them better productivity or more efficiency in terms of power consumption and that is what actually enables our sales vis-à-vis their existing solution.

Tarak Patel: So, just to add to this, I think in the past when these plants were built, especially in metal and minerals in you know oil and gas, petrochemicals, a lot of PTRs was required. So, most of these PTRs were already expected, which would mean that these inquiries would only go to certain vendors, so in most cases we do compete with the global biggies when it comes to mixing.

However, we've made a name for ourselves here in India and now with the two acquisitions that we have done, we've also bought PTR, right. For example, Mixel has a very strong PTR certain industry MixPro on the other hand a has a very strong on PTR in other industry segments. So, we don't really have a lot of overlap. So, when we combine the three businesses, we have really a much wider range of industry segment and PTR that we can use. The idea is to bring it all together and package it together under one umbrella of mixing and then go out and then target the customer base saying, Hey! we can now cater to a much wider range of industry. Like I said earlier, mixing helps customers reduce batch time, which means they can produce more. You can reduce your power consumption, which means your cost goes down. You can improve the quality of your products which means you get more money, so there's multiple benefits that the customer can touch and feel. And that's why mixing is very, very important. And that's why we have decided as our technology leader to go after mixing in a big way because it fits perfectly with the portfolio. It's complementary. The synergies mixing is something we speak about with our chemical and pharma customers, but now we can speak about it to a much wider range of customers as well.

Ritesh Shah: Alright, Sir, I appreciate your comments. So, to my understanding glasslined equipment are far, far critical, right. So, you will have some pricing power and we can call out on margins what we want. How critical is the mixing as a technology when you look at any of the ferrous or non-ferrous majors because it will be a very small part of the value chain to my understanding, so will it fair the same level of margins, ROCE that we look at when we look at our traditional or core businesses?

Tarak Patel: Yes. So, the big project that we have done where we were competing with international players, we did a fermentation project where we were competing with the Chinese company and we must have made I think higher than 30% EBITDA margin in those specific agitators, right? So, these are all critical, especially when it's critical and you cannot take any kind of risk, the customer cannot take the risk then they have to make sure that they pay for and compared to manufacturing outside of India. So, let's say we're competing with the German, a French or a Chinese player, our cost of manufacturing in India is much lower. So, we are maybe 25%-30% cheaper, but because of our lower cost, we make significant improvement in margins. So, mixing generally is a profitable business. It's changed a lot and, in most cases, the mixing business will probably give you better margins than glasslined and that's the idea of really growing the mixing business.

Moderator: Thank you. The next question is from the line of Shyam Maheshwari from Aditya Birla Mutual Fund. Please go ahead.

Shyam Maheshwari: I just had a couple of questions. One on the international business, when I look at the gross margins this quarter, they are a little off, the numbers that we usually post around 3% to 4%. Wanted to understand why that is? Is there some competitive pricing that you're seeing there? Is it some acquisition related integration costs that are probably one-off the nature?

Tarak Patel: Sorry, this is the international business you're talking about or the India business. I didn't get that, sorry.

Shyam Maheshwari: The international.

Tarak Patel: There is. It's slightly lower. What is lower, you said, sorry, gross margin.

Shyam Maheshwari: The gross margins.

Manish Poddar: In international business, the technology business in this quarter has been a bit on the higher side. And as you would imagine, technology would consume that much more raw material and that is the main reason for this higher increase in the material cost line item.

Shyam Maheshwari: Right, so this is probably a mix related.

Manish Poddar: Exactly, that's exactly what it is.

Shyam Maheshwari: No competitive kind of pressure as such.

Tarak Patel: Competitive pressure is there now. I mean, if the market were to slow down, obviously there is more people buying for the same kind of order book. There is definitely more competitive pressure. I would say Europe and international US is not as intense as we've seen, at least here in India. But I think in India we've done quite well with maintaining or maybe even improving market share in glasslined, our order book in glasslined in the last couple of months has been quite strong. We expect some more large orders to finalize in the near future. From that perspective, I think both international and glasslined margins could probably see an improvement if the market were to kind of turn and the demand were to increase.

Thomas Kehl: The revenues that you see right now, they are not under competitive pressure because revenues from the last quarter were order intakes from 8 months ago.

Shyam Maheshwari: Second question was just on the outlook on the chemical industry as such. You have guided for growth beyond FY25 as well. Orders right now are muted so what gives you the confidence that the chemical industry will come back and maybe if you could give kind of a breakup between like agrochemical, specialty chemical, which sectors you are seeing, maybe some sort of pickup happening in the recent months?

Tarak Patel: So, I probably was hoping to ask you the same question in terms of what do you think about chemical because you probably are tracking and following more chemical companies than we are. But I think what gives us confidence is that 1) some of the projects that was supposed to be finalized maybe six months ago have finally started, kind of people are sending us enquiries, they finalize on their equipment, and they are now getting into the negotiation phase, that started to happen. And I think that gives us a little bit more confidence because earlier maybe a quarter ago or two, three months ago, we did not have that confidence, things have got pushed out and in terms of chemical industry and when I say chemical is really agrochemical, the bottom has been reached, I don't think there's any further kind of downside there. So, if anything, things are going to improve. Raw material prices have also stabilized like you must be knowing much of the overstocking is going to get consumed and then obviously US, Brazil will start ordering again. So, we will see a ramp-up of the chemical industry, mainly agrochemical. Specialty, pharma have been decent. They have been kind of doing okay. People building like CPVC, PVC, all these kind of specialty chemicals continue to do quite okay and then pharma is picking up. So, all in all I think the whole situation even though has – chemical is cyclical. We've always known this obviously we've been in an upcycle for the last maybe five to six years so people didn't realize that there's also a down cycle. I think the idea is when there's a down cycle, we should be aware and we should make sure that we have control of our costs and make sure that we don't lose market share, which we are doing and as soon as the markets are to turn, I think we will be in a strong position to take this opportunity and make sure that we are again in a strong position.

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

Sarang Sanil: My first question is, what is that you're doing differently in the international business now, which is clearly getting reflected on your margin. With the capacity utilization, headcount rationalization or had there been any revamps in the existing facilities, I mean what are the top levers apart from the better pricing that you get?

Tarak Patel: So, maybe Alex, you can take this question. The question is what are you doing differently in the international business so that your profit margins have improved significantly from what 7.5% from 2.5 to 3 years ago to now nearly 15%.

Alexander Pömpner: There are several factors what Thomas mentioned before, a lot of the orders that you currently see in our P&L they were offered when we had the peak for energy prices for material last year, so we were able to increase our prices further. And in the meantime, the cost structure stabilized again and therefore we benefit from the higher for the better priced business with the lower cost structure now.

Tarak Patel: Right. And I think the other thing that maybe from the pricing improvement that we did, but also the execution in the facilities namely Germany, China, Italy, I think these are new facilities, they took some time to ramp up. But now the momentum is currently strong, and we are getting good absorption of the fixed cost. Having said that, we always also look at and maybe Thomas can talk a little bit about the employee costs generally and what we have done over the last few months to make sure that we're more efficient.

Thomas Kehl: Of course, we had increases due to the inflation of the regions. Again, we have been able to manage to increase our prices accordingly. That was not significantly difficult because all our customers have the same story, the same issues with that. But at the same time, we were able to increase productivity to operational excellence programs to combining better operational processes and the productivity increase. And this is what how we counter those cost increase.

Sarang Sanil: My second question is when I see your margins in the last two years, in Q4, there is a bump up in other expense as a percentage of revenue. So, is there any big expense that you incur in Q4 and is it something we can expect going forward?

Tarak Patel: In Q4, there is usually you pay your incentives, right international, but there's something in last Q4 that we have the new salary or January is the new calendar where they have the higher salary that you pay normally.

Manish Poddar: So, the appraisal cycle is 1st January, which happens to be Q4 for us. So, employee expenses generally go up.

Tarak Patel: Yes, in Q4 but I think generally for the year, you will see that we are around what we've guided towards. But yes, Q4 you will see a slight increase in employee expenses in the international business.

Sarang Sanil: I meant other expense line item.

Manish Poddar: I think exactly reference to last year Q4 probably we may not have something upfront immediately to our mind, but I think there would be legal expenses that would be there on account of acquisition and all.

Alexander Pömpner: I think you assume that you refer to the cost that we spend for the acquisitions and for the we say you remember that we also tried to dispose the Edlon business and for the year and in fact, we put all the costs for this. So, this is more or less considered as a one-time impact. So, please do not consider going forward that in the Q4, we always see a significant bump in the US operating expenses.

Sarang Sanil: My final question is, is the effective tax rate being the 26%-27% range only for this year because first two quarters we saw a little on the higher side, right?

Alexander Pömpner: The international business we always had some changes in the tax rate. I think in general we gave the guidance to consider rate of 27% to 28% there between the quarters some changes, but I would consider that for this quarter we are at the 25%-27% weight again, so yes. For the full year you will see according to our published reconciliation where you see the impact due to deferred taxes due to the units that we have globally. So, that's the general guidance remains at 27%.

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

Tarak Patel: So, thank you everybody for joining us for this call. I think most of the comments that we've made today will kind of show to you that we have line of sight in terms of where we want to be. We obviously have now also our shareholder who has come in recently and we will be engaging with them as well to kind of build strategies and achieve areas of improvement and that we will obviously maybe at some point look to give you guidance maybe more than FY25 which we are currently have guided towards. Having said that, we also have some specific strategies for acquisitions, M&A opportunities that we continue to look at. So, that's something that we will continue to do. And then lastly, like I said, we are making sure that our cost structure remains intact and that we can look at operational efficiency to help improve margins. And hopefully the market is starting to turn and there is some the uptick and if the market were to kind of turn around much faster than obviously the demand goes up, which means then everybody kind of increases prices. So, that would help also in terms of profitability but generally I think we performed quite well for the first half of the year. And we expect to continue with the momentum for the next half as well. And we look forward to speaking with you at the end of Q3. Thank you very much and have a good evening.

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