



# “GMM Pfaudler Q2 FY-22 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to GMM Pfaudler Limited Q2 FY22 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 the operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priyanka Daga from GMM Pfaudler Limited. Thank you and over to you ma’am.

**Priyanka Daga:** Thank you Faizan. Good evening, ladies and gentlemen, a very warm welcome to you into the Q2 FY22 earnings call of GMM Pfaudler Limited. On this call we will be referring to the earnings presentation that was uploaded on the stock exchanges last night and is also available on our website. Hope all of you had a chance to look at the same.

Before we begin, I would like to mention that some of the statements made in today's discussions, maybe forward looking in nature and may involve risks and uncertainties. Please note the disclaimer mentioning these risks and uncertainties is on slide #2 of the presentation that was shared last night.

From the management we have with us our Managing Director - Mr. Tarak Patel, our CFO - Mr. Manish Poddar, our CFO of international business - Mr. Alexander Pömpner and our Company Secretary & Compliance Officer - Ms. Mittal Mehta. Referring to the agenda given on slide #3, we would start the presentation with an overview of the business from Mr. Patel. Over to you Tarak.

**Tarak Patel:** Thank you Priyanka. Good afternoon, everybody. So, let me start off by giving you an update on the business. The business continues to remain very positive, both in India and internationally. India continues to improve both in terms of revenue and earnings. The China Plus One strategy is working well. We see a lot of investment both in pharmaceutical and chemicals continuing in the next few quarters and the strong order intake across all our verticals, so both the GLE, PP and the heavy engineering business here in India has done really well in terms of the order intake. The global business - the Pfaudler International business has also done very well this quarter. Investments also continue across developed markets, both in Europe and in the US. We have a record order book across the US and European markets which will give us a good visibility into the next few quarters. There has been no significant impact in our manufacturing operations because of the global pandemic.

In terms of the integration update, the Operational Excellence programs are working well and gaining momentum, especially in Germany and in China. Value sourcing has already started from India, the components have been sourced from India. The first round of components has reached Germany and the feedback is very positive.

Lastly on a cross selling front, we've been able to win some large businesses, both in Europe and US, where we bundled multiple products together to increase customer spend. The outlook remains very positive. We have a healthy order backlog across geographies. I'll talk a little bit

more about that when we come to the numbers. But we have visibility at least for the next 9 to 12 months in most locations. Our order intake trends remain also very positive, so we are seeing investment continue in Europe, in the US and in India of course is going quite strong.

There have been some potential short-term problems regarding the price increases, input costs going up. However, we've been able to either price them in or pass them on to our clients. Obviously, energy cost in Europe in the short term has increased and we've planned to pass that on to our clients as well.

In terms of other updates this quarter, we have a new India CEO, Mr. Aseem Joshi, who will be joining us on November 8<sup>th</sup>. He brings a lot of experience. He's somebody who's worked both in India and in the US and he will be a welcome addition to the management team here as the size and the scale and the complexity of our business has increased significantly over the last year or so. It's important to bring in the right people to help us and continue this growth journey that we are on. We've also approved an employee stock option plan which pretty much will mean about 0.35% of the dilution which works out about 51,160 shares. The details of which I will speak about later.

The last update was again more on the raw material and energy prices, but I already spoke about that. Like I mentioned we have seen increases across geographies. However, we have been able to price them or pass them on. Europe has seen an increase in energy costs. However, the America and India have been unaffected. China, there has been a short-term power supply restriction and that has happened across China. However, it will not affect our forecast for this year. Both our revenue and margin forecasts remain unchanged at this point.

In terms of numbers, I will take you through the consolidated numbers. Revenue has grown from Rs 551 crores previous quarter to about Rs 647 crores this quarter, a big improvement especially in the international business coming from the manufacturing momentum in Germany and in China. The EBITDA has also increased by 14% from Rs 82 to Rs 93 crores and is at about 14.5% of revenue. PAT has increased from about Rs 30 - 52.8 crores which is about 8% of the revenue.

What's really heartening like I mentioned is our order backlog. The current order backlog stands at about Rs 1800 crores, like I mentioned gives us good visibility into the next few quarters. On the consolidated balance sheet, I will hand over to my colleague Manish. He will take you through the balance sheet.

**Manish Poddar:**

Thanks, Tarak. So, as you saw in the last slide that because of this we have a strong figure, overall improved. If you see our acquisitions in past 18 months whether it's Hyderabad, Vatva or Pfaudler International they've all shown good progress and actually blend with the overall organization. The cash generation has been healthy and overall, we see a much stronger and a healthier balance sheet in September '21 versus March '21. If you go to the individual details on the first hyperlink of cash generation in the cash flow statement, we see that on the slide #19, while our PBT has been only Rs 40 crores, the cash generation has been Rs 138 crores because

of the PPA adjustment which was non-cash, not hitting P&L however doesn't impact the cash flow generation. Therefore, Rs 40 crores of PBT is converting into a cash generation of Rs 138 crores. Similarly, the cash has later been well invested into working capital out of efficient uses. We'll come to that working capital slide later, to the extent of Rs 53 crores, routine CAPEX of Rs 12 crores have also been consumed out of the cash generation and the balance free cash flow generated during the H1 of Rs 73 crores has been well reinvested into interest, dividend and, also we have paid Rs 42 crores of debt and lease payments. We have reduced our existing debt. For Vatva we already had to pay out Rs 68 crores of cash. We borrowed only Rs 61 crores, so Rs 7 crores of money have been invested out of our own sources, our internal accruals and balance of both is the addition to the cash in hand.

And then we go to the working capital slide summary; slide #28 please. We see that on the left side of slide #28, on the left side consolidated box, we see we had the opening inventory of Rs 538 crores. The inventory has actually increased to Rs 610 crores. Optically looks like that we have invested a lot and the inventory has risen but if we see in the light of the backlog increase, three lines later from Rs 1483 crores to Rs 1813 crores, we had to increase our inventory to make sure that there is a hedging with regards to the commodity exposure, we minimized our commodity exposure. However, in the same breath we're happy to say that the customer advances have also increased from Rs 288 crores to Rs 371 crores. That would net mean that the investment in inventory has actually reduced from Rs 251 crores to Rs 239 crores. That would give you a reflection of how we have been able to reduce the exposure on commodity as well as conserve cash in this whole exercise.

Similarly, when we talk about the receivables, while the sales have increased QoQ by 17% and still we have been able to reduce the total receivables from Rs 310 crores to 293 crores and therefore there is a reduction in the receivable days as well.

Overall coming back to the consolidated balance sheet; we see a very stronger balance sheet. We can actually also take this moment to go to the EPS slide, slide #29. So, slide #29, you will see the ROCE which was into FY19 and FY20 was 27%-28% is now back to 26%—remember this is on a higher base of a \$50 million debt that we have in international business—but still we are very close to the numbers that we were earlier in 2019 and 2020. And if you see the ROE has actually improved from 21.5% to 31.5% in a matter of 18 months. This is exactly what the Pfaudler business has done to us and if you see on the left-hand side the EPS on the same line from Rs 49 has increased to Rs 97 annualized basis. We have had substantial addition to the EPS and the ROE out of the Pfaudler business acquisition. We can now move on to the standalone Tarak.

**Tarak Patel:**

Standalone numbers are obviously very strong. India continued to remain and do quite well. I won't go to the standalone numbers but I think from an India standpoint everything is quite positive, both in terms of revenue, profit as well as the order backlog. You can now turn to slide #12; the income statement summary which is just kind of a macro-view on the income statement and Priyanka will quickly take you through that.

**Priyanka Daga:**

Thank you Tarak. So, if you refer to slide #12; you would notice that on our consolidated reported result, our revenue increased 17% quarter-over-quarter while our EBITDA increased around 161%. Now that is primarily because in the last quarter, we had a step-up inventory of around Rs 45 crores which is no more there. We are done with the step-up inventory which Tarak had also mentioned in the Quarter 1 call and we see that due to which our EBITDA has actually improved to now Rs 94 crores. Further the PPA sitting in the amortization line item that is of around Rs 18 crores will further reduce down to Rs 6 crores in the coming quarter. This is again in line with the disclosure we had mentioned in our Quarter 4 results and that has helped us improve our profits.

In terms of the PAT level, if you notice that while our standalone generated a profit of around Rs 29 crores and our international business has also yield a profit of around Rs 29 crores which is similar to our standalone performance thereby proving that the international business is as robust as our standalone business in terms of earnings accretion.

Moving on to the next slide; that is slide #13, which gives a segmental overview of the business. We see that our revenue is pretty much diversified with around 59% coming from technologies and 26% coming from services. Our order intake is also reflective of the revenue generation right now with 60% coming from technologies and 24% coming from services. Moving on to the integration update; I would like Tarak to take over the integration updates.

**Tarak Patel:**

Just to give you some of the updates across the globe; one is that as I mentioned to you China and Germany both factories started out not very long ago. Both of them are gaining momentum. They both have produced and shipped out a good amount of equipment in the first half of the year. We expect that to continue. So, the Germany and China turn around are really helping international business grow both in terms of revenue and profitability. The Vatva factory ramp up is ongoing. We should have full capacity day by Q4. The order backlog in HE remains very strong. Only yesterday we've received another very large order which is about Rs 50 crores for the HE business. There's a good amount of growth that has come from the HE business as well. We have new furnaces that are going to be commissioned in December, both in India and in Brazil. The India one obviously will be helping us to kind of improve and increase capacity here. The Brazil is low-cost sourcing for the US market. That should also help us increase the capacity and grow our US market share. We also have now finalized the global EU concept and we expect to launch that in Q3 of FY22. We'll give you some numbers around that once the EU concept has been launched.

In terms of value sourcing, we have like I mentioned to you the first phase of components has reached Europe. The feedback is positive. The second phase of components, we are working on that right now. We've also developed a European grade raw materials here in India which we now ship to the international facility. We have seen a good amount of market share improvement in Europe and in the US, in markets like Spain and Russia and in the US as well where we've been able to win business because of our ability to source from India.

Lastly on the cross-selling front; Interseal is now up and running. We will have an official launch by November. We've already received about eight orders. We expect that business to also pick up in the coming quarter. Like I mentioned to you a large order from the US which consists of glass line, heavy engineering, and mixing systems through our ability to cross sell our products to our clients is something that we are working on. Lastly, we now have a centralized global opportunity management system. We have one single group that controls this, so really gives us a lot of visibility in terms of what is happening around the world.

With that I just wanted to say that business remains very positive. We hope that the next couple of quarters we will see some more improvement in terms of earnings due to the synergy that will come in and the backlog that we currently have, gives us a very robust outlook in terms of what this year is going to finish at, as well as maybe a few quarters into the next financial year. With that I'd like to now open up the call for questions, happy to answer any questions that any of you might have. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amandeep Singh from Ambit Capital.

**Amandeep Singh:** Firstly, on your domestic business, while GLE continued to lead the growth by 46% YOY growth in H1 FY22. We note that the growth in heavy engineering segment remains muted at 5% despite some COVID led impact in the last quarter, so which would imply a bit lower base. So, whilst we acknowledge that you have been given higher orders for the HE business over the past couple of quarters. Can you help us with your thoughts here with respect to the scale and how the margin for the standalone business would pan out with increasing share of HE Europe?

**Tarak Patel:** The HE business is definitely a growth area for us Amandeep. Now that this new factory will come online, we will have additional production capacity. In the first quarter obviously was just a quarterly kind of, so there is no significant reason why there was low HE but you will see that picking up over time because some of these are long lead kind of orders and some of them ship out over certain quarters. But we believe that we can maintain a similar level of profitability, not only by doing exports business but we also kind of pick and choose the orders and the materials that we want to focus on. So, having a good mix of carbon steel, stainless steel, exotic material, having a good mix of domestic as well as export business, so all these will kind of help us improve our HE profitability. The idea here is not to really compete with the local fabricators, it's to kind of be able to differentiate yourself when it comes to the thicknesses you can handle, the weight you can handle, the materials that you can handle. And Vatva because of the infrastructure that it has, gives us that edge over many of the other manufacturers. So, like I said the capacity is about 200 tons which not many people have the ability to roll 140 mm of steel. That's something that we have. We have tube sheet drilling machines there. So that gives us definitely an edge and the kind of business and the kind of clients that we try to cater to really are looking at the top end of the spectrum.

**Amandeep Singh:** Just continuing on the domestic part; so, with upcoming GLE capacities across Karamsad and Hyderabad, can you give us some sense on what could be the potential for quarterly run rate of GLE segment post the stabilization of these furnaces?

**Tarak Patel:** This new project in the Hyderabad will come online in end of December, early January. So, you will have one quarter of additional capacity in Hyderabad. However, we are continuously working also on improving and increasing capacity in Karamsad. We have also placed an order for one more new furnace in Karamsad and we expect to have one more order actually placed very soon. So that will give us additional capacity. The Hyderabad facility I think has around

**Manish Poddar:** 97 EUs is what we did in Q2

**Tarak Patel:** and this additional furnace, I don't have the exact number but I think it's around 400 EU is what we had planned from Hyderabad this financial year.

**Amandeep Singh:** Lastly on your international business. The order booking for the Pfaudler International continues to remain healthy over the last two quarters which implies that there would be extension in some delivery timelines. In that context while this remains a positive development, can you help us understand your strategy to ramp up execution, also considering the short-term impact of power supply in China? That would be my last question.

**Tarak Patel:** So, ramp up of capacity is happening, like I mentioned to you one new furnace in Brazil is being added on. That's something that we have capacity in US. In Europe what we are working on in both getting our current factory up and running to a much higher kind of the capacity utilization. Germany is one such facility which we are ramping up with the brand-new facility. Our China facility is well on the way that we are planning is that keeping when we have power shortages, we will work on the fabrication aspect and then obviously when we have the power back we will have the capacity and the reactor ready for the glass lining process as well. Overall, we are okay but I still think that we need to improve our operational excellence in some of these facilities so that with the same infrastructure, the same amount of resources we increase the output. I think you can see a good amount of improvement there by just looking at internal processes and trying to work on operational excellence.

**Moderator:** The next question is from the line of Sanjay Shah from KSA Securities.

**Sanjay Shah:** Congrats on healthy numbers. My question regarding, we have done so well in this volatile world where we are facing from coal to shipping to raw material rise and still, we have pretty done very good on margin side. So, Tarak sir can you help me to understand what is the scenario ahead on that side? Because we see still there is a lot of volatility on raw material, shipping freights and all. So, are our whole contracts we are able to negotiate the price or we have old raw material lying at our place and how do you see that future ahead?

**Tarak Patel:** We have, like you said a combination of multiple things going and working in our favor. From a logistics standpoint most of our contracts are ex-work. The logistic costs are never on our

account. It usually the customer will pay when the material is ready for shipment. But we do and like Manish has mentioned, we have invested in inventory. In terms of steel plates which is obviously the one that has increased the most and its a big raw material for us. We have a good amount of inventory already available. So whatever new orders are being discussed or have come in we've already priced those pricing increases into those orders as well. We don't see a significant impact or pretty much no impact on our earnings for the rest of the year. We will try to kind of minimize if there's any impact but we believe that we can maintain the margin profile at least for the next six months or so.

**Sanjay Shah:** That's very exciting. Can you please highlight upon heavy engineering, proprietary products, how they are panning out and also some comments on Vatva, how they are doing over there?

**Tarak Patel:** So Vatva, like I mentioned to you we've already started moving from business. We had planned to start that up later this year, but we actually decided this amount of business that we have got to actually go ahead and ramp it up. We've also put our consultant there, who is going to help us ramp up the business. They're going to be stationed there for about a year's time. They will really help us transition and monitor that transition period and make sure that our shipment numbers are met. Like I've mentioned to you the HE backlog as it stands currently is about Rs 200 crores of HE backlog already on our books. So, it's really an exciting time for the HE business. As a good mix of heat exchanger, the good mix of stainless steel, carbon steel and what we've also seen in the proprietary business. We've actually kind of had some shortages in capacity in Karamsad to be moved. Actually since we have five sheds in Vatva one of them is now being given to the proprietary business to, kind of, increase their throughput and increase their capacity as well.

**Moderator:** The next question is from the line of Ronak Vora from AUM Fund Advisors.

**Ronak Vora:** Hi Sir, Congratulations on good set of numbers. I would like to ask, so the order backlog in your standalone book is flattish on Q-on-Q basis. What may be the reason for that?

**Tarak Patel:** On a Q-to-Q basis, I think we were already quite full. We are kind of because in terms of shipment obviously the last two quarters we have seen incredible order book. That's what we are now waiting to kind of reduce the backlog and then book new order. So, this gives us a little bit of more flexibility to pick and choose the right business with the right business at the right kind of the profitability that we would like to get. So, it's not a trend. It's not something to worry about, but it's just a part and parcel of the amount of backlog that we already had. The last few quarters have been significant in terms of order intake and because we can't now deliver in time, we would have to have a slowdown till we ship out some equipment and then again, we'll come back to the normal kind of order intake as well.

**Ronak Vora:** So, to like explain it in terms of days or months, if I'm a customer I give you an order, what would be your execution timeline, so suppose 6-9 months what is the current whole scenario?



**Tarak Patel:** Again, it depends on the product that you're talking about, in glass line about 5 to 6 months is our normal delivery timeline. For certain sizes it could be longer. In HE right now since we have the new Vatva facility we can, depending on the size of the order and how long the materials will take give you something in 6 to 9 months. In the PP business again, I would say about 6 months is the order backlog that we have.

**Ronak Vora:** And secondly on the Pfaudler International business, can we consider that 10% EBITDA margin would be a base going forward?

**Tarak Patel:** That's what we are hoping for and that's what we had guided towards. I think Pfaudler International had turned around quicker than expectation which is a great time and this is not considering a lot of the synergies there have been in and that will pan out over time. I think as of date 10% EBITDA margin for the Pfaudler business is definitely something that's comfortable for us. And if the synergy starts panning out I think that can also see a slight improvement there.

**Ronak Vora:** And when we say that we have Rs 370 crores of advances from customers, so is it like you get 20% of your order book as advance to confirm the orders? Can you just highlight?

**Manish Poddar:** Basically, these are progressive payments that we receive, once you have the agreement signed off, and the contract is executed, thereafter these drawings are being discussed then you have a milestone payment 10%-15%-20% depending on the terms of the individual order. Of course, subsequently per milestones we keep seeing the progressive payments.

**Moderator:** The next question is from the line of Sandeep Tulsian from JM Financial.

**Sandeep Tulsian:** A very good evening Tarak and congratulations on the great set of numbers

**Tarak Patel:** Hi Sandeep, thank you.

**Sandeep Tulsian:** First question is pertaining to the strong order inflows that we reported, particularly in the international segment. If you can share more color, which geographies these orders are coming in from along with an update on the Asia-Pac penetration strategy that you had described a couple of quarters back if you can give us an update on that?

**Alexander Pömpner:** I might take it, Alex from the international business. In fact, we see it and through all territories. We have strong order intake in America where we are really happy with that's what Tarak already mentioned that we also invest in Brazil to support the goals of the America's business in the US. We also have a really good development in China where we are happy with supporting our growth plan and the new factory, also US is currently doing well. So, in general summary, it's a good strength and we are happy with the performance.

**Tarak Patel:** Just to add to what Alex said even for Mavag, we have close to about 35-36 million Swiss Franc from backlog which is 18 to 24 months. They are in the process of finalizing another \$6-7 million worth of dryers as well. There is definitely a good momentum picking up in the international

market. Both the US and European market are after a long time seeing a good deal of investment. It's really happening for us when we have factories that are full and we are looking at investing in kind of increasing the capacity, this is something that Pfaudler has not done in many years. In terms of timing, it's really great for us that we are seeing it right now.

**Sandeep Tulsian:** Second question is pertaining to Mavag. Specifically, we have seen a very sharp ramp up in the order book over there. However, revenues have not grown, if you compare it to both QOQ as well as YoY and you had mentioned there would be a plan to outsource and get some of the fitments done from the India facility for that. If you can share some updates, how do you plan to ramp up given this, would you be investing more in the local facility over there or is there an alternate plan to cater to the strong demand that you are seeing in Mavag?

**Tarak Patel:** You will see the second half of the year be much stronger, the performance from Mavag because I think lot of the stuff that we are to ship out of India is on the process of being shipped. They will already turn that around and then you will see that revenue increase happening. There's no plan of increasing capacity in Europe, however in India like I mentioned actually have additional capacity now with the Vatva facility being available. We are going to do some of the proprietary work from Karamsad goes to Vatva which then will create more room for Mavag related activity but you're right. We have to increase Mavag, the supplies because if their business increases, automatically our business will continue to increase.

**Sandeep Tulsian:** Lastly on any long-term growth guidance that you would want to give? You had mentioned in previous calls that probably by a couple of quarter later we will have some visibility on that?

**Tarak Patel:** I think we are working on something. We have a global strategy meet. We have about 45 of the key employees going to meet in Dubai this December. This is the first global conference that we plan. It gives an opportunity for all of us to interact and really build a long-term strategic plan. A 3-to-5-year plan for the business. Look at things around M&A opportunity, look at things around cost reduction operation excellence. Once this meeting takes place, at least by Q4 we should have a document in place and in terms of guidance we can then give you some new set of numbers that we believe is achievable over the next 3 to 5 years.

**Moderator:** The next question is from the line of Ashit Kothi, Individual Investor.

**Ashit Kothi:** Good evening, Sir. Wish you a happy Diwali and Congratulations on the good numbers. Would want to understand what has been overall China contribution to our turnover and with the current power scenario out there, power shortage and other issues, how are we planning to use that as an opportunity or shifting of base from China to India?

**Tarak Patel:** The current shipment has been around in the first half of the year. About \$12 million of shipment has come from China so far and we expect that number to, at least from the half the year that is pretty much half the target for the year. However, the China does state a bit of an energy issue. They have to shut down their energy furnaces for 2 days in a week but we expect this to improve from this December and January. As of right now from our local people in China, there has been

no major disruptions because what we do is while the power is not available, they do the fabrication and glassing. When the power is available, they have the vessels ready to go into the glassing factory. But obviously we won't be at full capacity but for this year's numbers and guidance that we have planned internally, we should be fine.

**Ashit Kothi:** So, we are not looking at a shifting of operations or productions?

**Tarak Patel:** There have been certain orders which have come to India so because of the capacity constraints in China because they were booked out, we have manufactured some equipment, some orders of the glass line equipment orders have come from India which are under supply. But that could always be an option if there's more need and more of the demand coming from China, we can always look and not only India but any of the Pfaudler facility to supply into China.

**Ashit Kothi:** Apart from glass lining is there the capital goods sector, how much more growth you are expecting?

**Tarak Patel:** I think India continues to remain very strong. I think the investments will continue. I don't see any slowdown here. Internationally, obviously the market is booming right now there is local capacity is being created. At least the next 12 to 18 months looks very good. Obviously, the idea is to not only ride the market growth but we need to work on market share and hopefully with the kind of the group that we have, the size and scale and even though the ability to source from anywhere in the world we can really go after and go further market share globally. Just think of it exactly like how we have grown the Mavag from being a 6 million or 7 million Swiss Franc company and today they are about \$22-23 million. The company we have seen that grow about 3 to 4 times without using or increasing the infrastructure, without increasing a single person, but just not using and trying to move some of the fabrication non-core activities to a low-cost country. Even for Pfaudler, the capacity that's available if it can be used for the value-added stuff and move the fabrication to India, we can see a good improvement there as well.

**Ashit Kothi:** What kind of growth percentage?

**Tarak Patel:** In terms of guidance, we have already given growth to a guidance Rs 2800 crores by 2024. I think that's a conservative number and if you see this what we are tracking towards I think, we will probably achieve something better than that.

**Moderator:** We will take the next question from the line of Ronil Dalal from Museum Capital.

**Ronil Dalal:** Hi, congratulations on good set of numbers. My first question is that Tarak how have you been spending your time between the international India business operation strategy and now that Mr. Joshi will be joining us, how would this change if at all?

**Tarak Patel:** I think in terms of actually going and meeting these people and trying to visit the facilities, I was lucky enough to have an opportunity. Last month I was in Germany where I visited the German facility, I saw the Interseal facility, I saw the Normag facility. I was also in Scotland and I got

to see the UK facility. A few months before that I was in the US. I got to see the Rochester facility as well. However, obviously I would like to spend more time at these facilities. Because of the pandemic, that was something that was a bit difficult but overtime I do plan to have a little bit more involvement and oversight in the international business, although we have a CEO and CFO who are responsible for that. Once our team joins here in India there would be definitely opportunity for me to try and meet them, spend more time at these factories and look at some of the integration efforts as well as operational excellence efforts that are going on in these geographies.

**Ronil Dalal:** The second question is that given that there's a strong demand momentum and you touched upon the Rs 2800 crores target but what about anything on the margins besides of course you guys will meet and despite discuss of a 4-5-year plan but on the earlier guidance would there be any revisions?

**Tarak Patel:** The only thing that I can say is that given a guidance of 16% by 2024 we already at a group level at about the 15% or the 14%-15%. Guidance, so, 16% looks very achievable. That was not including synergies, right? So, on top of that when we have synergies, I think you will see that improve as well. You have more revenue coming in as you grow and as the factories become more efficient you would probably also see that improve. In terms of guidance, I don't want to really give you a number right now. Like I mentioned we will have this meeting, we will come back to the market or with the story in terms of what we expect to do over the next 3 years and maybe even in terms of profitability what we believe would be a possible.

**Moderator:** The next question is from the line of Puneet, Individual Investor.

**Puneet:** Greetings from Dubai and Happy Diwali in advance. I think this number obviously adds to the Diwali bonus. So, congratulations on that front. Very heartening to see the numbers and the international business taking shape as it is. I have a question on the US order that you have mentioned. Would be really helpful to understand the numbers on that front and clearly you mentioned in the last con-call as well that this will flow in this year, by the year end the last quarter. Any number on that front would really be helpful?

**Tarak Patel:** The value was around USD 8 to 9 million mark. I think that was one single order. We are actually also in discussions with the same client to kind of increase the supply. Hopefully we will see some more growth on that number. It's quite interesting because this is really a good example of how we could leverage the strength of the group. When the inquiry came in from the Rochester was quoting and their timeline was close to something like 17-18 months. This was a fast-track project and we could do it from India. This entire order would now be manufactured here in India. The pricing is similar to European or US prices. There's no reduction in the pricing. As a group it is going to be something that will be profitable, will be quite profitable. This also helps people understand that there is so much more to the group now than just being a country specific organization. Sourcing from different geographies, having low-cost facilities, that gives us an edge over competition. So that's something that definitely heartening. As more and more

salespeople will start seeing this, you will see that market share improvement just coming through areas where there will be these bunch of customers who will never buy from Pfaudler but now suddenly this opens up the brand-new market for us.

**Puneet:** My second question is actually an extension of the first one only and which you clearly highlighted right now. So, since it's just the integration has just started to happen right now and I am very hopeful that going forward not just in America, other regions as well since the beginning itself we have given a big order. This is just the start of things and I am sure bigger plans are ahead for other geographies as well?

**Tarak Patel:** The few successes that we have had and I mentioned this during my last con-call the budget that we had put in for the entire year for low-cost sourcing or sourcing of India into European and US markets the budget was made in the first 3 months. We still have 9 months left for any additions. That was how quickly we were able to beat the budget. That just shows that there are opportunities available. Now that people have seen that it's possible. I think this is going to open up the wide and much more bigger kind of opportunities that will come to us.

**Puneet:** Very heartening to hear that Tarak. Thank you so much and just on a lighter note if you need any assistance from my side in Dubai for this please do let me know.

**Tarak Patel:** Thank you so much and nice talking to you.

**Moderator:** The next question is from the line of Srujan Kumar, Individual Investor.

**Srujan Kumar:** I just have one doubt. In your international business I see a lot of spending on employees. I am seeing this continuously from the second quarter, I see some drop from last quarter but how it is going to reduce for future?

**Manish Poddar:** Employee cost is much higher in an international business, that's your question?

**Srujan Kumar:** It is almost 30% of your revenue in the last quarter and 26% from the revenue?

**Manish Poddar:** Employee cost, we need to understand this that when you talk about international business it is heavily loaded towards the developed markets of Germany, Italy, UK, Switzerland, and America which is high-cost countries per se from an employee cost perspective, we noticed on day one itself. So as Tarak mentioned there are two ways to do it. You want to cut down on cost – A, that's a shortcut measure to improve profitability but then if you want to do it the hard way the long-term way of increasing the health of the business and increase the size of the business like we did in Mavag we just want to replicate that model. We have the same number of people. We have the same capacity but we double fold or triple fold the business, that's the way to do it. Yes, it's harder, yes it will take not a few quarters a few years but I think that's the more healthier way of creating value for the shareholders.

**Sujal Kumar:** My next question is regarding the borrowings, so new balance-sheet I see there is a significant improvement in borrowings but in your opening remarks I noticed that there is you've said some decrement some repayment has been done, I didn't feel that. Can you explain it?

**Manish Poddar:** Right, so net there has been an increase in the debt. However, what we mentioned in the cash-flow slide was that the existing debt as on 31st March has been repaid to extend of Rs 42.5 crores if I remember correctly, debt and lease payment. While the new acquisition of Vatva required us to invest something like Rs 68 crores, however we had taken a loan only of Rs 61 crores. So net if you take it up there has been an increase in the debt levels on an overall basis, but the existing debt has been repaid and fresh debt for Vatva acquisition has been taken up. So that's how you see both the numbers.

**Moderator:** The next question is from the line of Srinivas from Rockford Consultancy.

**Srinivas:** My question is you have mentioned that order book and performance in Germany and China is a very good, but what about other locations like Brazil, US, UK, France, and Italy. You're not mentioning anything about them.

**Tarak Patel:** I think the performance is great across the world. If you see the international business has grown at double digits, which is faster than the market there, so definitely heartening to see not happening only because of Germany and China but we just highlighted Germany and China because they have done increasingly well. Please remember that both Germany and China was loss making last year, last financial year. This is now turning them around and making them profitable as well as getting the momentum going forward. It's going to have a double impact for us going from negative to positive, so that's why they were highlighted. But across the US we've seen fantastic performance there both in terms of the order intake and in terms of shipment. Brazil continues to do well and that's why we are adding one more furnace in business so they can ramp up and ship out more equipment to Europe. China like I mentioned already has already done in half the year a very good start to the year. Across the board businesses have done well orders remain very strong. We just wanted to highlight the two practices that have turned around most of all that's why China and Germany but the performance of the international business as a whole has been very positive.

**Moderator:** The next question is from the line of Rohit Ohri from Progressive Shares.

**Rohit Ohri:** I have two questions and one vision statement. In terms of the subsidiaries that we have the 16, how many of these are in autopilot mode? How many are in semiautomatic and how many of these require absolute attention from the management perspective?

**Tarak Patel:** I think from all these subsidiaries I think being in a manufacturing business you still need a lot of human intervention. I think that upper management standpoint even though we have local general managers in each location there is definitely oversight, review meeting, a lot of conversations. Now with the integration project that we're working on internally we have the group of homework with the entire group together and we start talking about a lot of things like

operational excellence, cross-selling in a low-cost sourcing, the entire company actually working together. So, a lot of people know what's going on across the board. It's not like each country is in a dialogue kind of doing his own thing. Everybody is part of a bigger kind of a team and a bigger kind of a goal that we all are trying to work towards.

So, I think that is definitely a benefit, I think now this meeting in our global strategy meet will also be very helpful to get people working together get them to know each other much better. I think that's a positive as well. I mean at the end of the day it's really the people of the company that's going to take the company forward. So, if we can get that kind of culture that creates kind of teamwork and accountability and growth I think then you can see really the next level of growth coming forward. The brand name there, the technology is there, the factories are there, so we need to kind of get the culture going to really kind of drive the next level of growth for us.

**Rohit Ohri:** So it is ESG plus culture for you. My second question is that you spoke about the global EU culture, can you take us through that and how does it benefit us?

**Tarak Patel:** EU is something that we developed in India and it's worked very well for us. It's something very big; it's only it was just unit and unit undocumented way to measure your outputs. To be kind of developed the incomparability measures output by the amount of effort that goes into it. The good thing about the EU concept is always the more number of EUs the higher the revenue, so there's a direct proportional link to that. In terms of unit if you have 100 small units, that could be less revenues than 50 big units. So that was never a kind of, so this is something that as a company it's a great thing for us to measure our performance and hence launching it internationally will help people (1) understand their capacity and then (2) at least kind of get some idea in terms of their revenue and shipment possibilities. So really just bring in kind of similar standard across the group, so that every factory can be measured against each other.

**Rohit Ohri:** In terms of patenting any processes or products your thoughts on that if anything in progress or in process?

**Tarak Patel:** So, in terms of process, so acid recovery is one thing that we've been working on. We've had some successes. That's something that hopefully as the world goes green and ESG becomes more important, more and more companies will kind of look at cleaning up or reusing their assets. That should be a good business for us. That's something that we're working on but as a company we do a lot of systems businesses, so there's a lot of technology in lube refining. There's a lot of technology in all your chemicals, there's a lot of technology in latex. We have a bunch of stuff that we're working on, so these are all process oriented.

**Rohit Ohri:** No, I was asking about patenting some of the processes or products?

**Tarak Patel:** I think Pfaudler has a lot of patents to its name already. We are also working on new types of glass that will eventually improve heat transfer and things like that and as and when we work on these technologies, we will end up patenting them.

- Rohit Ohri:** Any vision on becoming a debt-free company once again?
- Tarak Patel:** So, a lot of people ask me this and we would eventually become a debt-free company and I think I mentioned 3 to 4 years. I think this was last year but the problem not really a problem but its a good problem to have, is that debt it so cheaply available. It would be inefficient to not use debt and that's exactly what we are looking at, our debt ratio is so comfortable that there is no reason for us not to use debt. I know for Indian shareholders you know debt-free is always nice but I would find it inefficient if I didn't use debt when its available so cheaply.
- Manish Poddar:** Just to extend that point our debt to equity is 0.9 and the overall debt available to the company that is less than 4%. So, we have two options, we can enhance the shareholder paid by double from say Rs 3 crores to Rs 6 crores of share capital what we can do. But in that will reduce the ROE and the EPS to half, I'm sure none of us want that. So therefore, if somebody's putting 50% of the money at 4% cost it's a no-brainer for us to get, as long as we are in comfortable zone in regard to our debt EBITDA, debt equity ratios, I think.
- Tarak Patel:** Yes, and visibility standpoint in order book is there for the next 12 to 18 months. There is no problem from that standpoint as well. I think right now debt have to be use efficiently and I think it only help us improve our ratio.
- Moderator:** The next question is from the line of Ronak Vora from AUM Fund Advisors.
- Ronak Vora:** Can you just help me with in terms of growth for the current quarter how much would be value led growth and how much would be volume led growth because of the increase in raw material prices? Can you just bifurcate between it?
- Tarak Patel:** I think 90% would be volume led, these increases cannot only come from price increases or prices are popping on. Many of these orders are probably held the orders are getting shipped out now. So, the volume growth has come from I said like Germany and China they have brands of their manufacturing, so that's really the 90% of that would be entered on it.
- Manish Poddar:** I think you got to give credit to our sales guys that in the increased metal prices and all that. We have been able to sustain profitability but that itself speaks for itself.
- Ronak Vora:** That's definitely true that profitability speaks for itself but just to get a sense of you that how much more EUs that we sell and how much was due to the commodity in place in which we had passed on that as what my?
- Tarak Patel:** Like I said 90% would be volume-based there will be some 10% the commodity passed on and the volume was led by facilities like Germany and China who last year did not have much manufacturing because we just really need new facilities and the move was ongoing.
- Ronak Vora:** Secondly are we still looking further for any inorganic opportunity for our heavy engineering business looking at that we have capacity constraints?



**Tarak Patel:** So now no. I think we have excess capacity. The order book is very strong. Now once we get Vatva fully up and running then I think we will have capacity for at least 2 to 3 years. So, no right now we don't need additional space in the heavy engineering business.

**Moderator:** The next question is from the line of Ashit Kothi, an Individual Investor.

**Ashit Kothi:** I just would want to get a feel as to when exactly capital invested in acquiring international businesses would be back, I mean say a return of capital by financial year 25 or 26?

**Manish Poddar:** So, if you go to the slide #29 we have mentioned the ROE and ROCE percentages ROCE as 25.5% and ROE contributes at 31.5%, so by that you can actually I mean get the return period as well.

**Ashit Kothi:** So basically another 3 to 4 years whatever invested to acquire will be free to us?

**Manish Poddar:** You can't take it that way simply because the base is of per share capita and the reserve that you've earned over the period of time and this is a completely new business. So, and it's a bit more complicated than that because you have 54% at this stage you don't have that 100% as well. So, we are having the Pfaudler International EBITDA margin at 10%, so take that as a benchmark and you can calculate the return period.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

**Tarak Patel:** Thank you everybody for joining the conference call and wish you all a Happy Diwali and we will talk to you again in Quarter 3. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen on behalf of GMM Pfaudler Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.