

“GMM Pfaudler Limited Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the GMM Pfaudler's Investor 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 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 over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, sir.

Diwakar Pingle: Thank you, Rio. Good afternoon, good morning, good evening to all the participants, depending on the geography you are. Before we proceed to the call, let me remind you that the discussions may contain forward-looking statements that may involve known, unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risks that could cause actual results, performance or achievements to differ significantly from what is expressed or implied in such forward-looking statements.

Please note that we have mailed the presentation deck of the transaction, and the same is also available on the company's website. However, to maximize interaction with investors, we have decided not to go through the presentation page by page. Instead, Tarak would possibly run you through the key aspects of the transaction. And should you require any specific doubts from the presentation to be clarified, you can either write to us or to the company secretary of GMM and we will be happy to answer the queries.

To take us through the key highlights of the transaction and answer your questions today, we have the top management of GMM Pfaudler, represented by Tarak Patel – Managing Director, Ashok Pillai – Chief Operating Officer, and Jugal Sahu – Chief Financial Officer. We also have the top management of Pfaudler International Group, represented by Thomas Kehl – CEO and Alexander Pompner – CFO.

We will start the call a brief overview of the transaction given by Tarak, which would be followed by Mr. Thomas who will give a brief outlook of his view of the transaction. After which, we will throw open the floor to Q&A. With that said, I now have the pleasure of handing the call over to Tarak. Over to you, Tarak.

Tarak Patel: Thank you, Diwakar. Ladies and gentlemen, thank you very much for participating in the conference call this afternoon where I will take you through the recent acquisition that we just completed of the global Pfaudler businesses. I know many of you have many questions, and we will try our best to answer them through this call.

Honestly, for us, at GMM today is really a very historic day. It's very rarely that an Indian subsidiary, an Indian joint venture gets to buy out the controlling stake in its global business of the parent. It's really something to be proud about. And for me, personally, being the third generation of a family business, to finally take GMM Pfaudler to the international stage is a very proud moment for me. It's also something that as a country, as we move towards a more self-reliant India, I think it puts us in a very good position. And now finally, after being with Pfaudler for so many years, we now can control our destiny.

This transaction is very unique from the standpoint that it combines the strength of three very different partners; private equity, who brings in efficiency, cost optimization; a promoter family that brings in focus and entrepreneurship; and then, obviously, the professional management of Pfaudler who bring in their specific skill set and ability. Further, as you will shortly see, all three partners remain invested in the business, all three of us are completely aligned when it comes to creating value in both the International, and then that business will flow into the GMM Pfaudler business.

As you all must have already seen, GMM Pfaudler does become the ultimate holding company with the revenues of the entire Global Pfaudler business flowing into GMM Pfaudler. So once again, a very proud day for us, after being associated with Pfaudler since 1988, finally, we have been able to complete this transaction and take the destiny of this company into our own hands. And over the next few years, we hope we can create value, both internationally and in India.

A quick update on the transaction. It is absolutely a transformational and game changer for us. It makes us, makes GMM Pfaudler the undisputed global leader when it comes to the highly attractive glass line markets. It's basically given us access to 12 factory in eight countries, over four continents, with more than 1,500 employees. We build on the 30 years of relationship between GMM Pfaudler and the rest of the Pfaudler Group. We know most of the Pfaudler units very, very closely. We know many of the employees that work in this Group as well.

Over the past five years, since I took over as Managing Director of GMM, I have worked closely with the new management of Pfaudler International, the management that came in after DBAG, the private equity fund brought Pfaudler International from NOV, and we have been working very, very closely. Thomas has been on Board since the start. And we closely worked together to complete some of the main initiatives of the Group, and we will continue to work together to take the Group in the right direction. We have also, over the last five years, here at GMM shown our ability to scale up, to ramp up operations. As many of you know, having following the company, we have shown incredible progress when it comes to both growth, as well as improvement in our margin profile.

A broad quick overview about the economics of the transaction. So, the stake that GMM Pfaudler will acquire in the Global business amounts to about 54%, which will be worth about \$27.4 million. This will be about \$17.4 million of debt, and \$10 million coming from internal accruals. The stake acquired by the Patel family will be 26% for the amount of \$13.2 million. This is done on a pro rata basis. Together, GMM Pfaudler and the Patel family will have 80% control of the International business of the Pfaudler Group. The last 20% remains with DBAG, which is a private equity player. So as you can see, all three parties are invested in the Global business. All three parties are clearly aligned to create as much value as we can, in the international business of the Pfaudler group.

The SPV that we have already floated will be based out of Luxembourg. And obviously, this transaction is subject to shareholder as well as anti-trust approval over some specific jurisdictions. We expect the transaction to close in about four months' time. And hopefully, we

can hit the ground running. Like I mentioned earlier, integration is something that we don't really have to worry about, we have been working together for quite some time. So from day one we can start building on the initiatives that we have planned.

The combined entity will have a revenue of around Rs. 2,000 crores and an EBITDA of close to Rs. 260 crores for the 12 months completing year. And going forward, we expect the revenue by 2024 of about Rs. 2,800 crores with an EBITDA margin of close to 16%. This is without synergies, and there are plenty of synergies that this transaction brings to the table, and let me spend a minute talking about that.

The reason this is the right time from our side to purchase the Pfaudler group is, DBAG and the Pfaudler management have spent the last two and three years really modernizing the factories around the world. Pfaudler now has new facilities in Germany, they have closed out a 100 year old factory in the middle of the city and moved to a much more efficient, smaller footprint a few kilometers away. So they have a brand new facility in Germany. They have a brand new facility in Italy. And maybe about a few weeks ago, they just started their brand new facility in China. So before the improvements start flowing into the group, we thought that this was the right time to acquire Pfaudler so that we can benefit from the improvements that are going to come in the coming quarters.

Further, Pfaudler also over the last few years has done about five bolt-on acquisitions. They have expanded their product ranges, companies like interseal, Normag, and new technologies like acid recovery have also been added. There is obviously also capabilities of beneficial low cost sourcing from India. This is something that we are working on. We have already shown over the last few years that, that model has been very successful with our Swiss subsidiary Mavag, where about 80% of the manufacturing is done here locally. And then the final finishing, testing, assembly is done in Switzerland. The customer gets the best of both worlds and get a much better and cheaper product, but at the same time Mavag has been able to increase market share and profitability. If some of you who've been following this company when we bought Mavag in 2008, it was a CHF5 million company. And today it is about CHF15 million company and make good margins as well.

We also aim to implement GMM's operational excellence model across the Pfaudler factories, added with cross-selling or some of the GMM Pfaudler products. We believe that both the product ranges will be enhanced significantly, and the Pfaudler network will now have much better access to both products of both groups of companies.

We also will then have access to Pfaudler's innovation and technology. As many of you know, Pfaudler has been the market leader for quite some time. When it comes to glass lining technology, they have a very strong R&D department where they do develop new glasses, all that will now be available to us. We will also not have any restrictions when it came to exports. And certain markets which are value driven can be directly catered by GMM Pfaudler as well. There will be no significant key royalty payments between the group now since everything is going to be consolidated at the GMM level, that will not be required.

Just to close out before I open this up to Q&A, I also just want to also tell you that the timing again is quite well-timed because we used the months of the global pandemic to complete this deal. As you all know, there are significant tailwinds in both the chemical and pharmaceutical sector, not only here in India, but we believe that a lot of new investment will come back into Europe and the US. Those countries have realized that they were too heavily dependent on India and China, and hence we believe that investment will drive growth for the Pfaudler Group as well.

Thomas has also worked along with DBAG to really change the culture of the Pfaudler Group over the last few years. They have brought in a lot of new people as well, a lot of professionals. I think that also bodes well for the future of this company. And all in all, we believe that we are now set to really start benefiting from many of these initiatives that are going to come in. And if we continue to work together we will remain the undisputed leader. But we do aspire to become the world leader in the chemical processing equipment space. There is lot of work to be done, but there is definitely a lot of scope for companies like ours to really take advantage of the situation.

So with that, let me introduce my colleague from Germany, Thomas and Alex. Thomas is the CEO, has been on the GMM Pfaudler Board for quite some time. Alex has joined maybe a few months ago as the CFO of the Pfaudler Group. And together with them, we will be spending a lot of time to making sure that all the synergies and revenue as well as cost improvements are seen in the coming months. Thomas, over to you.

Thomas Kehl:

Thank you very much for the nice introductory roles and explaining the deal structure and what we do here. And let me say, I am so happy to be on board as the CEO of the Pfaudler Group, and we are very, very excited about the deal that's going to be extremely positive for us. We are working well together, as Tarak said, since several years. We are strategically 100% aligned. And this is a great opportunity to, on a global basis, really implement our ideas.

In the recent years, as Tarak already mentioned, we have focused majorly on three things; one thing was modernization of our manufacturing footprint, especially in Europe and in China. And pretty much we are through this installation and the new site and ramping up phase and the benefits of not only cost benefits but also having the right capacity at the right space will be benefiting our businesses in the future.

Parallel, we also built up a portfolio of products and equipments that suit our core competence quite nicely. So, our core competence and major of the business is still what we call the tactical space or the glass lined reactors and mixers. But in addition, we have acquired companies that bring to the party adjacent products, whether it is for silicate class PTFE, specially polymer for corrosion resistance, or whether it is inter-seal, creating seals. Every vessel that's being sold and used has to have a seal and we got our own technology and it's a patented technology, and we have a great use there. And we are planning and having already planned installed that this interseal will be also manufactured in India for the Indian market, and we serve to capture market share in this business as well.

At the same time, we also created not only a better Pfaudler brand, the Pfaudler brand is a very old and established brand. But we had a branding strategy implemented where all our product lines are part of the branding family, so we call up our friends for special applications. For example, Pfaudler Interseal, Pfaudler Normag, Pfaudler Edlon and is very well received in the market. Since we have this this created, what we call, a one stop shopping let's say environment for our customers.

We have also started to build up our engineering group in order to sell more systems, systems is where we also offer to our customers and sell to our customers process know how and the entire plant will be designed and can be designed if the customer desires. And this is a good service that our customers want from us and we can provide this in the future. We have a strong order pipeline in the new field of acid recovery. We have quite a lot of projects offered, and we will receive first significant orders in the next couple of months, I am certain of that

One of the differences between the Pfaudler International Group and GMM Pfaudler is, over the years the culture in the western world is much, much more service related and aftermarket related. We are selling a lot of our customers, services and parts and maintaining their business. In the meantime, way more than 30% of our revenue is coming from service. And the reason why that is so interesting is because service is providing us with superior margins compared to some other products. And I think with this knowledge and how to service, there will be opportunities also given in the areas that GMM Pfaudler is serving so far.

So again, we are happy to be here. We are looking in exciting, bright future. And you are fully committed and working hard to bring it to a success. Thank you so much.

Tarak Patel: Thank you, Thomas. Thank you very much. So, ladies and gentlemen, let's now open it up for Q&A and we would be happy to answer any of the questions that you may have.

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. Please go ahead.

Sanjay Shah: Congratulations to you, Tarak sir and Ashokji. And welcome Mr. Thomas to GMM India.

Tarak Patel: Thank you, Sanjay.

Sanjay Shah: So, Tarak, my question is, we have acquired is very value and earning accretive. We are running through the valuation metrics and understanding, we are still not coming out of the shock how we could do this acquisition at such a valuation, where the earnings and growth are ready for us and the future growth prospects aligned ahead of us, please explain? And how are we going to run our own Pfaudler, because margins of Pfaudler International low and you pointed out that some manufacturing will be brought to India, and your strategies we would like to know, sir.

Tarak Patel: Sure. So I think from a valuation standpoint, let me just tell this, because it's important for people to understand. DBAG still remains invested in GMM Pfaudler, they still own more than 50%.

So it's important that this transaction was done at an arm's length transaction because it's a related party transaction. I think DBAG also understands that their value in GMM Pfaudler is significantly higher than what their value in Pfaudler would be. So at no point would they want to compromise their value here at GMM Pfaudler. So this deal was done on valuation based on a very pragmatic approach from both sides. At the same time, we believe that we did get a deal that is going to be helpful for us. And we believe at the end of the day that we are quite happy with the valuation. The valuation also, be assumed, that there is some debt level, there is a small pension liability as well in the Pfaudler Group, and the enterprise value is closer to around \$150 million mark. However, the equity value like I mentioned to you is about \$50.8 million. So all in all, we are quite happy with the valuation. If you go through the document again on the website, it will give you some more clarity in terms of the different items considered in the valuation and that should give you some clarity as well.

So now in terms of margin, definitely the GMM Pfaudler has a higher margin profile than the Pfaudler Group. However, having said that, there is definitely scope for improvement. One of the major reasons why we believe the scope of improvement is going to come is because we are already seeing improvement in the three facilities that have just been launched. The Pfaudler Germany facility is already showing profitability, China just came on line right now, the Italian has been showing some profitable improvement already, along with a profit improvement plan the Pfaudler has in place we believe that will start improving. At the first level, if I today were to be honest with you, if I told you that both GMM Pfaudler and Pfaudler as a standalone company without any synergies were to hit their plans, that would be significant and quite good for the group. But on top of that, we are going to also build synergies which will be additional improvements in profitability. So we believe as a very, very conservative way that we can be up to a 16% EBITDA level in about four years' time as a group, and I think that will be something that will be quite easily possible. I think the hard work that has already gone in will start bearing fruit in the coming quarters.

Sanjay Shah:

So, are we going to bring the manufacturing from Europe to India and then export or how it will work? Because over there manufacturing costs are very high. And addition to that, even certain norms are that even European nation want locally procured material, correct me if I am wrong. So, how do you handle this both?

Tarak Patel:

So you are absolutely right. And like I mentioned to you, Mavag is the prime example of this success where 70% of the labour intensive work is done here locally in India, and the final finishing testing is done there. So that allows them to increase output. For us, we are also willing to do the metal work. So you think about a glass lined reactor, we can do the complete fabrication of the metal body here in India and then supply it to them, and then they can do the glass lining locally there. So the customer, at the end of the day, gets the local German, Italian, American quality. However, the fabrication work, which is the most labour intensive part can be done here locally. Having said that, we can also look at spare parts, smaller components to be exported from India. And then lastly, there are certain markets where Pfaudler doesn't have much of a presence, where their pricing strategy is quite high, in those markets like Southeast Asia, Middle

East, Eastern Europe, that's where GMM Pfaudler can sell directly fully made a new equipment as well, but through the Pfaudler network.

Moderator: Thank you. The next question is from the line of Nishant Navin from Temasek. Please go ahead.

Nishant Navin: I think I just wanted to have a quick follow-up on the valuation question. In terms of we talked about the EV's of about \$150 million, how does the GMM Pfaudler valuation fit into this? Can you just explain that a little bit more?

Tarak Patel: Right. So just to clarify GMM Pfaudler's valuation does not fit in, we only bought the global assets of the Pfaudler Group as a standalone entity, ex GMM. GMM's valuation, revenue, profitability is not included in that valuation. So, GMM shareholding does not change. However, GMM has basically bought 54% of the global business, along with 26% from the Patel family side, and the balance 20% remaining with DBAG, the private equity fund.

Moderator: Thank you. The next question is from the line of Manish Sharma who is an individual investor. Please go ahead.

Manish Sharma: Thank you. Can you tell me about how much debt will be there in the company post the acquisition, including if there is any debt and the entity we are acquiring?

Tarak Patel: Right. So maybe, Alex, do you want to take this question?

Alexander Pompner: Yes. Hello to all first. It's Alexander Pompner, CFO of the Pfaudler International Group. Happy to meet you here in the call. And Pfaudler International Group has currently debt, really bank debt of around \$55 million. This will be rolled over and taken by the GMM Group. And then also, GMM is in the discussion of partly financing and acquisition with part of debt, and part of existing funds. But the key is the \$55 million of Pfaudler International will be taken over.

Tarak Patel: And Alex, there's also some cash on the balance sheet, right?

Alexander Pompner: Yes, there is also. We expect cash to be around \$30 million to \$32 million. So in fact, the net debt is slightly above \$20 million.

Tarak Patel: Yes. So what the banks in Europe agreed to is a roll over, the lead bank who are quite happy with the way that the business has performed have allowed us to roll up the current debt into the new SPV. And like I mentioned to you, the Indian debt level will be about \$17 million for the acquisition.

Manish Sharma: Alright. And I also read in your press release that the target entities will also be paying \$1 million of interest to Pfaudler UK, what is this for?

Tarak Patel: Right. So between signing and closing, so we signed last week obviously and we will close in October, November. So during this period, \$1 million of EBITDA will be made to DBAG.

Moderator: Thank you. The next question is from the line of Bhavya Joshi from Chris Portfolio. Please go ahead.

Bhavya Joshi: Congratulations on the acquisition. Sir, I have just one question. I was just trying to, like, make sense, like, what was the trigger for the equation? Is it DBAG had some closure nearing, like, is it the closure of the fund it was near that led to you buying out the stake? Or like, was there anything else?

Tarak Patel: No, so it has nothing to do with it, because they are Fund VI which has been invested in his business still has a six to seven year horizon left, so there's no pressure from their side. They remain completely committed to the business. But I think the reason why we did this transaction now is obviously they have always seen us as a strategic investor, they always realized that we are the natural and the logical persons to buy this company. And I would also like to say that our performance over the last five years has given them a lot of faith in our capabilities to allow to do this transaction. And then over the last few months, I did go to them multiple times with multiple different structures. And then we finally agreed on something that we all found was really, really good in terms of alignment, was right in terms of pricing and valuation. And we decided to go ahead. And over the last two or three months when the global pandemic was hitting, we had some intense, intense rounds of discussions, negotiations, lawyers, and then finally ended up signing last week. So all in all, it was quite a good process, something that we are quite proud of. And I think from both sides, we have both happy owners who continue to remain invested and committed in the business.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: Mr. Tarak Patel, congratulations for this great news which we never expected. Just two questions from my side. One question is, what happens to the 50% equity stake that currently is held by Pfaudler UK in GMM Pfaudler?

Tarak Patel: Right. So it is actually held by Pfaudler Inc., that has been carved out and it remained with DBAG. They remain invested at the GMM level completely. As you know, they are financial investor and at some point they would look to dilute their stake. But as of right now, they are completely invested in the company going forward.

Hasmukh Gala: Okay. So that stake will remain with them only?

Tarak Patel: Yes.

Hasmukh Gala: Okay. My second question is, in the press release you have mentioned that Tom Alzin, Managing Director of DBAG has said that, "As a former board member of GMM, I can say that we have built a strong relationship with Patel family and remain committed to support." Now it is important, "The business through expansion of the product portfolio by add-on acquisitions." So are we planning any further inorganic opportunities now in a group?

- Tarak Patel:** So, we always are looking at opportunities and DBAG is always very, very supportive. We really want to emerge and make this company really the world leader when it comes to not only corrosion resistant equipment, but really chemical process equipment. I don't think there is a single company in the world today that can really be a one stop shop. It's a very fragmented market. And I think if we can make some good acquisitions going forward, it can very nicely enhance our product portfolio. And just to add here, I think maybe Thomas can say maybe a word or two on what his thoughts are as well.
- Thomas Kehl:** Yes. We always had in our mind to buy and build this company. And as I said before, the first five years of DBAG involvement and ownership the focus was on couple of restructuring and modernization of the business. By manufacturing we have implemented a new sales force, we brought in new people having in our global sales support more than in the past. The subject of cross-selling that all the salespeople can really fill the sales channel with all the products that we are offering is a basis for a portfolio strategy and for buying more and acquiring more companies that are adjacent and all our business have a nice fit. And we have a couple of nice ideas, we have started discussions and approaches. But of course at this stage, we cannot be more specific. But further ideas and we want to grow the company organically and inorganically as we always did.
- Moderator:** Thank you. The next question is from the line of Kiran Naik from Modi Finncap. Please go ahead.
- Kiran Naik:** Sir, Pfaudler's internationally what is the market share in the world market?
- Tarak Patel:** So, Pfaudler International's global market share for glass lined equipment is about 40%, GMM Pfaudler in India is obviously a little bit higher, 55%. And I think we can also look to increase the market share globally with the use of GMM and Pfaudler joining hands. That's something that's quite possible.
- Kiran Naik:** And in the international market who is our close competitor?
- Tarak Patel:** So, we have the second biggest competitors, so right now I did mention we are the undisputed market leader with close to \$260 million revenues. The next competitor is a French company called DDPS which has about revenues of close to \$160 million on a like-to-like basis. And then after that, there is no real significant player after that.
- Kiran Naik:** And in India with our competitor?
- Tarak Patel:** In India there is a company called HLE Glasscoat, which is our biggest competitor here in India. We had a French company called DDPS here in India as well, however, they have recently sold their Hyderabad factory to GMM Pfaudler and are now exiting India as we speak.
- Moderator:** Thank you. The next question is from Srinivas Iyer from Rockford Consulting. Please go ahead.

Srinivas Iyer: Congratulations, sir, for making our company a truly global company. What kind of growth prospect do you see in the other subsidiaries? Since our company has become a global company, do you have any plans to list GMM Pfaudler in US?

Tarak Patel: No. So, obviously, on the fourth part about growth rates, growth rate in European and western countries are not the same here in India. However, we do believe that we will see now some improvement in those growth rates, especially with local manufacturing coming back to those shores. We have been seeing a lot of traction in Europe and in the US. China, India continue to remain strong, so we are quite optimistic of growing. There is no other plans right now to lift this business in any other jurisdictions. And Thomas, maybe you want to add a word or two about the growth rates in Europe and the US?

Thomas Kehl: We are looking at the chemical industries and the pharmaceutical industry. Of course, we have seen the chemical industry with steady growth anywhere between 3% and 5% over the course of the years. Of course, some regional differences, the Americas came back strongly over the last few years since they were investing in their own country, and manufacturing much more than the years before. In case of Pharmaceutical, we are seeing a steady growth of 6% in those regions. And I think after the Corona, it's fair to say that we see movements and discussions of our current customers that they are building redundancies back in Europe, back in the US. And making more investments locally than they did in the past. So, I think for quite a while we see better growth rates.

Moderator: Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Saurabh Shah: Hi, this is Saurabh Shah. Congratulations, it's great to see such ambition. A couple of financial questions, Tarak. In terms of the new businesses that were mentioned, the acid recovery, I guess, the non-glass processes and equipment. What is your sense of how fast, I mean, how large that market is? And really what kind of growth are we seeing with the new management structure consolidated with Pfaudler Inc., I mean, Pfaudler Germany over the next few years? Do you see a very aggressive kind of market share plan over there, or is it more likely to be just what the existing business is? Some inflows over the next five years, or three to five years what kind of growth rate would you think you could get?

Tarak Patel: So, we definitely are looking at a double-digit growth rate in some market and some geographies. We have seen possibilities that, that could be achieved. But again, like I told you earlier, we have been a little bit conservative with the numbers, but I don't see any reason why we can't achieve those growth rates. The idea here was to stabilize the manufacturing facilities. I think that's something that has already been done. The new facilities in Germany and Italy have already shown significant improvements. If we can implement some of our operational excellence models into those factories and really ramp-up production, that would give the sales force much clearer, more visibility, and in turn, reduce the delivery times; and then, again, get market share. Like Thomas mentioned, there are other complimentary products like acid recovery where we are very, very close to winning some business, that same acid recovery is

something that we have now also implemented in India, we are going out quite aggressively, we are closed here in India as well. Then Thomas and Pfaudler Group have recently purchased an interseal, a sealing mechanism company, we are now localizing the seal to make it ready for the Indian market. So, we are really working together. And I think now there is clear alignment in terms of where the revenues and profitability would be flowing into, right? So going after market share, going after some businesses which Pfaudler was not currently going after, there is clear alignment from that standpoint so that everything flows into GMM and value is created at the GMM level.

Saurabh Shah: Okay. And also just given your current margins, 16%, I know you have facilities now I guess in other European countries. But over a period of time, do you think three, four years 16% is being bit conservative given the synergy that you expect and better utilization of the new plants in Europe?

Tarak Patel: Yes. So to be honest with you, these numbers are a bit conservative. We always felt that we should give you numbers that we are sure of. In GMM as well I have always been very forthcoming when it came to numbers and margins. So I think it's always better to target a little bit conservative number, but then outperform that. And again, see, the synergies even though we have done it in the past, it will take some time because right now in India we are very busy, we need to add a little bit of capacity when it comes to fabrication, not too hard to do but now with a new Hyderabad facility that opens up another more capacity as well. So all in all, we are quite well suited to cater to the European market. We have to get the mindset, the culture that the salespeople can really go and sell any product from all over the world rather than just trying to fill up a local factory. Thomas, you want to add something on this?

Thomas Kehl: Well, absolutely. We have made sure that the new salespeople that came in, some because of retirement, but we had installed a global sales management that Pfaudler Group did not have to for the year of 2015. This ensures actually our capability and usage of the sales channel and also the technical background to sell all kinds of products that we are bringing to the table. And we have now salespeople asking the management, "When could we get new products that we can sell them, we want to sell more and broader." And I think there are a lot of opportunities out there.

Moderator: Thank you. The next question is from the line of Gauri Srinivas from A2Z Financial Services. Please go ahead.

Gauri Srinivas: Congratulations firstly. I just wanted to know the shareholding pattern is bit confusing. If Mavag and GMM Pfaudler will hold 54% in Pfaudler, and Pfaudler owns 50% in GMM Pfaudler. This is a circular pattern. Can you make it linear structure for easy understanding?

Tarak Patel: Yes. So it is not very difficult, it just seems difficult. GMM Pfaudler has 100% subsidiary, Mavag. So together GMM Pfaudler and Mavag will own 54% of the global business. The GMM Pfaudler shareholding is not part of the structure at all, it's been carved out or it remains with DBAG, it has nothing to do with this current structure. Thank you.

Moderator: Thank you. The next question is from the line of Bhavya Shah who is an individual investor. Please go ahead.

Bhavya Shah: Congratulations. My question is, we are saying that most of the manufacturing work will be done as offshore in India to benefit from this acquisition. But in India, we are already constrained with the capacity, so how GMM management is planning to address this challenge?

Tarak Patel: Good question. I just mentioned it that recently we acquired the DDPS facility in Hyderabad, which would give us definitely a more capacity here locally. And again, it's not going to be overnight where we switch over everything to India, there are manufacturing facilities all over the world, they will continue to manufacture. However, we will find some way of reducing costs there, either through certain components coming from India, fabricated bodies, and try to find really the best kind of model which keeps the local factories running as well, at the same time reduces our total cost. But at the same time, we will also look at creating capacity here. And when I say capacity here, it does not have to be glass lining capacity, we should really look at fabrication capacity, where some of the labour intensive work can be done here locally. And then like I told you, more of the final finishing, directing, completion glass lining can be done in the local facilities and then shipped to the customer.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Equities. Please go ahead.

Sunil Jain: Sir, you said that the overall valuation of acquisition is around \$150 million dollar, and \$55 million is equity and \$23 million net is debt. So, balance \$75 million is what, can you explain a bit?

Tarak Patel: Sure. So, \$70 million is pension liabilities. This pension liability is spread over three geographies, US, UK and Germany. The US and the UK pensions are fully funded. The German pension is not funded, German law allows pension liabilities to remain unfunded. So the German pension is a closed plan, no new employees are joining that plan. The average age of the employees on that plan is about 79, 80 years old. And the interest rate to calculate the pension is about 0.9%. Historically, the lowest it has ever been, any increase in improvement in interest rates will see this pension going much, much lower over the coming years.

Sunil Jain: So, you mean to say that for the \$70 million liability, how much liability can come to the company? If it is fully funded, then why you are considering it as a part of consideration?

Tarak Patel: Yes, because it is a debt like item but there is no liability that can come to the company. Alex, do you want to jump in and maybe spend a minute or two on the pension?

Alexander Pompner: Yes, I could. For acquisition purposes it was considered in the enterprise valuation. However, usually if it comes through the leverage calculation for the Pfaudler International Group, our banks don't consider it at on our balance sheet. And as Tarak mentioned, especially the pensions that we have in our German entities were considered. And they are fully dependent on the interest

rate development. And as Tarak mentioned, currently the interest rate is really low, and therefore the pension value on our balance sheet is higher. And if the interest rates increase again, our pension liabilities drop significantly.

Moderator: Thank you. The next question is from Vijay Chawla from Oracle Wealth Creators. Please go ahead.

Vijay Chawla: First, let me congratulate all of you all for the excellent synergy and acquisition, and especially the team of GMM Pfaudler for their vision, strategy and timing of the entire episode and the way going forward. Really proud to be associated as a shareholder of your company.

Tarak Patel: Thank you very much. Nice to hear that.

Vijay Chawla: Okay. Now, my only single question is, what would be the debt level or the consolidated level after the acquisition is done? And what would be the debt level of the consolidated entity after the four months?

Tarak Patel: Sure. Alex, do you want to take it? I can give you a broad level number, the consolidated net debt-to-EBITDA would be about 2.4x. Alex, do you want to jump in and just maybe give them what the total number is?

Alexander Pompner: As Tarak mentioned, the debt-to-EBITDA is 2.4x.

Vijay Chawla: And debt-to-equity?

Alexander Pompner: Debt-to-equity is around 1x. It's a little bit higher if we consider the minority interest.

Moderator: Thank you. The next question is from the line of Tanuj Mehta from Dalal & Broacha. Please go ahead.

Tanuj Mehta: Firstly, congratulations on the very good news. I have a few questions. Sir, my first question would be that, when we say that our consolidated top-line would be around \$200 million, so for GMM Pfaudler as a consolidated entity, we would be having only 64% of the share, am I understanding that correct?

Tarak Patel: We will be owning a majority interest in Pfaudler Group. And by that account, all the total revenues of Pfaudler Group and the profitability will flow into GMM Pfaudler. So, our total 12 months consolidated number will be around the \$260 million mark. So, we are basically going from about a Rs. 600 crores company to a Rs. 2,000 crores company with this transaction.

Tanuj Mehta: Okay. And my last question was that, why was it that GMM Pfaudler would acquire the entire holding rather than promoters also holding their as well and the Indian entity as well? So, like, it could have had a straight holding by GMM Pfaudler into Pfaudler?

- Tarak Patel:** Right. So that's a good question. And the reason we wanted to actually do it this way to also show to investors and to show to the market that we are basically committed, and we believe in the business and we are going to put our own money into it. You are right, eventually, we will find some mechanism by which GMM Pfaudler itself will hold the entire piece, at a later date we will think of something there. But right now, we didn't also want to leverage GMM Pfaudler for such a high level, hence we felt that coming in as a family and showing our commitment to the business also will be an important message to send.
- Moderator:** Thank you. The next question is from the line of Maulk Shah from Atlas Ventures. Please go ahead. There seems to be no response from the line of Mr. Maulik Shah. We move to the next question, the next question is from the line of Omkar Kulkarni from Sri Investments Please go ahead.
- Omkar Kulkarni:** My question was regarding, just now you mentioned you will be moving from a Rs. 600 crores company to Rs. 2,000 crores company. So, what would be the approximate EBITDA figure for that? And what are your targets for both top-line as well as bottom-line in the next three to five years?
- Tarak Patel:** Yes. I have already mentioned that, so for the combined entity FY '21 on a 12 month basis should be about Rs. 2,000 crores, and about Rs. 260 crores of EBITDA, which is around 13%. And by 2024, we should have an expected revenue of Rs. 2,800 crores and a EBITDA margin goes to 16%. This is without synergies. This is a number that we believe we can strongly achieve and improve upon.
- Omkar Kulkarni:** So, for FY '21 it would be around Rs. 2,000 crores, right?
- Tarak Patel:** Yes, on a 12 month basis. So, it just depends on when the transaction will close, but yes, on a pro rata basis, on the pro forma basis it would be that number.
- Omkar Kulkarni:** And on a consolidated basis, you would be expecting around Rs. 2,800 crores by FY '24?
- Tarak Patel:** Yes, FY '24 with a 16% EBITDA margin.
- Omkar Kulkarni:** Okay. The next question is around, like, you are already having 55% market share, so how do you plan to grow this? Because you already have significant chunk of this.
- Tarak Patel:** Yes. So in India we have 55%, globally we have closer to 40%. But even in India, I am not sure if you follow the company, but one of our main competitors has now left the country and sold us the facility in Hyderabad. I think that will give us additional capacity and will also help us capture additional market share in the south region and grow our presence there. And you know, in India also things are changing quite significantly, people are now looking at building world-class facilities where branded equipment, high quality equipment are very, very important. GMM Pfaudler is the market leader and there is no second really market leader when it comes

to technology. If all things are equal, if we can pretty much give them the right timeframe in terms of delivery, most customers would like to buy it from us.

Omkar Kulkarni: Okay. So follow-up to that is that, because of this Corona you are seeing significant upside in your demand, but how sustainable is this demand in next two, five years from chemical as well as from pharma point of view?

Tarak Patel: Right. So that's something I think we are quite bullish on. We believe both chemical and pharma will do significantly well over the next few years. People are looking at alternative to China, people have already started investing heavily here. Pharma has still not picked up and we think that pharma will pick up with the government norms coming in around making intermediates locally, with the Pharma City coming up, the new clusters being defined. So, all in all, we are quite confident. This is one industry that has stood the test of time when it comes to the pandemic. And you know how well the pharma companies are doing now. So I think it's only a matter of time before we see investment coming in.

Moderator: Thank you. The next question is from Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: Congratulations. First question is on, you have talked about in FY '24 prospective revenue targets of Rs. 2,800 crores. You have currently talked about a combined entity revenue of Rs. 2,000 crores. Is there an incremental amount of CAPEX that will be required to achieve this incremental Rs. 800 crores revenue?

Tarak Patel: No. So most of the CAPEX that has already gone in has already been done. Like I mentioned during my start, Pfaudler Group has spent close to \$25 million over the last two years, modernizing the German, Italian and Chinese facilities, brand new state of the art facilities. In GMM Pfaudler India as well, we have already completed the acquisition of DDPSI, plus two new furnaces are on its way here which have already been accounted for and they should be starting maybe in a month's time. So there is no significant CAPEX to reach this number required.

Dhruv Bhatia: Sure. And in India you do talk about that, with the amount of displacement market which is coming up for the glass line equipment, but my understanding would be that the international markets would be anyway saturated in terms of fresh CAPEX will be all replacement led. Is my assumption correct?

Tarak Patel: Yes, it is a combination of both. I think India is seeing some improvement in replacement. Europeans do see replacement demand significantly. However, we believe that will switch slightly, I think we will see some new investments coming in in Europe. Maybe Thomas, you want to jump in and just maybe spend a minute or so here?

Thomas Kehl: Yes. So, I think you are seeing the picture fairly right, that in Europe and Americas we have got many years a lot of replacement business, even though there was significant size of replacement

business. The maintenance business and service business is quite significant and growing. We see more and more customers doing reglassing approach, and in addition incrementally we will see new plants, new sites coming up that haven't been there before, while customers here in this areas are changing their minds towards not moving from one country to the other and moving back. But they are going to build redundancies, additional capacities that are required, that in crisis times countries and regions are properly serviced.

Moderator: Thank you. The next question is from the line of SA Narayanan from Capricorn Research. Please go ahead.

SA Narayanan: Tarak, question one, what will be the broad shareholding pattern of GMM Pfaudler?

Tarak Patel: The broad shareholding pattern remains unchanged, there will be 50.4% held by DBAG, 24.6% I think held by the Patel family, and the balance with the public shareholders. So there is no dilution, increase in share capital, nothing, everything remains the same.

SA Narayanan: Great. My questions two is, what is the debt-to-equity ratio of GMM Pfaudler after acquisition?

Tarak Patel: Debt-to-equity ratio of GMM Pfaudler? So, I know we are borrowing close to \$17 million between GMM and Mavag, our subsidiary. We are going to use \$10 million of internal accruals. Plus, we are borrowing about Rs. 45 crores for the DDPSI. Jugal, do you have that number handy with you?

Jugal Sahu: Yes. GMM's standalone net worth as at March 31, 2020 is about Rs. 270 crores and our borrowings would be about Rs. 140 crores. Therefore, standalone debt and equity ratio would be about 0.5x. Our consolidated net worth as at March 31, 2020 is about RS 345 crores and borrowings at both GMM and Mavag put together would be about Rs 175 crores. Consolidated debt and equity ratio also would be about 0.5x.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: I have two questions. The first on this pension liabilities of \$70 million, if you can elaborate on that. And what are the chances of this falling on the combined entity?

Tarak Patel: So, again, like I mentioned to you, the US and the UK pensions are fully funded. We have done a actuarial valuation, there is no liability there. The German pension, it's very, very normal for German companies to have unfunded pensions. This is a closed plan so no new employees are joining, the banks don't even consider this as debt when they look at the borrowings. The plant, currently the people in the plant are close to 70, 80 years old, and the interest rate are at historically lows that they have ever been, 0.9%. With every 100 bps improvement in the interest, you will see a \$7 million to \$8 million reduction in pension. So going forward, we expect the pension in Germany, the liability to reduce significantly. But it will never have any impact on the P&L, it's going to be a balance sheet item and has no further effect.

- Ankit Gupta:** Sure. And secondly on the financials of the Pfaudler Inc. So in that, their revenues have remained stagnant at around \$175 million for the past three years. EBITDA margins have seen some improvement during FY '20, with EBITDA margin improvement to 8.2% from around 5% in FY '18 and FY '19. And the gross margins have also been pretty low at around 22%, 23%. So if you can highlight what kind of improvement you see in Pfaudler over the next few years? And what kind of steps are we going to take to improve their margins and growth going forward?
- Tarak Patel:** Right. So I think we spoke about this a little bit. So basically, we are counting on the fact that we have three new modern facilities which are now just coming online. The German one we just started a couple of months ago and is already showing profitability, the Chinese one we started a few weeks ago and has good backlog, the Italian one as well is a brand new facility. So, these are much, much more efficient restructured lower number of people, lower number of overheads. So, we will see significant improvement coming from there. We will also see new products cross-selling, new technologies coming in which will definitely add to revenue and profit improvement. And then if we add cross-selling and low cost sourcing from India, from China, we can definitely look at further improving profitability as well as revenue and market share.
- Ankit Gupta:** Sure. The Chinese facility that we have, that is 100% subsidiary of Pfaudler or it is a JV with some local company?
- Tarak Patel:** All the Pfaudler units across the world are 100% owned by Pfaudler. GMM Pfaudler was the only joint venture that they have, all the other units are 100% and they all will now belong under the GMM Pfaudler umbrella.
- Moderator:** Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.
- Vivek Gautam:** Thanks for creating huge amount of wealth for Indian investors over the last few years, sir. I wanted to know about the opportunity size for this acquisition. Are the tailwinds strong for our company in India only or worldwide as well, sir?
- Tarak Patel:** So, I would just like to say two things. Obviously, every business has risks, but we as management need to mitigate those risks. I think if you have strong ethics and good integrity, and you work hard, I think more things will fall into place. I think that's something that we have shown here in India, I think that we have been very forthcoming and transparent when it comes to sharing information. We strongly believe that there is global tailwind when it comes to chemical and pharmaceutical not only in India. We believe that the Pfaudler team that is now on board is very, very capable. We really believe that the company is really at the crux of really building on the foundation that DBAG has put in over the last few years. And I do believe the next few years for this company will be really, really good. So I think all in all, I believe that this story will continue. Sometimes in life you have to take a little bit of risk, you have to go outside your comfort zone. And this really puts us into the global bracket, for an Indian company it's a moment to be very proud of. And this was a natural and logical thing for us to do. And like I said earlier, to control our own destiny, and we will make sure that we work and put in our

blood, sweat and tears over the next few years to make sure that all the initiatives are implemented and all the synergies are extracted.

Vivek Gautam: And if you can highlight about the sustainability of the current tailwinds being enjoyed by India pharma, chemical sector which is benefiting us also.

Tarak Patel: Sure. So, I think India is going to remain strong, the government has recently launched the 59KSM or the intermediate. We know that many of the chemical companies have been spoken to by the government, they are looking at moving into pharmaceuticals, many of the smaller pharma guys are also buying many, many more equipment. So, there are definitely tailwinds here. You must have seen the performances of numbers of the companies like Divis Lab, Lawrence Lab, everybody's doing extremely well. And I think that will translate into more investment coming in. Thank you.

Moderator: The next question is from the line of Jason Soans from Monarch Network Capital. Please go ahead.

Jason Soans: Just wanted to know, in terms of synergies, how does it impact, I mean, obviously, glass lined equipment is one thing, how does it impact other segments like heavy engineering and propriety products, some outlook on that?

Tarak Patel: Sure. So those two products also continue do quite well. Like I started the year in Q1, I told you heavy engineering is going to have a breakout year this year because we started the year with a very good backlog. I think what's also important is that the Pfaudler network has already picked up on the GMM Pfaudler heavy engineering business. I think they are very, very excited to sell this business as well for art across the world and we are seeing a lot of traction there. But all our business lines company to be quite strong. And maybe Thomas, can you jump in and maybe talk a little bit about your order backlog as well? Just explain to them in terms of what you see in Europe and the US?

Thomas Kehl: Yes. And as we said that we have focused on the modernization and building blocks in order for implementing our strategy. We already see commercial success in terms of great order intake. Our order backlog end of May was way beyond \$100 million already. And orders are coming in still strongly. And even the COVID crisis didn't really slow down the order intake what was very, very beneficial and seems to be a great success. And from that point of view, the commercial success and the turnaround from that point of view order intake is seen.

Jason Soans: Okay, thanks for that. And sir, just one final thing, just a confirmation. The shareholding pattern, 50.4% was held by Pfaudler Inc., which has now gone to the DBAG, is that right?

Tarak Patel: Yes, exactly. Actually the whole company was owned by DBAG. And as part of this transaction, they will retain that 50% through Pfaudler Inc. It is just a financial holding that they will have which will be carved out from the group. All the operating companies will move on to the GMM Pfaudler umbrella.

- Moderator:** Thank you. We will be able to take one last question. We take the last question from the line of Satyan Dharewal, who is an individual shareholder. Please go ahead.
- Satyan Dharewal:** Tarak, Congratulations for this acquisition. I have two questions. How much of the turnover is coming from GMM by 2024? As you said it is Rs. 2,800 crores.
- Tarak Patel:** Yes. Now that's a good question, I don't have maybe the full revenue split here. I don't have it in front of me, but if you remember, we had a plan for UDAN and we had raised Rs. 1,300 crores. By 2025. So, if you use that as a yardstick, you can then calculate. So maybe Rs. 1,200 crores will be coming from GMM Pfaudler.
- Satyan Dharewal:** Fine. Thank you. And one more question. Off late, you have done very well on the heavy engineering equipment front, and mostly it has been in the oil and petroleum sector. So, have you any plant of disintegrating into your global setup now?
- Tarak Patel:** Yes, absolutely. So as I mentioned earlier, we have seen a lot of traction. The last few orders that we got through the Pfaudler network, one was for floor in the Middle East through the Pfaudler Italian office. We got a couple of orders in Spain through the Pfaudler American office, and we also supplied really, really heavy engineering equipment, high value, high margin business to the US market as well.
- Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management for closing comments.
- Tarak Patel:** So again, thank you, everybody, for logging on to this conference call. I know that the transaction itself came as a surprise. And it is a bit complicated. Again, I think once you understand it clearly, you will understand the nuances. I think it's important to understand that the alignment between the three partners remains. I think that's very important. You need to also understand that GMM Pfaudler becomes the ultimate holding company. The idea of all the partners is to create as much value as we can at the GMM Pfaudler level, so we will always look out for the best interest of GMM. In terms of product enhancement between the two groups, there will be a lot of synergies, there will be a lot of synergies when it comes to manufacturing as well. GMM Pfaudler's lean production model can be implemented around the world as well. And with the current tailwinds that are there in the industry in chemical and pharma, we believe at least the next three to five years is something that we can show significant improvement. Many of you might even join our AGM which is planned on the 27th. If you are a shareholder, and obviously we will continue to update you. If you have any specific questions that you need answered, you can reach out to our company secretary, and we can then answer those for you. But otherwise, thank you very much again, and we look forward to speaking to you very soon. Thank you.
- Moderator:** Thank you very much. On behalf of GMM Pfaudler, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.