



“GMM Pfaudler Limited's Q3 FY'22 Earnings Conference Call”

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**MANAGEMENT: MR. TARAK PATEL – MANAGING DIRECTOR,
MR. ASEEM JOSHI – CHIEF EXECUTIVE OFFICER, INDIA
BUSINESS
MR. MANISH PODDAR – CHIEF FINANCIAL OFFICER,
INDIA BUSINESS
MR. ALEXANDER PÖMPNER – CHIEF FINANCIAL
OFFICER, INTERNATIONAL BUSINESS
MR. ASHOK PILLAI – CHIEF OPERATING OFFICER
MS. MITTAL MEHTA – COMPANY SECRETARY &
COMPLIANCE OFFICER
MS. PRIYANKA DAGA- DEPUTY GENERAL MANAGER,
STRATEGIC FINANCE**

Moderator: Ladies and gentlemen, good and welcome to GMM Pfaudler Limited Q3 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priyanka Daga from GMM Pfaudler Limited. Thank you and over to you, ma'am.

Priyanka Daga: Thank you, Aman. Good evening, ladies, and gentlemen. A very warm welcome to all of you into the Q3 FY'22 Earnings Call of GMM Pfaudler Limited. The Earnings Presentation was updated on the stock exchange and is available on our website as well. Hope all of you had a chance to go through it. From the management, we have with us our Managing Director -- Mr. Tarak Patel; our CEO of India Business -- Mr. Aseem Joshi; our CFO India business -- Mr. Manish Poddar; our CFO of International Business -- Mr. Alexander Pömpner; and Company Secretary and Compliance Officer -- Ms. Mittal Mehta.

We will give you a brief overview of the performance of the company after which we will get into Q&A.

Before we begin with the overview, a brief disclaimer. The presentation which we have uploaded on the stock exchange and our website today, including our call discussions that happen will now contains or may have certain forward-looking statements, concerning our business prospects and profitability, which are subject to several risks and uncertainties, and the actual results could materially differ from those in such forward-looking statements.

I now hand over the call to Mr. Patel to provide an overview of the quarter performance. Over to you, Tarak.

Tarak Patel: Thank you, Priyanka. Good evening, everybody and good afternoon, good morning to people dialing from other parts of the world. This has been another solid quarter for us driven by strong execution in both our international as well as our India business. Order intake continues to remain positive, with our order backlog at an all-time high across the globe. Our key industry segments, Chemicals and Pharmaceuticals continue to invest in new capacity, and our outlook remains positive. Chemical Specialty and Agro Chemicals investments continue to drive growth with large projects planned in the coming months, the China Plus One strategy, backward integration to reduce raw material volatility and the CRAMS opportunity, will continue to drive investment in these sectors. Further, Pharma continues to remain a bit subdued. However, with the new government initiatives like PLI, we may see the investments in the coming quarters.

Let me now take you through the business performance starting with our international business. As I mentioned earlier, we have shown a strong execution in the international business for the third successive quarter. This goes to show that our focus, operational excellence strategy and integration efforts have started paying off. It is now clear that some of the underperforming units, namely, Germany and China have turned around and will continue to perform well. We have

managed to significantly grow the international businesses revenue, which is up 25% over the last nine months on a comparable basis.

On the profitability front, we have also improved by 52% and our EBITDA margin has increased from 8.5% to 10.3% over the last nine months again on a comparable basis. When we bought Pfaudler International, it was an EBITDA margin of about 7.5%. So, this is definitely a significant improvement. This is a fantastic achievement and will go a long way in building confidence and momentum in the international business which we acquired only a year ago.

Order intake in international business continues to remain strong with an increase of around 46% for nine months. The backlog of international business is currently at an all-time high at Rs.1,589 crores, which is around 53% higher than the previous year.

Some of the order highlights during the quarter; we received an order from South Korea for Acid Recovery in the range of \$10 million. We received another Filtration and Drying order in Europe for \$6 million. The Mavag backlog currently stands at \$38 million. And then we received some Systems order from France for about €3 million as well.

Now, talking about our India Business. Again, the execution across our product line has been quite strong. Revenue is up 30% and EBITDA is up 31% on nine-month basis. However, higher input cost and investment in our new facilities, which are basically Vatva, and Hyderabad has impacted profitability in this quarter. On the input cost front, we were enjoying the benefits of steel prices and steel plates that were procured at low prices a few quarters earlier. However, now we are consuming plates procured at much higher rates. We were also hit by a one-time increase in gas prices in the Gujarat during this quarter.

On the ramp up cost of Vatva and Hyderabad, these are essential investment to scale up the operation and for our new areas of growth and as revenues grow, we will see the benefit flowing through. We expect the current profitability to continue for the next couple of quarters. However, we are beginning to see commodity prices taper and we may see the benefits flowing through to our bottom line.

Order intake in India business continues to remain strong with an increase of around 39% for nine months. The backlog of India business currently also at an all-time high of Rs.568 crores, which is around 46% higher than the previous year.

Some order highlights during the quarter; we got our first micro reactor order from a pharmaceutical company, a large glass lined order from Bangladesh, a large Mixion order and then we got a large heavy engineering order in the tune of Rs.50 crores which will really help us push and grow the heavy engineering business.

Momentum on the integration front also continues with the launch of Interseal ace5000 in India. We have now installed 11 Interseals and we now expect more orders in the near future.

The new furnace in Brazil is operational. The one in Hyderabad will be operational in about two weeks. We expect the new furnace in Gujarat to be operational by June 2022.

Further, on the value sourcing we regularly supply components made in India to our European entity. We've also recently started a stock entail program where we will stock vessels in Europe. The first order for 24 number of equipment have already been placed and the manufacturing has already started.

The group's new brand architecture is also ready, and we will be launching that shortly.

In spite of the challenges faced during the quarter through China's power shortage, the energy cost increases in Europe, the higher input costs in India, we have still managed to grow both revenue and profitability on a year-on-year basis. The credit goes to the multiple teams across the company, good hard work and determination has led to this performance. We are confident that we continue with this performance, and we will end the year on a high note.

I now hand over to our CFO, Manish to take you through the financial performance.

Manish Poddar:

Thank you, Tarak. Good evening, everyone. Let me give you a highlight on the consolidated numbers. During Q3 of FY'22 on a YoY basis, the revenue increased 218% to Rs.642 crores and it logged in EBITDA of Rs.82 crores versus Rs.42 crores in the corresponding previous year. Profit after tax excluding the non-cash PPA impact also increased 85% YoY to Rs.43 crores versus Rs.23 crores last year.

On a nine-month basis, both top line and bottom line exhibited similar growth. For standalone business during the Q3 FY'22, on a YoY basis, revenue increased 26% to Rs.209 crores with a flat EBITDA of Rs.38 crores. PAT was down 12% YoY to Rs.12 crores.

Lower margins during the quarter were a function of a few things. One, the full cost impact of higher steel prices during the quarter. So, the weighted average cost of steel plate was lower during the previous quarter. And as we consumed the initial quantity on account of the past inventory of plate, but as we progress through the year, the full impact of the new prices in inventory has come in, therefore impacting the material cost.

Second, higher gas prices during the quarter also impacted the margins. We had a one-time impact of Rs. 2.5 crores on the higher gas cost.

Similarly, the third piece is on the ramp up with the higher admin costs at Vatva to enable future growth. We are adding resources in this facility. Our cost of which is not yet fully absorbed due to the lower scale of operation. This is visible in the employee benefit expenses, labor cost and other expenses.

On a nine-month basis, top line grew 30% YoY to Rs.586 crores and EBITDA increased 31% YoY to Rs.133 crores. PAT stood at Rs.75 crores, with a 17% growth.

Annualized basis of EPS if we just for PPA stands at Rs.96 per share YTD December performance versus Rs.66 per share in FY'21. Kindly note this excludes the share of the minority interest. Currently, only 54% of the Pfaudler International profit are being included in this EPS. If we take that at 100%, now that Rs.20 can be added.

Also, we are happy to inform that CRISIL has reaffirmed our rating to AA-minus with a stable outlook, which is equivalent to low risk. This was done today morning. Priyanka, back to you.

Priyanka Daga: With that I would now like open the call to questions, happy to answer any questions that you may have. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: Can you give us some idea on how the working capital cycle typically is in the international business? And if you could break it up into the components of inventory receivables, payables and if customer advances are a significant part of it?

Manish Poddar: So, if you recall, in Q2, which is H1 performance we had shared a detailed presentation with regard to the working capital cycle including the net of advances numbers. There's not much of a change with regard to those numbers over the three months. From a working capital perspective, DSO stand at something like 43-days and DIO excluding advances also stands at something like 20 to 23 days.

Alexander Pömpner: I could confirm what Manish has said that, in fact, there's not much fluctuation in our working capital. Nevertheless, we launched several improvement measures and therefore, I think to the guidance we gave in the presentation last year, we see improvements long term. And to give you an idea regarding values, and I'm talking now in USD, inventory wise in a range of let's say, 60, 65 million. We have receivables in the range 30 to 32 million. These are the key you're looking for, and if payables are a little bit lower, and then receivables in the area of close to 30 million.

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

Sandeep Tulsian: Firstly, I would like to check with you would like to give a guidance for annual growth for next year, given the kind of order inflow ramp up that we have seen in the first nine months period, what kind of growth can we expect in India for the international as well as Mavag business separately?

Tarak Patel: Sandeep, we grow around 25% plus a year in India. This year in Europe as well, we are growing at about 25%. We are currently working on, and I had spoken earlier about the strategy meet that was planned in the December which got postponed. We do plan to come out with revised guidance in terms of both revenue and profitability for the next few years even in terms of what we plan to do, and what are the different areas where we plan to grow and how we plan to grow. So, a little bit more granular, a little bit more in detail. I would just request that just hanging

there for a month or two, we are kind of working on something and we will come back with something that's a little bit more concrete and structured rather than giving you a number right now. But I think I am comfortable to say that on a yearly basis, even though we've seen a decrease in profitability here in India, we pretty much are confident that we will maintain a similar level of profitability. So, on a full year basis, we'll still be around the 20% EBITDA mark and as you said Pfaudler has done extremely well; they are now at a 10% mark as well. So those two numbers look very, very possible. And in terms of the backlog that we have and the execution that is happening, I'm quite confident that we can end the year on a good note.

Sandeep Tulsyan:

My question is pertaining to the growth drivers for the international inflows. When we had acquired Pfaudler international business, we had guided for a 5%-6% kind of long-term CAGR where the industry grows at, but the inflows seem to be indicating the growth is much higher than that. If you can give more color why such a sudden jump in the inflows what we're seeing right now, and what could be a sustainable growth going forward?

Tarak Patel:

From an overall standpoint, obviously, when we acquired Pfaudler, we acquired at a good time when obviously business was not doing well, we manage to very quickly bring in order intake and got the factories up and running quickly. So, I think one of the areas that we are seeing this improvement coming is both China and Germany have now reached and pretty much operating on full capacity. We are obviously looking at improving and increasing capacity and output. But these two factories were obviously not doing that well. And we were in the process of moving from an older facility to a new facility. I think the two facilities definitely add to the revenue improvement. Also, many other strategic initiatives like sourcing from India, as well as new products like Acid Recovery, Interseal those have done quite well. And then lastly, the US and Brazil market both have done quite well. So that's why probably we are seeing a double-digit growth rate of an international business, which obviously people thought would be growing at a much slower rate. To be honest with you, this quarter, the international business kind of makes up for the slower growth rates here in India. So, all in all, we've been quite happy that acquiring this global business, mitigate some of the risk that we had with being only an India-centric company.

Alexander Pömpner:

I think we gave guidance last year the highest single digit growth. Currently, we significantly overshoot, and over-achieve in all regions, and Europe is doing strong and China we already said after the setup of the entity is growing fast on revenue and order intake size as well as the US. Nevertheless, what should be considered, we are doing well on the technology order inside and enter systems which are big project. However, the service business, which is also strong in our international business, this is currently growing, but it's by far not growing as fast as the technology business. So, there we still have improvement potential also from the margin side. Regarding profitability, already what Tarak mentioned, Germany was one of the key growth drivers, the turnaround of the site is more or less completed and therefore we see a big jump in profitability and also expect further improvements going forward.

Sandeep Tulsian: What should be the sustainable growth? This year we agree the growth was good. Going forward, should we go back to that mid-single digit growth?

Alexander Pömpner: We keep the outlook that we gave and as Tarak mentioned before, we come with a new guidance in the coming months. We would like to leave it there and do not want to now adjust already our growth projections.

Sandeep Tulsian: On the South Asia business two quarters back, you had given an update that there will be introduction of products, you don't have a major presence and facing pricing differential of glass lined reactors that Pfaudler makes in those markets. If you can give an update on that and what is the progress on that, have you got any orders from that region?

Tarak Patel: We've had about three large wins in Southeast Asia, we've had a couple of systems orders and some glass lined business as well, so that's progressing. Obviously, we would have wished that we could have traveled into these Southeast Asian countries a little bit more. Unfortunately, the borders are closed and they're quite strict about it. But again, it's a long-term strategy of ours to grow this business. It will take some time, but we are definitely making some headway.

Moderator: Our next question is from the line of Utsav Mehta from Edelweiss AMC. Please go ahead.

Utsav Mehta: I wanted to understand our gross margins a bit better, because if I recall correctly, you've seen the worst of the steel price inflation probably two or three quarters ago. And last quarter, you said that now we reprice most of our new orders that have been coming in. I'm also looking at international where gross margins are expanded, whereas in India they've contracted. So, if you could just help me understand the dynamics behind all of this?

Manish Poddar: Yes, so if I may take that and maybe Tarak supplement in that. So, you're right, we had taken price increases earlier in the two, three quarters back as well. So, what has happened is there is a lag of where the price increase benefit came in immediately rather relatively earlier and the full impact of the price increase of the material has come maybe a couple of quarters later. So, if for example, we were buying steel at say Rs.60 a Kg, and increased to Rs.80 a Kg, so initial quarters, your weighted average would have been something like 70, now, at Rs.60 target depleted, you come to a realistic picture of Rs.80. Now, as the prices go taper down in hopefully near future, the margins should improve there.

Tarak Patel: Just one point to add here, the only difference in strategy in terms of procuring steel plates, when the prices are lower, we procure large quantities, we procure maybe two quarters worth of plates at one time, but now with the volatility in the steel prices, and the higher steel prices, we kind of only procure what we really need. So as soon as we are seeing this coming down, we'll try and mitigate or reduce the time lag between actual using of these plates so that we get the benefit as soon as possible.

Manish Poddar: Similarly, if you see Vatva facility now, obviously, at the current run rate, full cost absorption is also not happening, whether you talk about labor costs or the overhead as well. So overall

profitability also gets impacted, although material cost of course, we know from a weight perspective, heavy engineering per se is not as profitable as glass lined equipment business.

Utsav Mehta: Did we see similar dynamic play out in international there right now we're enjoying some benefits which could taper off later?

Tarak Patel: No. I think when you look at international business, you have to look at three major areas. One is obviously the US. The US has not been affected at all by energy. The price of steel has gone up, but they've been able to pass it on quite well. However, UK and Germany have been hit by higher energy costs. Hopefully, those will start reducing. China had a short-term impact of shortage of power, but that has been fixed and did not have a big impact at all. But going forward we believe that the 9% to 10% EBITDA margin range is still possible for the international business. We don't see a significant impact on material costs impacting because the orders that have been taken have been taken with the new prices in mind.

Alexander Pömpner: I can confirm that this above 10% margin is definitely something we should also see in the coming months. And we fear especially the energy costs in Europe what Tarak mentioned this will have some impact on margins. But definitely we will remain above 10% with further upside potential especially with growth potential in our service business.

Manish Poddar: Kindly appreciate India business is heavily dependent upon (OE) original equipment business, the glass lined business. So, the services unfortunately is a very much smaller by 7% of the total business per se. So therefore, there is a full blow impact of material on the India P&L vis-à-vis when we do to the international business, they have a 45% of services business, so, which doesn't really get impacted much by the raw material prices.

Tarak Patel: But I think just to add to that, I think more from a future and what we are planning to do to mitigate these increases, we are actively looking at cost reduction measures, we are looking at internal controls as well as renegotiating contracts with our suppliers to make sure that we have much more efficient procurement, so that's something we're working on already. On top of that, we're trying to increase our exports as well as our service components because obviously they are more profitable. So, we have a clear plan in terms of how do we look at increasing profitability and these are all internal controls. And on top of that, if you see material prices taper off and come down, then that is the additional benefit that will flow through. On the second front when the two facilities mainly Vatva and Hyderabad, has significant improvement in revenue next year, because they will significantly grow. You will see some fixed costs absorption there, which should also help profitability. So, I think we are in a strong position. I don't think there's anything structurally wrong with the business that has resulted in lower margins, I think this is a one or two quarter event which we really could not control especially the gas price increase, it's a one-time price increase, but we will do our best to try and mitigate some of these cost increases so that we kind of maintain and improve profitability.

- Utsav Mehta:** I was just asking for the debt and the cash number on both consolidated and standalone basis at the end of the quarter?
- Manish Poddar:** Today, there is no fresh debt. The partial repayment of debt has happened. At December end we stand at Rs.525 crores of debt consol and Rs.300 crores of cash and cash equivalents. And on India basis we have some 140, 142 crores of debt included in this Rs. 525 crores.
- Moderator:** My next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** My point is this order backlog Rs. 2,067 crores, and international order book Rs. 1,589 crores, total order book is Rs. 3,500 crores, right?
- Tarak Patel:** No, no, no, Rs.2,067 crores include Rs. 1,500-odd of the international business, total is Rs. 2,067 crores.
- Ravi Naredi:** Sir, why international margin is low versus Indian margin?
- Tarak Patel:** I think the international business historically has been lower because their labor cost and employee cost are definitely much higher than in India. But what we are trying to do here is to really increase the size and scale. So, with the same number of employee base, if we can grow the revenue two or three times, then you will see the employee cost as a percentage of revenue come down. And just to give you an example, when we bought our Swiss company in 2008, it had 38 employees and it was doing a revenue of \$7 million, today also it has 38 employees but does a revenue of \$25 million. So, if we can double or triple the revenue of international business, then the employee cost will come down.
- Ravi Naredi:** CAPEX plan for the financial year '23?
- Tarak Patel:** So, there is no new CAPEX plan. Like I mentioned, we have the Hyderabad furnace coming in in the next 10, 15 days. So that will be definitely a capacity boost for us. We also have a new furnace coming in Gujarat which will come into production sometime in June or July, which is going to also help us because it's a large furnace, 80,000 litres will give us capacity both for the Indian market but also export to our parent organization. So, it will be a very timely CAPEX that we will add. Besides that, there is no other significant CAPEX that is planned for this financial year. Next year, we will probably think about it a little bit more in detail, but I don't see significant CAPEX next year. I think next year, we will probably use all the CAPEX that we have made and all the investment that we made and really try and grow the revenue.
- Moderator:** Our next question is from the line of Srinivas from Rockfort Consultancy. Please go ahead.
- Srinivas:** In one of the interviews, you have mentioned that there is a large order from US. Whether it is included in these results or whether it will be factored in the March quarter?

- Tarak Patel:** No, all shipments will happen in Q4. There is no shipment that has happened this quarter. The US order is going to be shipped in Q4 of this financial year, so you will see that playing through in Q4 and Q1 a little bit, but they have also increased the quantities in that order. So, they have actually added more quantities. So, the US order will continue into Q2 and maybe Q3 also. That's a good order and that will definitely help improve profitability not only in India but also in the US business because the order was taken by the US organization.
- Srinivas:** Whether we have shifted entire production of proprietary products to our Vatva factory or...?
- Tarak Patel:** No, proprietary products remain in Karamsad predominantly, 90% of it is but we had moved some small equipment that we needed extra capacity and Vatva added, but I think as a long-term strategy, Vatva will be pure HE and proprietary products will be made in Karamsad.
- Moderator:** The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.
- Vivek Gautam:** A lot of industry dynamic questions. Has India cemented place of beginning the international chemical manufacturing hub for the world or are there threats from China and other countries? What about the concerns on the environment and the fire incident which happened?
- Tarak Patel:** I would not see we have taken over the leadership position, but I can definitely say that the chemicals market in India is growing, there is new investment coming in. Today during the board meeting we had made a presentation and we had listed out all the companies that are planning investments over the next maybe one or two years and there is significant investment coming. Many of you know also about the recent IPO's and company that have raised funds and these funds will be reinvested. Like I mentioned, there is a China Plus One strategy, there is a contract manufacturing strategy there is also backward integration to reduce dependency and volatility of a product that people buy. So, all in all, I think the India chemicals industry does look quite positive and I could count on top of my head the number of enquiries and new projects planned in the next two to three months and they are quite large, and they are quite big. So, I don't see any issue there. But I still believe that China will come back. Today, I think there is definitely a reduction in global supply of chemicals. I think during the pandemic, there were many companies that downsize and shutdown. And today you see higher increase in chemical prices only because the supply is limited, but the demand is still high. But I would see over the next few quarters, people investing and building capacity.
- Vivek Gautam:** The concern from the pollution and the fire incident unfortunately which is increasing in India. What has done...?
- Tarak Patel:** I think that's something that could work well for us. I think one is when safety norms kick in and people want to set up good manufacturing facilities, then they try and buy equipment and technology from a reputed company, so that could definitely be a benefit for us. The other area that we could add values in terms of acid recovery. Acid recovery is definitely something that companies will become much more conscious about because it is becoming an environmental issue, there were recent examples where people disposed of chemicals and obviously they were

not disposed of correctly. So, in the future, people will look at kind of cleaning up these products within their facilities rather than just kind of giving it to a third party which in turn could spur new business for us when it comes to acid recovery.

Vivek Gautam: How are we placed in ANFD and what is the opportunity size over there, internationally, domestically and our recent international acquisition is helping us with more sale of our products through cross-selling?

Tarak Patel: ANFD in India, we are definitely not a big player. We focus on really the high-end market of spherical dryers and kind of clean ANFD and sterile ANFD and things like that, containment application. But we are a big supplier to our Swiss company which currently backlog of close to CHF 38 to 40 million. So, they are nearly booked out for two years. And the focus there is obviously that the European business is quite strong, but we want to break through in the US market. So, one of the focuses now is to grow the Mavag F&D business line in the US market. The good thing about the US market, it is ASME, and it is something that GMM can supply directly. So, most of the equipment that we will end up selling in the US market will be manufactured here in India.

Vivek Gautam: How is the opportunity size for the ANFD filter, sir, for India as well as abroad?

Tarak Patel: I don't have the numbers at the top of my head, but the Indian market could be around 300 crores mark and then in Europe may be about \$60 - 70 million and maybe another \$30 million in the US and these are just kind of broad level numbers. So don't hold me to them, but this is probably a thumb rule that I can give you.

Moderator: Our next question is from the line of Rohan Dalal from Museum Capital. Please go ahead.

Rohan Dalal: You had mentioned last quarter about the chemical orders, which were doing well, and you touched upon that in the previous participant's question. But you also mentioned that the larger pharma companies are not really participating in the orders as much and it's just the smaller pharma companies. Could you give us a sense of how you see the demand dynamics evolving from a near term perspective what are your thoughts and also from a little longer term, maybe a three-year perspective?

Tarak Patel: So, I know our big pharma customers, they have been pretty subdued in terms of investments. Divis, for example, has kind of held any kind of CAPEX in the short term. But what we are seeing now is definitely people taking interest in terms of the PLI scheme. So, we've seen a large enquiry coming for fermentation reactors from Hyderabad, where they will make benzene. So that is really driving. There is a list of about 10 or 12 different companies who signed up for this kind of investment through the PLI scheme. Again, like I mentioned to you, the smaller guys have been investing, the guys who are kind of supplying into the bigger pharma guys have kind of doubled their capacity and improving or increase their products to that. But again, pharma is something that has not really taken a lot of aggressive investments recently. But I personally

think that the next couple of quarters you will see something. I think, Ashok or Aseem, do you want to add something here?

Ashok Pillai: Pharma business is like Tarak mentioned subdued, but we're expecting cycle of CAPEX in the big pharma also to take off soon. So, we know that they will have plans to start the expansion of API products. Most of them are now concentrating on the production after the API at finished product. And they have not gone back to API, but we think that things will change, and we will start seeing traction soon.

Tarak Patel: So, they have all acquired land and have huge parcels of land. So, I know that even Aurobindo has for this benzene, 300 acres lined up, they're starting the stable activities, now they are floating enquiries, even the Divis has unit-III in Kakinada kind of thought about, but they haven't actually gone down to actually releasing orders or having anything concrete, but we do expect something to come in the next financial year.

Ashok Pillai: So, the PLI thing what we talk about is fermenters and apart from that they also have PLI scheme for key fabricating materials which is not bio type of products, they are chemical products. We will start seeing action in that as well once the projects are firmed up.

Rohan Dalal: My follow up is that, so, it's not impacting your schedules and your targets?

Tarak Patel: No, on the current backlog below, we are in a very strong position. We also know of large orders that are being planned in the next maybe two or three weeks. From a capacity standpoint, we have no problem in terms of execution. We have enough orders coming in. And for us also, what happens is when it's chemicals, the sizes are much bigger. So, we have definitely a large backlog in the bigger sizes, which is 16,000 and 20,000 and higher. But pharma once it starts picking up, you will get much more of the smaller sizes, which we also need. So, I think it will be a good mix to have, but it's not affecting any short-term revenue or growth possibilities for us.

Rohan Dalal: Just one comment from my side is that the meeting that y'all had with 46 key management personnel, we will like that, if you can share that at the earliest?

Tarak Patel: So, we didn't actually have the meeting in person, we actually had to cancel it because of the third wave, we had an online townhall. But we will be sharing some kind of documentation; we are creating a new story for ourselves. Obviously one year of integration is completed. We can't keep integrating. The integration efforts will continue but there's clear strategies around market share improvement, cost reduction, sourcing from India, new market, M&A opportunities, I think we're going to put something down, we are already working on it. And I think over the next few months, we will be able to share something with the group. That gives you a clear idea of what and where we want to be in the next three to five years.

Rohan Dalal: Can we expect this to be a much more advanced version of Project Apollo?

Tarak Patel: Yes, I think so. I think it'll be more granular in nature. So, I think we can't keep harping about integration. The integration is done and dusted. We have a good team, these processes and offset, it's like pretty much on autopilot, we push it obviously, and we'll review it. But there has to be other growth areas, there has to be other areas of improving profitability, adding new technologies and products. So, all those things will fall into that document, which will be shared with the group.

Moderator: Next question is from the line of P Sachdev from Albatross Capital. Please go ahead.

P Sachdev: Just wanted some rough estimate on the capacity utilization across various plants at Pfaudler Inc?

Tarak Patel: So, I think maybe Alex would be in a better position to answer that. Alex, what is the current capacity utilization around our main facilities, namely Germany, Italy, China, US, and Brazil?

Alexander Pömpner: They are highly utilized we have to say. So, we grow so fast, and we grow faster than originally anticipated. So yes, they are at the higher end of utilization.

Tarak Patel: Yes, so I think the problem is not having capacity right now. That's why we are adding capacity in Brazil. We are also adding some capacity and new equipment in the US. So again, also from a standpoint of motivating the local teams, I think, Pfaudler is invested in these facilities for quite some time. So, people are quite motivated. Germany and Italy, obviously a brand-new facility, and China as well. But I think we all would prefer that at some point, we increase the output, but right now the focus is really to stabilize the business and ship out as much as possible. And obviously, Q4 is an important quarter for us. So, the focus is really on execution. And then we'll probably spend some time looking at operational improvements and how we can kind of get more output from the same capacity.

P Sachdev: I would really appreciate if you could put a statement or a slide on the optimum turnover that you can achieve post this capacity expansion as when you come out with the revised guidance?

Tarak Patel: Sure, we can do that, and I think it'd be helpful also, we worked out some numbers also across for our Vatva facility as well, which is the new unit, Hyderabad and then for the rest of the company, we will try and put something together as part of the document, where we are and where we can go with the current setup.

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

Harshal Sethia: I have two questions. Firstly, has our Vatva facility started?

Tarak Patel: Yes, Vatva facility has started. We have also moved quite a bit of the orders to Vatva. There's some work that's happening in Karamsad and some in Vatva. But I think about 80% of the work has now shifted to Vatva.

Manish Poddar: We started the operation partially in Q1 this financial year and both are being run this year in both the places, one at Karamsad and at Vatva, transition period. I think by the end of Q1, we should be in good position to completely transition into Vatva for HE business.

Harshal Sethia: Can we say that Vatva should be at full capacity by Q1 or maximum Q2 of '23?

Manish Poddar: Entire HE production for GMM Pfaudler will happen through Vatva starting Q2 FY'22. However, achieving full capacity will obviously take time because as we know to reach Rs.450 crores of turnover will obviously not happen in the next financial year for sure.

Aseem Joshi: I think as we exercise Vatva facility, the factory is ramping up and that will continue to happen in the next financial year after we transfer completely to Vatva. So, Q3, Q4 will continue to ramp up and I think the following financial year is when we expect to be a full capacity.

Tarak Patel: But we do have some overall thoughts around what the actual tonnage this facility can ship out. We have done some internal calculation. We also know about what is the right mix between carbon steel, stainless steel and exotic materials. So, we can maximize revenues and profitability. So, we are quite aware and conscious of that. And then on top of that, can we improve and the operational improvements that can further improve this business. But all in all, I think Vatva will really show its true color next year, the order backlog remains very strong and the only thing that we really need to focus on next year is the execution part of it.

Harshal Sethia: We always plan of making India the whole manufacturing base and shipping out the equipment globally across all our facilities. So, looking at the freight cost environment and the way the prices have run up like dramatically high, so, how do we counter these, are we actually as of today shipping out products from India to other countries?

Tarak Patel: So, we are and all the contracts that we have are mainly ex-work, so that the customers will end up paying for the shipping. So, the entire US order, for example is ex-work and at the time when the equipment are ready for shipment, we will get a quotation from the local shipment guy, and then we will give it to the customer and then he will directly deal with them. For our internal consumption for our internal transfer, yes, this will be an issue. But again, we have time and in spite of the higher logistics, there's enough of benefit of sourcing from India. So, the landed cost, after paying the higher logistic prices is still very lucrative and very profitable.

Aseem Joshi: So, I'll just add one thing to what Tarak said. Ultimately, these higher logistics costs are transitory in nature, about six months to a year, we would expect that these would settle down. And so, for us, this is a long-term strategy that we think will work out for us well.

Harshal Sethia: So, are we seeing any delay in orders picking up from the Indian facilities by our global customer?

Tarak Patel: No, I think in most cases, they are actually pushing us to kind of ship faster. The US order project for example is on a fast track, and we have regular reviews, and they will be more than happy to

pick it up even before schedule. So, I think most of these plants have been planned, There is no slowdown in terms of customers wanting the equipment, and they would rather have it quicker than later.

Harshal Sethia: Are we seeing like better margins from global customers compared to our Indian clients?

Tarak Patel: So, export orders are always more lucrative, Harshal, as compared to the Indian market, the Indian market is a good market, it's a volume-based market, but yes export business gives us definitely higher margins.

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

Rohit Ohri: Your press release speaks about launches of some new products. What are these related to, and which segment are you looking at?

Tarak Patel: We are obviously looking at Interseal in a big way. So that was a launch that was planned for last quarter, which we now did. We have installed 11 Interseal in India, they're working quite well, the customers are quite happy with them. So hopefully that will lead to further order. Interseal is something that we are quite focused on. We believe it's a great product and hopefully that will add to both revenue and profitability plus it comes with obviously a good aftermarket business as well. So that's always a good thing to have. We also have acid recovery. Again, that is something that we've been working on. We did get a large order. There are a few plants for Indian companies to set up acid recovery plants. We are actively pursuing those opportunities. And again, acid recovery plants are based around glass lined equipment, natural kind of complementary products. So, these are the two main areas that we are focusing on here in India.

Rohit Ohri: You seem to be expanding the sectoral bandwidth. So, do you see any opportunities in green hydrogen related equipment manufacturing?

Tarak Patel: So, all good things to think about. I don't think we will say no or yes to any of them. I think there are definitely opportunities available, but I think we have to be a little bit careful in terms of how we can link it back to our product and what our strengths are. So, yes, we are looking at different things right now, and it is something that obviously would be something futuristic but could kind of come in quite handy. We will think about that, but I think currently we have enough on our plate, but we will keep thinking about and keep evaluating opportunities in the green energy segment, in having a ESG kind of glass which is environmentally friendly, and things like that.

Rohit Ohri: My second question is related to the pension liabilities and the pension obligations. So, what is the current obligation that we have on yearly basis if you can share that?

Manish Poddar: Pension liabilities currently stand at something like Rs.450 crores outstanding as of 31st December. Not much of a movement. As we already have alluded that it's a fixed closed pension plan, no new additions are happening. And the movement primarily happens on account of

actuarial valuations and there is something like 25-plus years of payout period. So, it's naturally progressing in that direction.

Moderator: Our next question is from the line of Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: I would just want to know from the standalone order book, basically, it'll be bifurcated into glass lined, heavy engineering and proprietary products. Could we have a segmental breakup of this if possible of your standalone order book?

Manish Poddar: GMM standalone we have 570 crores of order backlog, 200 crores of GLE, 240 on account of HE and PP is another 120.

Jason Soans: In the international business your order backlog is given. So basically, total order backlog minus the PFI will be the Mavag order backlog, is that right? What I meant is of course, in the international results, the order backlog stands at 1,589 crores and you mentioned that Rs.1,281 is PFI, so the balance would be Mavag?...

Manish Poddar: 307 or 308 is Mavag.

Jason Soans: I was just looking at the results and yes, I did read some comments on the purchase price allocation. So just would want to understand it a bit better if possible. I understand there are some impacts, and they are non-cash. So how would we read into those?

Manish Poddar: If you recall Q4 last year and Q1 this year, we had something like Rs.46 crores per quarter of PPA allocation which is basically once you acquire a new business, there are intangibles being created and the existing order book the profitability, thereon is not allowed to be routed through the P&L although the revenue comes to you, but the margins thereon does not accrue to the new management because that is assumed to be the efforts of the previous management just to over simplify it from an accounting perspective. That number has substantially reduced. And last quarter, we had something like Rs.18 crores or Rs.19 crores of amortization of intangibles. This quarter, we have Rs.6.5 crores and I think, next quarter onwards, we'll have something like Rs.5.5 crores of amortization happening on a quarterly basis. And that will continue. So, it is a non-cash item as we earlier alluded to. However, because we get a tax benefit on account of lower profitability, net-net impact us on a positive side from net tax saving and has caused positive cash impact.

Jason Soans: This isn't real cash flowing through which you have mentioned in your press release actually?

Manish Poddar: Yes.

Jason Soans: So basically, on a standalone basis, GMM has historically posted margins of around 24% to 25%. And, obviously, after the Pfaudler acquisition, which had margins of 7 now, it's around 10, and your Mavag acquisition also has margins around 13% to 14%. Obviously, domestically in the filtration and drying equipment market, your positioning is not that strong. So just would

want to understand what is your strategy going towards for strengthening your foothold in the filtration and drying equipment market, as well as when you go globally what will drive margins further?

Tarak Patel:

So, I think in India, the filtration and drying market is a little bit commoditized. So, I don't see margin profile there to kind of be in line with what we plan to do as a group. So, I think we don't want to compete in the low end, low margin, the F&D business, we definitely want to focus on the high end, the spherical dryers, sterile equipment, the containment facilities, and things like that. We also have enough of backlog in Mavag, where we are manufacturing components for them. 80% of the material that is manufactured from Mavag gets manufactured here in India. And then the final 20% of finishing of instrumentation and automation gets done locally. So, it's a win-win situation for us. So, our focus today is really to cater to Mavag. On top of that, in the US market, all the production for the F&D business in the US market will come from India. So, from an F&D standpoint, our focus is definitely on exports. And I think that will continue, we don't want to really increase market share here and go after orders at low margins. As a group, obviously, there are significant things that we're working on. We're working on sourcing components from India for European entity which has started and is doing quite well. We regularly supply steel plate; we supply other components that are then used by the European entity to reduce their costs. We also look at certain lower priced markets, like Eastern Europe, Southeast Asia, Spain, some parts of South America where GMM Pfaudler will export directly. And then we have obviously cross-selling, so where we can bundle different products together. So, these are all different areas that we're working on. And then lastly, on top of that, we also look at our internal cost structure, the efficiency improvements, operational excellence, all these things are going on. And that's why you already see in a very short period of time, like I mentioned one year, since we acquired this company, we've already shown an improvement in revenue and profitability, 25% growth of the international business, which is many of you had asked that why do you want to acquire something which is growing at a 5% to 7% range. We had mentioned that there are opportunities available, and there's no reason why we can't really go and capture additional market share and grow or continue our growth journey. I think from that standpoint, we're quite clear in terms of what we want to do. Some of these things take time. I think we have a good foothold; we have a good foundation, and we just need to build on it.

Jason Soans:

From a company understanding perspective, we want to ask you. So GMM on a standalone basis has a proprietary products division, right. So, is the main purpose of the division to make equipment, transport it back to Mavag is that how it plays out, just want to understand, so proprietary systems where you have here at Karamsad it also has the same business as that Mavag. does?

Tarak Patel:

In proprietary products we have filtration and drying. In filtration and drying, yes, about 70% to 80% of what we do is basically sent to Mavag. And these are basically the vessel body, the leg, the ladders, the drive unit, all that stuff gets made here locally, it is sent there, then Mavag will work on it, they will add all the wiring, the instrumentation, they will do the local testing, the FAT, the customer will come there, he will see the local equipment. So, it's a kind of win-win

situation where the customer gets the best of both worlds, he gets obviously a cost advantage, but at the same time he gets completely European kind of finished equipment and a local European guarantee as well, as a local European Pay to which he can communicate with, right. So, I think that is the strategy here.

Manish Poddar: And F&D is one portion of PP.

Moderator: Due to paucity of time, we will be able to take one last question, that is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Just two questions on the capacity. Firstly, on the glass lined capacity in India in EU terms, where do we stand now? And after the current furnaces that you have mentioned will come online in Hyderabad as well as the Gujarat facility, where will it move to?

Tarak Patel: EU capacity, I think we are currently at 2,400 here and 400 odd there. We will give you new guidance for the next financial year with the new Hyderabad facility coming here. Obviously, we won't have a huge impact in Q4, because there'll be a month and a half basically that we will get to use it. But next year, we should ramp up the EU capacity both by the investment in Hyderabad plus the new large furnace that will come into play in our Karamsad facility.

Sandeep Tulsian: And for proprietary products, if one were to measure your capacity, how do you look at it, maybe in volume metric terms or absolute value terms?

Tarak Patel: I would say it'll be around Rs.150 crores mark. I think that's something we can look at. I think anything over that, we would probably need to add a little bit of capacity. Like I did mention to you, we had space available in Vatva. If we did have that space available in the near term, and we're not using it, then we could dedicate that to the proprietary products business. But again, the proprietary business has also done quite well. And like we were mentioning to you earlier, this entire fermentation piece, which is really, really important, which is really going to come up now in the next few quarters, all those agitators something that we can build here, we have the expertise, these are very large agitators, technology is very-very important because the power rating is 930 kW. So, there is a lot of technology goes into power saving, shaft sizing, all those things are something. So, if that kind of picks up, then we can use Vatva as well to make some of these agitators very large in size. But we've been talking to a lot of customers who are very, very interested in using our Mixture agitator for their fermentation application.

Sandeep Tulsian: But if Rs.150 crores is the capacity, you did Rs.144 crores revenue in the last year. So, we don't have headroom to grow, right.

Manish Poddar: This time we are like Rs.120 crores already.

Tarak Patel: Maybe around 175, 200 could be there, but again PP is an area that we are a little bit cautious with because one, unless we have the right margin profile, there is no use in expanding, you rather expand where we have more control where we are the market leader like glass lined

equipment so that's like an easy low hanging fruit for us, but Mavag need additional resources at some point, then we will look at adding a little bit of more capacity year-on-year.

Manish Poddar: You have to choose your battles. I think there's enough to do on the glass lining front and then of course in heavy engineering at Vatva Apollo project coming up. So, you need to prioritize the growth area.

Moderator: Before I hand over for closing, we have a few questions lined up in queue. And we will be taking one question from each participant. Our next question is from line of Pritesh Vora from Mission Holdings. Please go ahead.

Pritesh Vora: I just want to look at three, four, five years down the line, I mean, not look the current order. When do you think the cycle turns around and do you see steady state of orders coming in even three years down the line, because you are the barometer of chemical industries and pharmaceuticals industries, where do we see the growth coming up, from which industry for next two to three years, where do you see the orders coming up?

Tarak Patel: A good question. I think in the short-term there is definitely visibility both here and in the international market, when I say international market, I say Europe and US, both have been very-very active in the last six to nine months. How long does it continue? I think probably another six months to a year you will see investment. We have booked out like I mentioned to you \$40 million in Mavag. All our Pfaudler units have close to 9-12 months of order backlog. So, currently the industry cycle is definitely on the up and there will be definitely investments coming in. What we do hope is that even if the market were to slow down at some point, there would be a high installed base on GMM Pfaudler or Pfaudler made equipment. So that would obviously create recurring business in aftermarket and part. So that's something that we can always focus on. We also have diversified. So besides just glass lined, we have filtration and drying, we have Mixion, we have heavy engineering. Some of these go into the same market, where some of them also go into oil and gas, petrochemicals. So, there is risk mitigation strategy. And like I said, being a global company today if India were to slow down, there could be resurgence of investments in Thailand for example or Africa. So, you can always pick and choose but again we have to be careful that we don't over-create capacity. We keep continuously watching our cost. We don't have a very high fixed cost. And one of the things that we will look at doing overtime as we move production to India is to probably look at rationalizing some manufacturing internationally. There are no plans of that right now, but as a good business strategy, this is something that we will have to look at. But again, for the current short-term period of about three years, I don't see too much problem in terms of business coming in.

Alexander Pömpner: If I may add to what Tarak mentioned, this has to be seen especially globally, the service business that is the aftermarket business which is for the international business with a higher better margin. This will be the future business based on the current strong sales, so where we will earn the margin in future. So. this is 40% of the international business. So, this will be an ongoing growth driver which will be based on the current sales of glass lined business.

Moderator: The next question is from Deepak Narnolia from Birla Sun Life Insurance. Please go ahead.

Deepak Narnolia: I had one question on your profit margin. Probably you have discussed this in the past also. But I just wanted some light on that. Your standalone margin you have been reporting a 24%, 25% kind of margin in the last three quarters and your gross margin to sales were somewhere around 44%, 45%. All of a sudden, it has increased, and I remember you have been mentioning that you would be making this kind of margin in the India business. So, what has happened – is something surprised you or like if commodity increase has happened, then was it not known to the management, something like that?

Tarak Patel: That's a good question and I am glad that people keep track of what I say, but yes, I did believe, and I think it was more from a yearly kind of number we still believe 20% plus is something that we can maintain as a standalone number in terms of EBITDA. There was a one-time cost of the gas price increases which were not considered. Obviously, that has had an impact and two, I would say would be the investments really that we are making in both Vatva and in Hyderabad, that have kind of impacted profitability also in this quarter. But definitely there has been an impact in steel prices. Currently, we were enjoying steel prices which we had got a few quarters go, we are consuming those. And as Manish said, that as we start consuming, the newer plate, our kind of weighted average cost went up and we saw a kind of decrease in profitability. Now to be honest with you, 25%, 27% EBITDA margin was obviously something that was probably not sustainable. I think around 20% mark is something that we do aim to do. Glass Lining, obviously, that is a little bit more lucrative for us and I think we have maintained the margins there. With the export business coming in, also we believe that glass lined will continue to improve and we do believe that once the steel price begins to taper, you will see some improvement. So, like I mentioned to you, yes, it's not a structural change in the business. It's more of a short-term impact due to material prices. I don't think we will be the only industries which are impacted by such cost I think it is probably something that will happen across the board. Now, we need to kind of really focus on how do we bring it back by looking at our own efficiency improvements, do we have levers available, do we have buckets available where we can start working on to make sure that internally also that we are very cost conscious.

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

Priyanka Daga: Thank you, everybody for joining us. Stay safe and look forward to speaking to you during our next investor meeting. Thank you once again and good night.

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