



“GMM Pfaudler Limited Q4 FY-22 Earnings
Conference Call”

May 25, 2022



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
MS. MITTAL MEHTA – COMPANY SECRETARY &
COMPLIANCE OFFICER.
MS. PRIYANKA DAGA- DEPUTY GENERAL MANAGER,
STRATEGIC FINANCE

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of GMM Pfaudler Limited. 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. Thank you and over to you, ma’am.

Priyanka Daga: Thank you, Steven. Good evening, ladies and gentlemen. A very warm welcome to all of you into the Quarter Four FY22 Earnings Call of GMM Pfaudler Limited. The Earnings Presentation was uploaded on the stock exchanges and is also, available on our website. Hope all of you had a chance to go through it.

From the management we have with us our Managing Director -- Mr. Tarak Patel; our CEO of India Business -- Mr. Aseem Joshi; our CFO India Business -- Mr. Manish Poddar; our CFO of International Business -- Mr. Alexander Pompner; and our 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 the Q&A.

Before we begin with the overview, a brief disclaimer. The presentation which we have uploaded on the stock exchange as well as on our website today, including our call discussions that is happening 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 will now hand over the call to Mr. Patel to provide an overview of the performance. Over to you Tarak.

Tarak Patel: Thank you, Priyanka. Good evening everybody. So, I would like to start off by giving you a perspective for the performance of this financial year. We have seen a significant improvement in revenues across both the India and international business. We are now a Rs.2541 crore Company. Not So, long ago, before the acquisition we were about a Rs.600 crore company. So, significant change in size and scale. And the international business has performed exceedingly well, a company that started at about \$175 million, clocked a revenue in excess of \$230 million, which is just fantastic in terms of execution. So, across the board, across international business, and India business execution has been fantastic and the revenue numbers, they speak for themselves.

On the profitability front, yes, we’ve had a bit of impact on profitability. This is due to obviously the commodity price increases. Metal prices have increased significantly and in some European countries, namely Germany and UK, we’ve had an impact due to energy costs. We are already

seeing cooling off of metal prices and hopefully if this continues, you would see a positive impact on profitability in the coming quarters.

In terms of order backlog, we begin this financial year with a 30% higher backlog than previous year, which is a very strong and healthy backlog for us. In most of our sites across the world we have about six to eight months of backlog and some even more than that. So, we have good visibility for the coming year. The focus for the coming year is obviously to look at internal cost controls, to look at ways of increasing profitability and maintain a similar level of execution for the next few quarters as well.

From a CAPEX standpoint, a couple of interesting development:

Our Hyderabad furnace is now up and running. We got the final connection a few days ago So, that will add capacity to cater to the Hyderabad and Vizag area. Our Brazilian furnace came online a few months ago and that will help us cater to the US market. The new furnace in the US is also, under the commissioning and will come on board shortly. And then lastly, we have ordered a new furnace for Gujarat which should come online sometime in September. We'll also, add a lot of capacity both for India and for supplying internationally as well.

Our Vatva facility is now fully ramped up, we have about 200 people employed there. It's running at full capacity. We expect Vatva to have a good impact on overall growth story here in India.

In terms of the industry that we cater to, chemical still continues to be the driver for us here in India, Agro chemical and Specialty Chemical continue to invest the China One story is playing out quite nicely and we expect investments to continue. With the cooling off of metal prices we believe that some of the projects that were on hold will now be reinstated and new businesses will be coming in. But having a strong opportunity pipeline there are many large projects that are going to be ordered in the next few months and we see the next few quarters to be very strong from an order intake standpoint.

There's also, a bit of revival in the pharmaceutical industry. There is the PLI scheme which is creating new capacity in Hyderabad and Vizag. A lot of the Hyderabad based pharma companies are looking at setting up fermentation plants, that would also, lead to business for us in the mixing front, that's where we have some technology and fermentation and the large fermentation that will require agitators which obviously GMM Pfaudler can supply.

Across the world as well investments continue, backlog remains high and new orders are coming in. However, as I said the only concern is the commodity pricing and energy costs and if we start to kind of go downwards, you will see that impact profitability in a positive manner.

Besides that, I also, would like to inform you that we have added a new Independent Director – Mr. Prakash Apte, who is currently the Chairperson of the Kotak Bank, he will join our Board,

and he will replace our Chairman, after our Chairman retires after the AGM in August. So, very good addition to our Board, he brings in a lot of knowledge and experience. And from a governance standpoint, having worked with Kotak Bank, I'm sure he'll bring a lot of experience to the table as well.

With that, I would like to hand over the call to Manish. Manish will take you through the quarter and the financial numbers for the year and then we can open it up for Q&A. Thank you very much.

Manish Poddar:

Thank you, Tarak. Good evening all. So, let's move to the consolidated results for the quarter. Consolidated results on revenue front, we were just shy of Rs.700 crores with a 9% growth over quarter three. EBITDA margin stood at 10.2%. Our cost pressure continue for this quarter as well on account of metal and energy. However, on business outlook perspective, we have a strong backlog of Rs.1932 crores which is 30% higher than last year, So, which reflects a strong business outlook for the future.

Moving on to the full year for consol results, we clocked a revenue of Rs.2541 crores with an EBITDA of Rs.330 crores at 13% of margin. Here, it's important to mention that during this quarter, we had a Rs.17 crore of deferred tax assets being charged off to the P&L, this is related to the previous years and this is a non-cash item and helps us in cleaning up the balance sheet. However, in cleaning up this deferred tax asset has to be charged to the P&L and therefore, you see a higher tax charge for this quarter to that extent.

Moving on to the cash flow statement for the full year:

We generated a Rs.270 crores of cash from business out of that Rs.99 crores was reinvested back into the business on account of working capital and CAPEX. And thereafter Rs.124 crores was repaid on account of debt, lease, interest and dividend payouts and the balance Rs.48 crores is added to the cash in hand.

Moving on to the consol balance sheet:

As balance sheet continues to gain strength. Our net debt to EBITDA is at 0.5. Net debt to equity stands at 0.3. And it was also, heartening to note is pension liabilities have gone down from \$60 million to \$50 million. As the interest rates rise, the present value of the future payables goes down as per the actuarial valuation So, this helps us in reducing the pension liabilities as well.

Moving on to the profitability matrices:

EPS continues to grow to Rs.91.4 per share, ROE and ROCE also, now in a healthy zone, ROCE at 22% and ROE being (25%+). That obviously proves that the Pfaudler acquisition has been value accretive for the shareholder.

On integration, as Tarak already mentioned a few things about it so, we can go to the income statement for Quarter Four:

This is probably the last quarter where we show this breakup in Slide #15. Between what the business has performed, what the accounting adjustments have been and up to the reported numbers. The only significant item is on the column C, taxes Rs.17 crores is something that we spoke about already.

In the interest of time rest of the slides we may skip but as we may just go directly to the last slide which is Slide #30, on account of working capital:

On the working capital on the left side, you see the consolidated numbers, inventories have risen from Rs.530 crores to Rs.670 crores. Obviously, because of metal price hedging we have to buy more material but it was heartening to see is customer advances have also, risen from Rs.288 crores to Rs.422 crores. So, therefore the net funding at a group level remains almost stagnated from Rs.242 crores to Rs.247 crores. So, the inventory days also, net-net has reduced on a consol basis although the backlog has risen from Rs.1500 crores to Rs.1900 crores.

Credit receivables have been managed well, stay static at 51 day. Payables also, have been extended from 48 to 56 days and primarily on the count of India.

And as we move on to standalone numbers you will see, inventories have risen in India from Rs.113 crores to Rs.231 crores and you can appreciate that India Business is primarily on account of technology and systems, and low services components. So, we had to make sure that the higher backlog, we had to make sure that the inventories are in our hand to avoid any metal price increases. Therefore, the inventory days have increased from 32 to 61 days for the 31st March 2022. However, that these we have tried to reduce on the working capital side by receivables reducing from 64 to 54 days, and payables increasing from 53 to 71 days. By doing the two pieces we have tried to maintain the cash conversion cycle.

With this, we can open the call for the Q&A. Priyanka.

Priyanka Daga:

So, Steven maybe we can open the call for Q&A and we'll be happy to answer any questions that the investors have.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Description and Process to ask Questions by the moderator. The first question is from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat:

Tarak firstly in terms of the strategic plan that we are awaiting, could you please throw some light on the avenues for the growth for revenue as well as improving profitability, as well as your revised guidance for the consolidated entity as well?

Tarak Patel: Right. So, we are currently working on our new equity story as well as our future outlook. We are currently in the process of getting this done. Due to the uncertainty in the global market, it is taking a bit longer. However, for the next year, I would say that, obviously the international business grew at (+20%), I don't think that's going to continue. The idea for international business next year to be very focus on profitability. But the India Business obviously will continue to grow we have two new factories here, one in Hyderabad and one in Vatva, which will definitely add significant revenue and growth here in India. But from a timing standpoint, we are now looking at August to have a capital market day and come out with a new three-year equity story, plus kind of a guidance document. And that is when we will be more comfortable to give you some kind of guidance.

Jaiveer Shekhawat: Sure. And also, we understand that the employee expenses for your international operations, these stand at roughly 30% will be revenue. So, wanted to understand what kind of revenue growth, revenue ramp up are we looking at So, that, that percentage of employee expenditure revenue comes down to more manageable levels for the international operations?

Tarak Patel: Right. So, I think currently the focus in international business is improving profitability through internal kind of initiatives, many of them will like to example at the operational excellence the two new factory at Germany and China are now running at full capacity So, they need better absorption definitely over there. We are also, looking to penetrate new markets through India made value source equipment within fully made Indian equipment into some European countries like Spain and Russia and the U.S. We also, look at Germany buy a lot of components from India, So, all of these will help us increase revenues. But just to give you a number in terms of revenue growth it will be too early. I would say, the European businesses grow in the range of 5% to about the 7%. This year has been an exceptional year, you will see some growth there, but I'm not very comfortable to give you a definite number right now maybe in August, I'll be in a much better position to do that.

Jaiveer Shekhawat: Sure. But any update in terms of how much more investments we have to make in manpower over there in order to grow your international operation?

Tarak Patel: No, So, there is no plans of adding people anywhere and just to add here not a single employee has left the Pfaudler Group since the acquisition. We are not adding any people we may add one furnace in Brazil to cater to the U.S. market, because Brazil act as a low cost source for the America. In America we are refurbishing an equipment So, there's no real major CAPEX going on. If anything, we would even look to rationalizing some manufacturing equipment right now as we have three facilities in Europe, maybe one to many. So, we can look there as maybe a way of rationalizing our manufacturing and as more and more stuff moves to India, we can use India to do the heavy lifting and then the final assembly, the testing, the finishing can be done in the European or the American facilities.

Moderator: Thank you. The next question is from the line of Harshal Sethia from AUM Fund Advisors. Please go ahead.

Harshal Sethia: Sir, I just had a question. Looking at the international business our order intake has drastically dropped for the quarter. So, what might be the reason for it? Are we seeing that the demand environment is very costly or due to increase in prices or what is happening can you just elaborate?

Tarak Patel: No. So, there are a certain kind of few items which obviously has impacted international profitability. One is an impact of higher energy cost in the range of about €300,000 which is maybe a 0.5% impact on profitability. On top of that we've had a large order for Russia in the range of about \$700,000 odd which we had provided for because, obviously due to the war we were not able to ship and there's another provision for a onetime expense for an M&A, we are planning to sell one of our group companies in the portfolio. So, that has also, been provided for. So, about basically 1.5% impact on profitability of international business just coming from these one-off items.

Harshal Sethia: Okay. And are the new orders which are currently being taken are at higher margins?

Tarak Patel: Yes, So, we've been very picky and choosey as we've changed our strategy. Over the last few quarters, we've kind of held our nerve and decided to kind of wait it out. And I'm happy to kind of report that we have been able to really win really good margin business, especially here in India, for the glass lined business, internationally they've always managed to get a premium, and they've always been quite clear in terms of what orders they would take. So, the quality of a backlog has definitely improved in terms of margins. And hopefully, if the metal prices support as we start going down then you will see a double impact probably one on pricing front and one on the lower input cost front which will then obviously positively impact the profitability.

Harshal Sethia: Okay. Sir earlier when we had acquired Pfaudler Inc we had a four year plan and we have guided for 14% EBITDA margins. So, can we say that it can be achieved in FY23 itself with our focus now on profitability rather than from revenue growth?

Tarak Patel: So, we always try to improve profitability, but I would just give you a kind of just as we wait till August, everything will become quite clear. As a group we definitely see a lot of possibilities, both in terms of growing revenue through new markets profitably improvement through some of these initiatives that you're working on like low cost sourcing, like cost optimization. So, we are really working hard to make sure that we come back to a good level of profitability. And that's something that we will definitely come back to you maybe in August and give you some kind of guidance in terms of what the next three years will look like.

Harshal Sethia: Okay. Sir, I had a few questions on the India Business also. So, is our Vatva facility now up and running at full utilization levels or still is it in the ramp up phase?

Aseem Joshi: This is Aseem Joshi. Yes, Vatva facility is fully up and running now as of Q4. And we have a healthy backlog as well, So, we do expect a lot more product to be shipped out of Vatva in this financial year.

Harshal Sethia: Okay. At full utilization levels what kind of revenues can that contribute to the overall India Business?

Aseem Joshi: So, it really depends on the product mix, materials of construction, et cetera. So, ultimately this can be about a Rs.400 crore or so. This is quite really come down to what products are being made and particularly what materials of construction is being used. But roughly that was the range that one can think of.

Tarak Patel: At its full capacity in coming year.

Harshal Sethia: You said Rs.150 crores right?

Tarak Patel: No, Rs.400 crore is what the plant capacity is. Last year we closed the heavy engineering business about 140 crores. So, you will see a significant improvement this year because as you just heard, that it is fully ramped up and would add significant revenue for that business.

Harshal Sethia: And sir, on the last part of the question our order intake for Q3 was Rs.696 crores for the international business which has dropped to almost up at around half Rs.343 crores. So, what might be the reason for that?

Tarak Patel: So, this is a combination of reasons, but overall it was basically to make sure that we book a good profit, a good margin order, because we had a strong backlog So, the strategy was obviously to go after very lucrative business. In Q1 this year we've already had a record April, month, both in India and internationally and we are pretty much now back to the similar level of order backlogs. So, we are okay from that standpoint.

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

Amar Maurya: Sir a couple of questions from my side. What would be now the current facility of GLE in India at this point of time and what would be the utilization level in this quarter?

Tarak Patel: So, the current capacity before the new furnaces will come in, this is not counting the new furnace in Hyderabad that just came online a few days ago and the new furnace in Gujarat would have been around 3000 EU per year range. Over 2400 - 2500 in Gujarat and about 600 odd in Hyderabad. So, the 3000 would be the total the capacity. Aseem you want to jump in?

Aseem Joshi: No, that's about the total capacity.

Tarak Patel: Yes, but with the new policies coming in, we will at that point also, need to update the capacity because the new furnace in Gujarat is a large furnace and we'll add a good amount of capacity the Hyderabad one also, will add capacity. So, we might be to come back with a new number on the total EU capacity here in India.

- Amar Maurya:** Okay. And what would be the utilization in the current quarter?
- Tarak Patel:** I would say, full capacity. Both the plants were running at full capacity and when I say full capacity obviously the glass lining furnace is run 24/7 in three shifts, fabrication run for two shifts. So, we are pretty much at full capacity. In Hyderabad, we've also, made some changes to the flow and stuff, we tried to kind of bring in operational excellence. So, there will be some improvement possible, but generally we are running at 80%, 90% utilization.
- Amar Maurya:** Okay. And India now sir, since the metal prices and the glass lining everything has gone up. So, like earlier you used to guide the per unit realization for the GLE in India would be around Rs.20 lakh, So, it would be around, what would be the average realization now?
- Tarak Patel:** So, actually, the Rs.20 lakh number is on the higher side, what we had, So, our normal one EU, which is about 6300 liters is about 16-17 lakh odd that's what the current price range is. It would have increased since then but the EU size might have also, increased, I don't have the data on the top of my head, but knowing that we've increased prices over the last few months, I would think that those prices would definitely have increased.
- Amar Maurya:** Okay. And sir now this glass line specifically for the India, this quarter the revenue has de-grown, but you are indicating now from here on as the new capacities are there and you can expect a good order book in this particular year. So, what should we expect, what kind of a growth in a GLE standalone business could be in the next year?
- Tarak Patel:** So, I don't think we have de-grown in the glass line, glass line year-on-year we are actually 400.
- Amar Maurya:** I am talking about the quarter.
- Tarak Patel:** Quarter maybe, maybe a bit of. So, again you compared that questions of shipments that was sent out and some customers didn't lift, but generally our glass lined business now with the new capacity coming in, we should be growing at double digit early times number. Against, with the market share that we have, which is currently in excess of 60%, a significant improvement in market share will come at a cost. So, we don't really want to go after the low end of the market, we want to kind of stabilize our market share, but really go and take the high value order. If we have excess capacity, I would rather use it to either to export to sell to the Pfaudler Group as obviously would be much more lucrative. To, really focus on the services and spare parts business. Again, it's not a very large component we expect that business to grow over the next few years because the number of equipment that we keep supplying to the Indian market will continue to grow. Our installed base has increased to maybe now close to 20,000 - 30,000 reactors in India, they all are aging. So, hopefully that will be another lever of improving profitability. But all-in-all the focus is definitely to kind of pick and choose the right business going forward.

Aseem Joshi: And I would just like to add to one thing that Tarak said. The premise of the question was about de-growth quarter-on-quarter. I just checked we actually have grown just a little bit from Q3 to Q4, we've actually grown.

Moderator: Thank you. Explaining the process of Q&A. The next question is from the line of Ashish Kabra from Fair Deal Traders. Please go ahead.

Ashish Kabra: Yes. So, Tarak two small questions. One is, what will be your margin guidance for FY23, and can you share some revenue guidance also, not for the next year, but for like FY24, FY25?

Tarak Patel: So, the guidance for next year again, like I said, the focus is definitely on improving profitability. Currently, the India Business is around 17% to 18% EBITDA margin, I would like to believe that we would be maintaining something along the same line, maybe improving it slightly. The International Business currently around 9%, 10%, you'll see some improvement there as well. If we are then supported on top of that, with metal prices going down quite a bit, that would just further add to the improvement as well. Obviously, keep in mind that there is definitely a lag between the time the prices come down to the actual time when we use these materials. So, there will be a short life of maybe a quarter or a few months. But otherwise, that in this kind of challenging environment, the focus should be more on internal cost measures to look inward and see where are the areas that we can really kind of be very much more efficient. But otherwise the levels that we currently are enjoying, it's obviously both India and international, should be quite easy to maintain if not improve upon.

Ashish Kabra: Okay. And Tarak any new guidance like if you can give for FY23 or 24?

Tarak Patel: In terms of revenue guidance?

Ashish Kabra: Yes.

Tarak Patel: So, maybe just wait till August, everything will be quite clear. We are working on it, obviously we had a plan in place, but these challenging times have kind of impacted obviously, a little bit in terms of the outlook. But we'll have something for you very shortly.

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

Jason Soans: One question I just wanted to ask, in terms of CAPEX, So, when you look at pharma and chemical CAPEX. A lot of pharma chemical CAPEX, clearly the trend has been shifting from the high cost destinations which are U.S. and Europe, to the East. So, countries like China, India benefiting from this demand shift, especially due to low cost and various other advantages. So, now I just wanted to understand of course a lot of volatility all over the world. And clearly there is a marked shift here. So, what I understand is there is a China Plus One shift for sure. And there is also, another shift, which has seen a lot of high end work countries have kind of realized

that it's not wise to depend upon, a certain country X or Y, basically you do all the high end work, be it pharma chemical CAPEX, or whatever, but keep it to yourself, it's sort of a protectionist measure. Are you seeing this trend being developed all over the world and if this trend does develop, it will really benefit Pfaudler as in your acquisition as well, and your value sourcing another strategies, you see this kind of strategy being played out this trend being played out, the China Plus home country, that kind of trend being played over the world, you see this trend take a shift?

Tarak Patel:

Yes, So, I tend to agree with you, there's definitely two major trends happening the India trend in investment and having a kind of a de-risking of China is definitely happening, you can clearly see that with the kind of work that is going on for company like SRF, PI Industries, Deccan. A lot of product is moving from China to India and that's a very small percentage. So, even if another 5% or 10% move to India that would be a massive, massive amount and would require a massive amount of CAPEX. So, that's definitely a trend that we're seeing. We also, know that the Indian consumption of Specialty Chemicals, Agro Chemicals will also, keep increasing. So, that's something that will continue to be a strong driver. Many of the chemical companies have recently kind of, got listed in capital markets. So, those guys will also, continue to need to add capacity to obviously maintain the growth momentum. So, all these things, you will definitely see investments in the chemical sector here in India. The thing about chemicals is, their reactions are also, much more critical. So, the need for higher quality, bigger sizes also, increases. So, that's where we really have a very strong foothold. So, that would be definitely something that you would really want to go after.

Now, for the International standpoint, I completely agree with you. What we've seen over the last maybe 18 months is that there's definitely been this kind of nationalistic dry, wet companies who were over dependent on India and China are building local or the redundancies. Those who were dependent on life saving medicines like antibiotics and Paracetamol from Indian and China. And then during the pandemic obviously overnight, everything stopped. So, that kind of revival is being seen, we are seeing clearly in Europe. One of our subsidiaries Mavag had nearly a two year backlog which we've never seen in our life. There's something that is driving this and this drive is really being created by new capacity being created in Europe. Similarly, in the U.S., we have had a large order in the U.S. for latex manufacturing again something that they were dependent on Malaysia for but they want to create capacity within their own geographies as well. So, these two trends will continue and obviously bode well for GMM Pfaudler India, but also, for the international business.

Jason Soans:

Sure, thank you sir. And another question I had is, in terms of manufacturing process, So, obviously you're the forefront in GLE equipment. So, just wanted to know, in sort of the core DNA, is there a difference between the manufacturing process, different for example just if I have to take the local context, HIE Glasscoat, they are second in market share. So, is there a major difference between the manufacturing because I understand Pfaudler has glass lining which is patented and trademarked. So, just wanted to understand, is there any significant

difference in terms of manufacturing process or a technological difference between these two. If you could elaborate?

Tarak Patel:

Manufacturing really is the same process that they will follow, they might have different firing cycles for the different glasses, but really where the technology comes in is in two areas. One is the quality of welding that you do because glass lining by its nature, if the welding is not good enough will kind of chip off and will be damaged quite quickly. So, welding, it becomes very important. And two is the formula of the glass itself. So, this is a formula glass that has been developed over the last maybe 100 years that keeps going to improvement. Pfaudler Germany worked with the local universities and tech, and we are actually currently working on a new glass which we hope to launch maybe in the next few quarters. A ESG compliant glass which is heavy metal free, good for the environment that is something that we are working on, but glass is basically the technology that differentiates our equipment with somebody else's, and that would directly correlate to the life of the reactor and the light use of the reactor. The better the glass formula, the better the glass quality, the longer the reactor will last.

Aseem Joshi:

Can I just add. At a macro level, the process is similar. And a good way to think of it is in terms of an analogy, perhaps with car making. So, is the Toyota the same as the Fiat, is same as a Ford. Clearly they all are building cars, but the product you get at the end of the day is very different. So, similar in glass lined vessels they last longer, provide greater performance and therefore are the preferred choice amongst our customers.

Jason Soans:

Sure. And sir just wanted to also, if you could elaborate, on which just gets talked about less, you've clearly had a brand strategy and a realignment and a global plan as well, I can clearly see that. So, could you talk about more of such initiatives such as, Mixion, Interseal, EQUILLOY which gets talked about less actually, in con-calls or other aspects. So, if you could just throw some light on Interseal, Mixion, EQUILLOY. What plans do you have for taking these sub segments forward?

Tarak Patel:

Yes, that's a good question. And we only talk about glass line because you only ask about glass line. So, it's not by choice that we would like to speak about glass line, but that obviously a big chunk of our business and people understand that. So, that's why the most of the questions come from there. But we recently completed our rebranding exercise, So, we now have a unified global brand. We have a common website within the group. Everybody will move to a gmpfaudler.com website, there's clear alignment. Aseem myself and Manish were in Germany last week, we had a factory visit to the glass lining facility. We went and saw our lab process equipment in Normag and like you mentioned, we went and met the people at Interseal. Interseal dry9000 is a very, very high technology mechanical team that's doing very well. When Pfaudler bought this company a few years ago it was of revenue of \$3 million, today it's talking about \$10 million of revenue. So, in one and a half years it has grown three times. Very profitable. We have developed a mechanical seal that we call ace5000 for the Indian market, specifically fully made here in the Indian market, we've launched that already, we expect those sales here in India to improve. The good part of our mechanical seal is it also, gives a lot of aftermarket business

of the service and components and the spare part for mechanical steel is also, very lucrative. We now plan to launch this ace5000 seal in the Chinese market, we've decided on hiring a resource there dedicated for this mechanical seal again this market could be as big as \$10, \$15 million in the first three years. So, huge amount of the potential there.

Then like you said, we have Mixion agitation where we kind of our mainly an India based player where we sell about 70 odd crores of agitators. We are in the process of now working with fermentation. So, we received a very large order from a Hyderabad based company for agitation for fermenters this is for Pen-G plants that they are putting up. So, that could be a great area for growth as well. And then EQUILLOY is our heavy engineering business. Again, I spoke about this earlier that our Vatva facility will be fully catering to that. And then Normag is also, a nice, interesting business, obviously it's something that is growing, we expect that business to double in size in the next two to three years as well. And that is really lab process equipment So, these kind of all glass equipment that go into any of the pilot plants. So, all in all, we have a nice portfolio of products, they are kind of interconnected, they go to the same customer. So, cross selling becomes quite easy for us. And the idea eventually is to kind of build on this portfolio, add more complementary products, So, we can kind of have a wider basket of products that we can go and sell to the customer.

Jason Soans: Sure sir. This last quarter has been very volatile, in terms of world markets to take any aspect that's been quite volatile in terms of the Russia, Ukraine war, etc., and a lot of other factors. Just wanted your sense on the end market demand domestic and export both. And any major impact of this Russia, Ukraine on European demand especially?

Tarak Patel: No, So, I don't think there's been any impact of the Ukraine crisis on the demand in Europe. What's happened is energy costs have gone up in Germany and in the UK, but generally otherwise, the business environment is quite strong. Alex is here maybe Alex; you want to add a word on what the economic situation is like in Europe?

Alexander Pömpner: So, energy cost is definitely a key impact on us. But otherwise, and we are doing fine and our Russian business is so, far also, kind of comparatively small.

Tarak Patel: Yes. So, we didn't have too much exposure in Russia. Russia was a market that we would have liked to kind of enter into. So, that obviously is pushed back. But generally, the business environment continues to be quite positive. Obviously, if we were to end and things start returning to normal, that will be definitely a better situation. But otherwise, I don't feel that it's really something that is impacting business in the long term.

Moderator: Thank you. The next question is from the line of Nandakishore Divate from Maximus Securities. Please go ahead.

Nandakishore Divate: The year is over. And very much congratulations are in place. Congratulations Tarak your Indian team, as well as your overseas team, you have done a fantastic job. I normally don't go through

a quarter-by-quarter performance, I only look at it from here so, from there it became we have come to a tremendous solution. So, congratulations on that. I have just answered the question, though. I didn't see it covered, may we will cover it all and that is most pertinent to this company. Can you take us through the rationale of the bonus?

Tarak Patel: Yes, So, the bonus, I've been getting this question for the last five years since I took over as MD. So, every year, during the AGM or at some of the investor calls I always get when the next bonus would be, the idea behind the bonus is really and this is something that we were getting request from investors, fund houses that they would like to be part and participate in our growth story. However, the availability and the liquidity of the share was something that was holding them back. Hopefully, this bonus issue will kind of help us increase liquidity. It's a tax efficient solution for the shareholder to currently hold GMM Pfaudler shares. But the idea really is to kind of increase and improve liquidity. Also, after completing the acquisition, there will always be questions around Indian companies buying international businesses, and many of them did not do so, well. Today after one year of fully integrating both businesses, I can proudly say that we've done a fantastic job, both in terms of revenue, I see the motivation, the experience within the group, I was there, just meeting people, everybody's excited to be part of this company now. They finally have an owner that understands the business, is continuing to invest in the business. So, we are now in a situation where you will see benefits accruing over time. And it's a good time to also, reward shareholders who stood by the company for these many years. And after one year of integration now fully complete and back to business as usual, we thought that it would be a nice time to reward our shareholders as well.

Nandakishore Divate: Very good. In fact, that's the perfect answer that I was looking for, had it been anything else I may have been a little disappointed. And really, I would like to repeat it's a fantastic performance in this challenging time. You and the team undertook what was a daunting task. We all can take bow to. Thank you very much.

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

Siddharth: Congratulations I just want to know the rationale behind the Edlon divestiture given that, based on what little I've read at least it seems like business which is also, profitable?

Tarak Patel: Right. So, Edlon is a product that it was not core to our main business and has a different customer base. So, that's why as part of our portfolio, we will be adding companies but it's only wise to also, remove something that's not really adding too much value. Even though the company does a revenue of around \$12 million, and about \$2 million of EBITDA for the next level of that company's growth we would have to invest another \$2 to \$3 million into that business, which we really are not sure if we would like to do. The Edlon has quite a good brand globally and if we could get a good valuation for it, it's better to kind of divest Edlon and use the proceeds to kind of add a new company to the portfolio that kind of fit in much better with the complementary aspects of our business.

- Moderator:** Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.
- Rohit Ohri:** Continuing with the question for Edlon, what sort of approximate valuation you think they'll get from sale of this segment?
- Tarak Patel:** So, we don't know yet as a process is onwards, but the book value was Rs.100 crores. We don't know, we haven't got bid yet. But depending on the demand, we obviously would like to buy cheap and sell expensive. So, hopefully we can get a good value for it.
- Rohit Ohri:** Okay. There's another property that you intend to sell in Mumbai, can you take us through that, what was the area and what is the square meters of that property?
- Tarak Patel:** Okay, square meters I would not know, but it's our old office building, we actually moved from Lower Parel to Wadala office, we have a much bigger office. And that office currently is not being used to full capacity, we would rather use the funds for better cash management, and that was an own office that we owned, it is a prime real estate on the top floor of Peninsula Tower, So, there will be high demand for it. So, that was one thought behind it. The other was a residential apartment that the company owns, that was in a building that has become considerably older. So, it's a good time to kind of divest that as well, and then use the proceeds for business purposes.
- Rohit Ohri:** And the approximate value of these two properties would be?
- Tarak Patel:** I don't know offhand. But when we bought the office, the office was around Rs.5 crores or something like that for about 6000 square feet. If I remember correctly, something on those lines. It was very early on, we bought it very in early 2000s, before Lower Parel was even Lower Parel, so.
- Rohit Ohri:** You will get a good value in Lower Parel. You touched upon parking the proceeds in some new business, what sort of business are you looking at, will it be going toward the green chemistry kind of business or something that you'd like to share?
- Tarak Patel:** So, we're always looking out for good company. The M&A market in Europe is hot right now. Europe people look at Pfaudler now being a global company to piggy back on Pfaudler to really give them the global reach. So, we get a lot of request, and a lot of the MOUs and the memorandum to kind of look at, but we really want to get into businesses that are very similar and cater to the same kind of customer base that we are currently catering to. And like you rightly said, we would love to get into something on a technology process green chemistry, automation, digitization, those are the kinds of things that see as a company, we are very strong base, and we have a very strong brand name. But we need to kind of bring in new tech, new age technology to kind of really, add value, Aseem if you want to jump in?

- Aseem Joshi:** Yes, we always run a very disciplined process around the targets we go after, and we continue to do so. So, you will see our track record is pretty strong. The portfolio of companies that we have, and you can expect the same, if not more diligence in the years to come.
- Moderator:** Thank you. The next question is from the line of Harshal Sethia from AUM Fund Advisors. Please go ahead.
- Harshal Sethia:** Sir, I just want to ask, So, is our furnaces in Germany gas based or?
- Tarak Patel:** No, there are electric furnaces in Germany and in the UK.
- Moderator:** Thank you. The next question is from the line of Ashish Kabra from Fair Deal Traders. Please go ahead.
- Ashish Kabra:** So, one more question from my side. In the presentation you had actually mentioned that you are looking to increase the wallet from our UK business. So, what kind of synergies are you seeing till now, panning out?
- Tarak Patel:** So, I don't think we've very specifically with our UK business. It's a general statement for all our businesses, where we have opportunities to kind of have any potential to sell Indian made equipment, there are customers in certain geographies in Europe, some parts of South America, South East Asia that are value buyers. And it would definitely make more sense either building the entire vessel here in India, or also, looking at maybe a hybrid solution where we build most of the material here and some components from the other geography. So, low-cost sourcing from India will obviously pick up steam in the first year of this program this year, the budget was already crossed by about 330%. So, we've already done exceedingly well in terms of this program. We also, now are planning a stock in sale program where we will stock equipment in Europe for the European market that will be sold by our German entity. So, all these things are progressing quite well and the idea behind that is to really kind of come and get business that usually was not coming to Pfaudler.
- Moderator:** Thank you. The next question is from the line Jason Soans from Ashika Stock Broking. Please go ahead.
- Jason Soans:** Highlighted someone offs, actually I kind of missed on that. Could you just repeat that?
- Tarak Patel:** On what sorry?
- Jason Soans:** You would mention the one offs in the quarter, in the initial part of the call, but I missed that part. So,
- Tarak Patel :** in the international business, So, with the Edlon sell there is a €300,000 provision for that, there is a power cost increase in the range of \$300,000, between Germany and the UK as well. And there is €700,000 provision made for an order which was manufactured but we were not able to ship to Russia. So,

these are obviously one off and won't be recurring, except for the power cost. If it continues to go up, then that will continue. But otherwise, the other two are definitely one.

Jason Soans: So, sir \$300,000 a power cost increase and \$700,000 provision for the Russian order?

Tarak Patel: Yes. And another \$300,000 for the Edlon sale for the fees associated with the Edlon sales. So, all in all about €1.4 million, which probably impact profitably at the international business by about 1.5%.

Jason Soans: Okay, So, the total amount comes to how much did you mention?

Tarak Patel: €1.4 million.

Jason Soans: €1.4 million. And just wanted some view from yourself, on the pharma city development in Hyderabad, I remember a lot of time that you were used to speak about when you were acquiring the PDPs facility, especially. So, you said that there is a lot of demand coming from the pharma city in Hyderabad. So, just wanted to know your take on it, what are the current developments and how is it shaping up?

Tarak Patel: So, that's a very interesting question and a very timely question, because as we speak, the CEO of Pfaudler International is with a K. T. Rama Rao in Davos, meeting him and asking him to give us allocation for land in pharma city that's going on as we speak and maybe there'll be a tweet or something from the Telangana Ministry later today. So, the Pfaudler CEO was invited and the government of Telangana wanted to discuss with us our plans and our expansion plans in Hyderabad. Our current plant is in Nacharam, which has been earmarked for IT development. So, eventually, five years down the line we have to leave that site. And we are now working with the government there locally to give land allocation within pharma city, So, we can then cater directly to the new pharma plants that will come up in that area. In terms of timing, this is something that's been spoken about for quite some time. I don't have a real clear idea in terms of, but land allocation I believe is complete. But, over the next few quarters one thing start stabilizing after the pandemic that got pushed back a little bit, but people will start moving to pharma city sooner than later.

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

Rohit Ohri: The questions on pharma city is already asked. I just wanted to ask that in terms of the green chemistry are you thinking of moving towards hydrogen?

Tarak Patel: No, So, we were looking at green diesel technology. There were some other technologies specifically in the U.S. that the U.S. teams are working on. But we are really kind of open minded when it comes in to green technologies. There is something that we could even do in the EV space, recycling of batteries is becoming quite important as some of the Sulfuric acid, which

goes into the batteries require glass line equipment as well. So, something that we can build around the glass line, having a heart of glass line would be definitely an area. And maybe there could be new avenues and new maybe the chemistry which can open up as well. So, this is something that we are working on. And as soon as we have some more information on this, we will definitely let you know.

- Rohit Ohri:** And would you like to share anything on the new developments for asset recovery as such?
- Tarak Patel:** So, asset recovery, there is an ongoing project one in India and one internationally, there was a recent order that we got from China as well in asset recovery. Asset recovery is something that we hope will grow over the next few years maybe to be honest with you. It's not as grown as fast in India as I would have liked but we are not stopping there. We are continuing our focus, we are going and meeting people. And there are two strong opportunity in the pipeline. Hopefully they will materialize into orders in the next few quarters.
- Moderator:** Thank you. The next question is from the line of Santosh Kumar Jha from Optimize IT System. Please go ahead.
- Santosh Kumar Jha:** Sir, Congratulations. I have a little question about stock split. Any plan for next quarter for stock split?
- Tarak Patel:** No, no plans right now. We could have split the stock this time as well. But then that would be the last split that we could have done because we already are to Rs.2 and the lowest you can go to is Re.1. So, maybe we'll keep it for later when the time is right. But right now there are no plans for a stock split. The bonus itself will create liquidity which we wanted to create. So, the purpose has been solved and I don't think we need to look at the stock split at least for the next few years.
- Moderator:** Thank you. The next question is from the line of Siddharth an Individual Investor. Please go ahead.
- Siddharth:** In terms of technology and automation, I just want to know if you're already invested in or plan on investing in asset lifecycle management software, systems.
- Tarak Patel:** So, technology, digitization, auto migration of heavy invested, what are our plans maybe you can take that Aseem.
- Aseem Joshi:** Yes, I'll take that. So, clearly digitization Industry 4.0, etc., is happening all around us. As GMM Pfaudler, we want to make sure we were in the right solutions that are relevant for our business. So, we have thus far built up a baseline of systems, in our factories, in our operations in sales, HR, IT, etc., on which we can then take further and use the data that's coming out of the system to drive decisions. So, over the last couple of years, I'm really going into this year, and probably the next that foundation will be strengthened. We've already started efforts to make sure things

like our sales force system, use consistently across the corporation and even the power sales force is used not just as a repository of sales leads, but actually to make market efficient. So, Tarak talked earlier about figuring out which orders we really want to prioritize, we extensively use analytics to make such kind of decisions. And in our factory, we are using the digital systems for project management, project tracking and control So, that we have much better visibility on how orders are progressing and getting, when our product will come out of the factory. And then last bit I'll touch on is on the product itself, glass lined traditionally has not been a smart vessel. It's been a piece of equipment with a lot of technology in glass. But now we're also, further enhancing our capacity to sensitize these vessels. So, we have a portfolio of probes that we currently sell in Germany we are working to enhance that our portfolio whereby a customer can get a lot more detailed information about process parameters. So, we are pretty excited about the potential it offers. And So, this is a priority for us, but we'll make sure that we invest where it makes sense. And it'd be a judicious combination of investment in systems and digitization across all three, our product, our factory processes, as well as our processes and support functions.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we take one last question from the line of Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: My last question. Just wanted to ask, well this PPA impact on the depreciation we had accounted we had guided for a \$6 million non-cash impact of course. But now this 15 crore impact on deferred taxes just wanted some clarification on that, because that wasn't expected. So, if you could just show some color, I understand it is non-cash. But if some color can be provided, your \$7 million was, it was \$6 million to \$7 million was pretty much far for the cost cut, this was So, \$15 million has come out, the deferred tax that basically increment to the cost.

Manish Poddar: Right Jason. So, what has happened is, once you get into any acquisition, you get 12 months to after that, you need to review your opening balance sheet and get into what are the assets and liabilities that you want to revisit. And as part of that exercise, there was a deferred tax asset, which is completely different from PPA, there was a deferred tax asset which is existing in the balance sheet, which you wanted to write it off because that is an asset, which is not yielding any value in the future period for us. And therefore, we had to take a write off in the P&L. And to that extent, our tax as PAT, PBT ratio got disoriented, to that extent. So, this is again, as you rightly mentioned, this is a non-cash item, only the deferred tax asset goes down. And the profitability to that extent, goes down as well. PPA whereas was opening balance sheet, if you acquire the business you have the asset allocation from the new management and that's what we explained last quarter Q4, that's a completely different number from there.

Moderator: Thank you. We will take one more question from the line of Viral Sanghvi an Individual Investor. Please go ahead.

Viral Sanghvi: You talked about the requirement of good demand seeing from the pharma industry. Do you see any good impetus also, from the agro industry as well going ahead?

Tarak Patel: Yes, So, also, from an agro chemical standpoint, there are large projects in discussion right now people like UPL, PI Industry, Grasim but not really for agro but for Specialty Chem, the likes of Meghmani investing as well. So, across the board, we are seeing a strong demand for chemicals. Agro chemicals, obviously will also, pick up but it's mainly driven by specialty chem, but even companies like Deccan for example are really investing in agro chemicals as well.

Moderator: Thank you. I now hand the conference over to Ms. Priyanka Daga for closing comments. Over to you ma'am.

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

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