



“GMM Pfaudler Limited Q1 FY-23 Earnings
Conference Call”

July 29, 2022



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GMM Pfaudler Limited
Earnings Conference Call
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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 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 have the conference over to Priyanka Daga. Thank you and over to you, ma'am.

Priyanka Daga: A very warm welcome to all of you into the Q1 FY23 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 international business. Mr. Thomas Kehl, our CEO of India Business - - Mr. Aseem Joshi, our CFO of International Business -- Mr. Alexander Pompner, our CFO of India Business -- Mr. Manish Podda 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, 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 would now hand over the call to Mr. Patel to provide you an overview of our performance. Over to you Tarak.

Tarak Patel:

Thank you Priyanka. Good morning everybody. So let me give you a brief overview of the quarter that we just completed. Overall, it's been a very strong quarter for us both in terms of execution and also in terms of ordering. Both the international and the India business has performed quite strongly. The international business has performed exceedingly well both in terms of revenue growth but also in terms of a significantly higher order intake this quarter. This puts us in a very strong position in terms of order backlog we have a current order backlog in excess of about 2100 odd crores which obviously gives us good visibility for the next two quarters. Our order intake also has been quite nicely spread over our technology, systems and services business, so all in all our business lines are doing quite well. The investment activity in Europe and the USA is really heartening. We're seeing a resurgence of investment. We see Plants and investments coming back to those countries, shows and that's driving the growth in the international business. In India as well; Chemicals still need, still continues to be the biggest sector for us. And going forward we hope that pharmaceuticals will also pick up. Our synergies with the international business is also doing quite well. We've already met the budget in terms of value sourcing from India and we hope that over the next few quarters we can increase shipments from India to the rest of the world. Our stock and sale program also is gaining traction. We have about 25 odd vessels that are being manufactured

here in India and will be shipped to Germany in the next few weeks or so. We've also seen a major breakthrough in terms of our mixing business. Mixing business was a small business about a 30 crores business a few years ago. We acquired a company in Pune called IMSD then became about a 50 or 60 crore business this year we expect to double that business. We've seen a lot of activity in the fermentation. So there's a lot of fermentation penicillin manufacturing that will be coming in Hyderabad and Vizag and the technology that we have in mixing has been quite helpful for us in securing large orders in this space as well. Another good order that I'd like to talk about where we kind of showcase the strength of the group as a whole is a large systems order from China. This entire order will be manufactured here in India, but the process and the technology has come from Pfaudler US and then obviously the local Chinese sales team have kind of worked together to win this \$6 million order which showcases really the strength of our group. Interest in India also is going quite nicely. We've added four new clients to the Interseal and we expect a large order in Interseal in the region of 20 to 25 mechanical sales in the next few weeks. We are also currently working on a large acid recovery project, hopefully again in the next few days we will have a breakthrough here and that's something that we've been working on for quite some time, so we expect nice little bit of success there as well. In terms of commodity prices, we've seen a cool-off of commodity prices. Metal prices have come down. Carbon steel and stainless steel both have significantly reduced. We should see that impact actually helping us Q3 and Q4 onwards, so that will be nice to see. However, energy costs will remain a concern for UK, Germany and India still have higher energy costs, especially gas prices have increased significantly, so that's something that we're trying to keep our eyes on. Lastly, we also acquired a small engineering company in Milan, Italy – Hydro Air. Again, very process driven technology, the company that will help

us enter the adjacent market as well as augment our capabilities in the space of engineering. So, this will be a nice addition to our group and hopefully over the next few quarters and year, we will be able to bring the technology to our client base. With that I think let's open it up to Q&A. And we will be happy to answer any questions that you may have, thank you.

Priyanka Daga: Thank you Tarak, now we can open the question and answer session.

Moderator: We will now begin the question and answer session. We have the first question from the line of Utsav Mehta from Edelweiss AMC. Please go ahead.

Utsav Mehta: Two questions from my side, both on the India business, the first one you notice some improvement in gross margins in the international business while India's Gross margins are probably at a multi quarter low. If you could just explain if this is just purely to do with steel prices and should improve, going ahead, or is there a mix change that that we should know?

Aseem Joshi: Good afternoon this is Aseem Joshi. I'll take that question so you are right our gross margins are lower than previous quarter. It's affected primarily by higher steel prices as we indicated during our last conversation. Tarak did allude to the cooling-off of the steel prices and we're seeing that benefit now in steel that they're buying currently, so we are seeing that by the end of this quarter, that expensive steel would have been flushed out and the newer orders will be converted with the steel that we are purchasing now. So I think it's a transitional problem that we had anticipated and it will correct itself by few quarters.

Utsav Mehta: And therefore it's fair to say with the increased execution run rate and improvement of gross margins, the current EBITDA margin should revert to 20% or closer to those levels as you go ahead.

Aseem Joshi: Eventually yes, we do need to flush out this more expensive steel, but ultimately, we do expect to get back to what a normal run-rate and margins were.

Tarak Patel: I think one more point here, would kind of jump in. Also, there's a slight change in product mix. Heavy engineering by its nature is not as profitable as our glass lined and proprietary products business. So as that the chunk of that pie increases, you will see a little bit of impact there, but again, our focus is also trying to improve that business and improve the margins in that business and obviously through, let's say export business, change in MOC and things like that. But, yes as a general case, the product mix will also have a slight impact on profitability.

Utsav Mehta: Is there a higher mix of HE this quarter?

Tarak Patel: That is about higher base of HE in this quarter

Utsav Mehta: My second question again on the India businesses that look we've seen a very healthy order inflow this this quarter. But if you look at the order book year on year, it's up only 3% because obviously our execution run rates are sort of a very high, if we have to do around 250-300 crores of revenue each quarter to grow for next year, you will have to clock in 300-350 crores of order inflow. Do you think that's given the current environment that's doable and is it maintainable 300 plus crores order inflow each quarter.

Aseem Joshi: Yeah, I'll comment on this quarter's orders first, so we employed a strategy of being very selective in order. To make sure that those are created for our business. You may recall from last quarter we had actually lower orders than expected in our last time this because it helped capacity open for the orders that we really wanted and those converted in this quarter so similarly in this quarter from the heavy engineering side, we've not picked up a lot of orders, because then we can see a few good orders coming and we've held our capacity open for that, so we'll always continue to be selective in the orders that we take we feel comfortable that we can, there's enough orders in the market for us to meet our business projections for the year.

Tarak Patel: Just to add a few points on that there is definitely a very strong opportunity pipeline like I mentioned to you here in India the chemical sector is doing quite well. We have large investment lined up which would materialize in the next few months, so overall we're quite confident that we can meet the run rate and we have enough of availability to make sure that we continue to grow the India business at a certain rate.

Utsav Mehta: And last question on from my side could you just help us with gross debt and net debt at the end of the quarter.

Manish Poddar: Gross debt we were at \$70 million at the consolidated level and the cash we had was \$38 million. So, \$32 is net debt.

Tarak Patel: There's also a change in the pension liability because of the increased interest rate, if you remember when we acquired the Pfaudler group the pension liability was in the range of about \$70 million. Today it's come down to about \$35

million, all because of the interest rate increases, so that's also a positive thing that we've seen this quarter.

Utsav Mehta: So it's down, sorry, I just can only see the crore number so it is around 490 crores at the end of I think last quarter. If I'm not mistaken, 400 odd crores, how much is it now?

Manish Poddar: \$38 million pension liability stands today at \$38 million.

Moderator: Sandeep Tulsian You may go ahead with your question.

Sandeep Tulsian: My first question is pertaining to the glass lined segment, if you could help us give the glass lined segment order inflow growth that you had in the current quarter, because what we had been serving is although the overall order book was growing, this piece was not keeping up to the pace because the other segments were having a faster growth so if you could just help us give some more color on the glass lined specifically.

Tarak Patel: So glass line business has done well across geography. There were large orders that we won here in India in China. We also kind of hit 60% of our budget for the year already in glass-lined orders and also in Europe is where we've seen a strong order intake in the glass-lined business. I don't have the exact number Priyanka is checking this number and she'll probably come back to you, but there has been a good growth in glass line order intake this quarter.

Manish Poddar: Just to complement that the standalone order intake has been 300 crores and like us being mentioned that we have been conservative with regard to the HE. So that's right.

- Priyanka Daga:** Glass lined orders in this quarter, we had around 190 crores booked in India.
- Sandeep Tulsiyan:** Second question was pertaining to the PPA impact, a number which we disclosed. I think this quarter we have not separately disclosed that if you could just help us with that.
- Manish Poddar:** So, if you recall on the EBITDA the PPA impact was only in Q4 of FY 21 and Q1 of FY22. Thereafter everything, the entire PPA was in the depreciation & amortization line and that number has now is close to something like Rs 5.5 crore per quarter. So that is the number that you will see consistently throughout, and because it's now not a changing number every quarter and all that and that life is normal that there so that has not been disclosed separately. If you refer to our presentation in Q4 of FY21, we had given a detailed table on how it will pan out over various years.
- Sandeep Tulsiyan:** Right now, that number used to be around Rs 7 crores, so just wanted to get an exact number. So that's five and a half crores what you say?
- Priyanka Daga:** So, you can assume Rs 5.5 crore.
- Sandeep Tulsiyan:** Third question is on the high gas prices in Europe particularly, I just want to understand the genesis of this strong inflows that we are seeing in our international subsidiaries, what is driving this. Is it more driven by the competition facing challenges due to high gas prices and we are scoring because of the Indian factory over here or because overall demand scenario now itself looks quite positive and robust going forward. So what is exactly if you could give some more color on this.

Tarak Patel: So I think it's a combination of multiple things. Obviously our offering now to the customer; we are much more flexible with what we can offer, so we have different facilities across the world where we can kind of bring in the right product to meet exactly what the customer wants. We also have, like you said technology, leadership as well as brand recognition across. So, I think all in all, I think Pfaudler kind of is always the first choice. And if we can kind of come somewhere in the ballpark of what the customer is looking from a price standpoint, I think we usually get the right of first refusal. So from that standpoint and having new facilities in China, in Germany having those ramping up nicely as well, using India as a low cost source – component as well as complete vessels that gives us a bit of an edge, but again having said that, we do believe that the investments that we are seeing in Europe is kind of driven by local manufacturing, the redundancy being created in these geographies. So it's heartening to see that, and most of these countries are now looking at building these capacity in house so that they don't have to kind of depend on India, China for many of their products. So that's driving a lot of the investments in Europe and in the USA.

Sandeep Tulsiyan: One last question. If I can squeeze in is just if you can share the EU-wise where do we stand in terms of capacity and what is the utilization levels.

Tarak Patel: So EU wise on the India level we have some numbers. We are still rolling out the global EU program so I can't give you a number for a global EU. But the Indian numbers pretty much the same as last year. Now the new furnace that with that just came into Hyderabad few months ago will add to that and then obviously we have. The bigger furnace is coming into the Karamsad facility sometime in

September-October, so that will also increase, but we'll try and share with you the revised use data, maybe in the next month or so.

Moderator: Thank you we have the next question from the line of Harshil Shethia from AUM Fund Advisors LLP. Please go ahead.

Harshil Shethia: Can you just throw some highlight on our new acquisition? How is it going to help us in molding the whole entire business? Or are we planning to bring the technology in India?

Tarak Patel: Yes, so this acquisition we are really acquiring basically for technology process know-how and engineering capability. it's an asset light model. They don't have any manufacturing, they have 15 employees and everything is outsourced. Their experience and knowledge in membrane technology, is something that is a welcome addition to the group we already have engineering teams that run an acid recovery business both in the USA and in Germany, so this would be a very complementary kind of addition to those group of people. Well, one of the problems that this company faced in countries like India and China was that they didn't have local manufacturing and hence they were normally priced out now. Having local manufacturing in China and India with GMM Pfaudler here in Karamsad and then with our factory in China but obviously give them an edge. The opportunity pipeline in this business and its engineering capability also is quite strong, so we expect to kind of grow this business. They've also entered into nice new markets where they kind of provide customers with green technologies in plant based proteins. They do work on the EV side as well, so all in all is kind of extend our product portfolio will also help us enter into new markets and like he said, we're always looking to add good

technology, new technology, and that's something that we will bring to the table with this acquisition.

Harshil Shethia: OK, and secondly it would be very helpful if you could quantify as the whole market size, what kind of growth rate is the market growing at and are we just a very small company in a big pond? Or just to get a sense of the whole business.

Tarak Patel: In this acquisition related business.

Harshil Shethia: Yes, the acquisition.

Tarak Patel: Yeah, so again it's a small company there are competitors here in India and China localized, but again here it's a technology play. So, a lot of these skid mounted units and processes that these guys sell are really kind of made specifically for clients. So, you work with client or a few months, you do trials, you do tests and then you come out and then you kind of make and manufacture a complete system. So again, it's kind of moving up the value chain where you're going to give process guarantee they're going to give kind of value add and not just their equipment. So there are specific clients who need specific issues resolved, and that's where we kind of target. But yes, doubling or tripling this business over the next three to five years should not be very difficult.

Harshil Shethia: So thirdly I had this question. So in the last quarter you had mentioned that you give some sense on the guidance for the next four to five years and our vision, I guess.

Tarak Patel: Yes, so we are planning something an investor day sometime in September. More details will be shared in the next few weeks, but yet we

haven't forgotten that promise and we will come back with some new numbers and a new plan in terms of what and where we want to be.

Moderator: Thank you. We have the next question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: So, my question was regarding our order which we received was on the side of that fermentation application. Sir, can you elaborate on the technologies with us and what size opportunity we see in there that segment because I suppose this is the new order what we have received.

Tarak Patel: So, the idea here is obviously there is this entire push and PLI scheme that is driving local manufacturing. Penicillin is something that we've usually always imported from China, and the government has been kind of proactive to start and have companies' manufacturer penicillin here in India, so there three large plants that are becoming up one in north and two in the South of India. A major investment in this; the technology, and in terms of order side, we got orders in excess of about ₹50 crores just for the agitators for the fermentation part. So it is a major breakthrough for us and we do have technology because these are very large reactors. They go upto about 300,000 cubic meters, so very, very large agitators and obviously with the technology that we have in mixing, we were the preferred choice when it came to this. So that's a nice breakthrough for us and now we're also looking at using this technology to maybe enter the international market where we can also give fermentation technology to other clients.

Sanjay Shah: And does it throws a huge opportunity on this vertical or it's limited?

Tarak Patel: There is definitely opportunity as I said if more people in India, start manufacturing and fermentation becomes a big opportunity for us, definitely we will be the preferred supplier here. There's not too many other manufacturers in India who can kind of deal with fermentation technology. The other two or three players are international and obviously being Indian and local, we have a cost advantage. But yes, if this was something that were to grow, then yes, it would directly relate into our new business opportunity for us.

Sanjay Shah: So my second question was regarding our order which we received from Chinese market around 50 odd crores. So that was just to understand what's the USP, or what's the rationale of the Chinese people giving order to GMM and where we use the USA technology and engineering from India and what is that they have to come to India for such an order.

Aseem Joshi: Yeah, so let me take this so this is a quite a specialized product. It's a wiped film evaporator and normally they would have to take it from our American sources. Clearly this is a situation where the customer needed a cost competitive product and we were able to really hit the sweet spot of what they needed because our sales team local sales team really understood what the requirements were. The process knows how came from our U.S. team. A lot of the engineering work and of course the manufacturing work will happen in India. So, this is an example where we were able to really benefit from the strength of one team kind of approach across the three locations to convince the client that yes, this company can meet its requirements from a technology, from a cost and from a delivery stand of point. So I think it's a good example of how we can work together to meet customer requirements wherever they are.

- Sanjay Shah:** So does this order carry performance guarantee?
- Tarak Patel:** So these are equipment that we are supplying and we were in competition with a European competitor and then obviously having the flexibility of localizing manufacturing that gave us an advantage. But in terms of the application itself is something that we've done quite often, but there's no process guarantees associated with it.
- Moderator:** Thank you. We have the next question from the line of Renjith Sivaram from Mahindra Manulife Mutual Fund.
- Renjith Sivaram:** Just wanted to check with you, the local CNG gas prices and the availability issue, are they completely sorted out now and we from here on do we see an incremental increase in the gross margins or the standalone margins from here on.
- Tarak Patel:** So I think a supply of gas is not a concern. The pricing is a concern and that's hitting us by approximately 1% in this quarter. So yes, as the price is cool off to back to normal prices of last year Q1, that should be a straightforward improvement in margins. So other than it from understanding of standpoint, we do have a combination of gas furnaces as well electric furnaces and the way that we kind of look at the gas price increases we kind of kind of balance the production between gas and electric as much as possible, but if gas prices were to reduce over the next two quarters that will positively impact our profitability.
- Renjith Sivaram:** There is some talks and in some places there are get kind of substituting gas with low cost propane or something which is low cost. So such kind of alternative is impossible for us over.

- Tarak Patel:** No, I don't think there is a chance of replacing the gas with any other kind of gas. Plus, consumptions are quite high as well. So no, and then to convert these gas furnaces to electric also it's not possible so we will have to continue with gas.
- Renjith Sivaram:** OK, and how is the overall outlook in Europe? I think this is asked before also you said that the economy is not doing much and they are also impacted by this gas availability and most of the plants are at subdued utilizations. So when you see a slowdown in order intake going forward because of this for the international market.
- Tarak Patel:** So to be honest with you, I can't say that we are seeing a slowdown right now. The opportunity pipeline across the group are quite strong, so no, we are not seeing anything specific that is pointing towards the trend. But like you said, obviously there are issues in Europe in obviously with the Ukraine war, inflationary pressures and things like that. Will it have any impact? I can't really say right now, but right now, as in terms of order, intake and opportunity, we're not seeing a slowdown.
- Manish Poddar:** And our furnaces outside are all electric services and not gas furnaces.
- Moderator:** Thank you. We have the next question from the line of Rahul Agarwal from L&T Mutual fund. Please go ahead.
- Rahul Agarwal :** So just I wanted to understand more in terms of the breakup between price and volume and what your revenue and order book growth has been. If you could give some sense on that.

- Tarak Patel:** So just to give you an overview, I think we've seen both. There has been a strong focus on improving pricing across the group, especially here in India, and we've been working towards that. But there's also been volume growth as well across our geographies. Like I said, strong execution has been the cornerstone of this quarter's performance especially in Europe, China, USA and India. So those are the areas where we have seen strong execution. In terms of the exact break up I don't think I have the number with me right now, but I should be something like approximately 10% broadly
- Rahul Agarwal :** OK, and just the order inflow that we have got this quarter would it be fair to assume that these are at the new commodity prices that we have after the fall, or these would be still at the old ones?
- Tarak Patel:** No, so this quarter order will be executed in the next maybe six months or so. So obviously we will use the cheaper materials for these orders.
- Rahul Agarwal :** But your booking this order would have been at a higher commodity price compared to what you will execute. Is that the case?
- Tarak Patel:** So our pricing has not changed downwards. We still maintain our pricing and as the price leader we try and obviously drive pricing strategy across geographies. So from a pricing standpoint we maintain pricing and it is a benefit that coming from lower material cost you will see that improvement happening from Q3 onwards.
- Rahul Agarwal :** And just if you could just throw some more insight into the pipeline that we mentioned, as in terms of maybe the numbers that you're seeing or any qualitative understanding on it.

Tarak Patel: So I mean, just to give you a broad idea across the group, including the new acquisition that we've done. They all are seeing an all-time high kind of backlog, plus also a very strong opportunity pipeline. In India as well we're seeing large chemical investments, they're coming up, companies like PI industries, SRF Deccan and Divis and many other companies are now planning large investments which should materialize in the next few weeks to months. So we don't see a real slow down here. There's also good opportunities for us, like I mentioned in my opening, in acid recovery hopefully by the end of early next week, we should have some good successes here. We're working on a large, very large project here on acid recovery and would be a major breakthrough for us. So all in all, the pipeline remains quite strong. If you then look at the China plus one strategy if some of their production work was to move to India that will only further kind of improve that opportunity pipeline as well. But across the globe across the geographies, we're not seeing a slowdown in terms of opportunities. Investments are coming back into pharma and to chemical and obviously with a new market that we now also cater to, like I said, fermentation, paints, food and beverage. There's also now a new market like green technology in the liquid extraction and in bioplastic and plant based protein, so all in all things look quite positive for us.

Moderator: Thank you. We have the next question from the line of Jaiveer Shikhavat from Ambit Capital. Please go ahead.

Jaiveer Shikhavat: So firstly in terms the order intake could you specify that could it be that some of the orders that was supposed to come in fourth quarter came in during this quarter and hence the 40% is hike that we're seeing for the international

business on YOY basis. Or do you believe you can build on top of the one QoQ order intake levels in the subsequent quarters?

Tarak Patel:

So you know there's always an issue with backlog, but like I said, the orders are quite well spread and in most cases we have a strong pipeline, so just to give you an example, our Swiss subsidiary has now nearly 16 to 18 month backlog. As it stands right, I think the current backlog is close to 40 million Swiss francs. So obviously you won't see that kind of new orders coming at the same pace because they already have a very, very strong backlog. But for glass-line and other businesses I think where we have a kind of a smaller backlog especially here in India, where it's about four to five months only, that's where we can really kind of ramp up, because customers do look for quicker deliveries in glass-lined, and that's something that we always wanted to be that four to six-month range where we can really quickly turn it around and supply to the customer as soon as possible. But in general, from as it stands, I also know that Q2 has been pretty good in terms of order intake, so we're not seeing a real slow down, and I think this will continue at least for the next few months.

Jaiveer Shikhavat:

Got it and secondly on the acquisition. While we've highlighted as to how the application augments your engineering capabilities and the agencies that it opens-up, how does Hydro-Air benefit from GMM technologies or capabilities? Could you specify that as well?

Tarak Patel:

Sure, so Hydro-Air obviously they were owned by a small private equity company and obviously when we spoke to the gentleman there a few days ago he was kind of happy that somebody is now talking to him about his product and technology and not really about numbers. So strategically he's, they're very happy to be part of the Pfaudler group. It opens up brand new markets for them

brand new geographies. So the customers that he caters to are the same customers that we go to sell our glass-lined. So our glass-lined guys, our Mixion guys, acid recovery guys can all go and kind of sell these products so he immediately gets a global reach that he being a small Italian company, he could not really kind of cater to the world. So now the US opens up, India opens up, China opens up for him and then having low-cost manufacturing in China and in India will also give him a local presence. So maybe bringing in the materials from Europe was kind of price prohibited now having local manufacturing available that would give him an added edge as well. we also have Thomas Kehl here on the line and Thomas maybe you want to add something on the acquisition and how Hydro Air feel about being part of the Pfaudler group?

Thomas Kehl:

Yeah, I think Tarak summarized it very well. It's a small engineering group. They are very keen on their process know-how and their edge is that they developed together with customers processing through pilot lines and pilots' facilities in pilot testing and usually wants a pilot facility testing is successful, the orders around the corner and there's a global reach. Now we can go far beyond they have been. Also the financing structure, financing down payment that can take larger orders much faster. And since engineering capabilities they have are very similar to the assistant engineer capabilities that we have in Europe. So, we can cross-sell and create additional resources in short-term, if you have to, for larger orders. So we believe and also the Managing Director of this company believes that it's exploding each now being part of the GMM Pfaudler family, doubling the business, even tripling the business in the next few years should not be a huge issue, and we believe strongly about success. It's a good team. They're very loyal, they want to stay. They want to be part of us and they are excited we are excited. The technology is quite sustainable and another take that we see is

opportunities in green technologies, so bioplastics where we are working on the project in California right now that is of great interest and at the same time our systems group in the in the US has been started working on bioplastic technologies and processes as well, so we're looking into future technologies that are need to us and some of our customers as well.

Jaiveer Shikhavat: Lastly, are you looking for more tuck in acquisitions like these and how is the landscape in Europe currently? Are you finding those opportunities?

Tarak Patel: Yeah, so there are multiple opportunities in the pipeline again, our thought process is something similar to what we did with Interseal. We would like to buy small companies and then obviously grow the business, double or triple the business like we did with Interseal when we bought it. It was about a \$2 million business, today it's about a \$10 million business. Now becoming a global business now with the India launch as well, growing that business quite nicely. So, yet there are opportunities obviously as the Pfaudler group is now a global company, quite well known. Many of these small companies who have good technology actually look up to Pfaudler and they want to be a part of the group and have that kind of a global reach, be part of a kind of a global company as well, so we get a lot of opportunities. We get a lot of inquiries all the time, but then again, we need to kind of pick and choose the ones that really compliment well with our portfolio and really add technology to our portfolio. So yes, that's something that's always ongoing, and that's something that we've always said would be the cornerstone of our growth strategy would be M&A opportunities and that's something that will continue to look at all the time.

- Moderator:** Thank you. We have the next question from the line of Rohit from Progressive. Please go ahead.
- Rohit:** Two questions or probably 2 parts to that. GMM was probably the only company listed in the heavy engineering kind of business which was a quarterly dividend paying this time around, we have skipped the dividend, so anything that you'd like to share, the reason for that and what will be the dividend distribution policy going forward.
- Tarak Patel:** So we had disclosed this actually last quarter that we said we are going to switch to twice a year dividend policy after we decided to give the bonus shares, Manish just quickly jump in.
- Manish Poddar:** If you recall, we have been paying ₹5 per year and last year we finished with ₹6. Now if you divide this into and post a bonus, then it practically turns out to be ₹2 per share and then you end up doing it in four quarters. So then becomes too small numbers and operationally from an effort standpoint, from a cost standpoint, too much of an exercise and then of course from a receipt standpoint it becomes a miniscule numbers. So therefore we wanted to just consolidate it into a half yearly basis.
- Rohit:** In the consolidated numbers what is this 284 million of the other income which is there. If we can share that.
- Manish Poddar:** The other income is primarily on the effects revaluation gain of the euro loan that we have at Pfaudler international level. So because the euro has depreciated over a period of time last quarter, so therefore you have a number.

Rohit: OK, in terms of the recently acquired operation for HARI, they've been outsourcing so who were their clients? If you can share that, who exactly were the outsourcing their production or the assembly points from?

Tarak Patel: So they have multiple vendors and it kind of depends on the specific project. But like the membrane they buy from membrane manufacturers, and they outsource it to local manufacturing companies in and around but no specific names that come to mind. But generally it's an outsourced model that they've been using and getting quite successful.

Rohit: And any thoughts and using or have you reduced the pledge position, which was around 32.68% or so.

Tarak Patel: Sorry, we didn't get that. Can you please repeat the question?

Rohit: We had a pledge possession of around 32.68%. Have you reduced that or any thoughts on reducing that?

Tarak Patel: So the pledge, I think, that you're talking about is not really pledge, it's a lieu that DBAG shares that DBAG held in GMM Pfaudler. They need permission from the bank before they sell those shares, and that means something that has been part of the rollover debt package that came to us. But the Indian promoters have no shares that have been pledged.

Moderator: Thank you we have the next question from the line of Rahul Jain from Anand Rathi. Please go ahead.

Rahul Jain: Can you comment on performance of Mavag in Q1 specifically and how was it demand environment there?

Tarak Patel: So Mavag has a backlog of close to 40 million Swiss francs and the performance and output has obviously been quite good like rest of Europe and the US. They did face a little bit of margin pressure due to the higher material costs, but that should also stabilize in the next few quarters, and they have a very strong visibility, both in terms of execution, but also in terms of the order backlog that they have. So, all in all they have a strong the performance as well.

Rahul Jain: Can you give the breakup of international order book like between PFI and others? What you used to give?

Tarak Patel: I don't have those numbers with me, but again, just to give you an overall view. I think the order book stands are quite well balanced between the three large geographies that we cater to. The America, Europe, and Asia Pacific where we can include India and China in that, so that's 1/3 rd-1/3rd and 1/3rd, so it's quite evenly spread. And again, like I mentioned earlier on, it's well spread between our technology businesses, our service businesses, as well as our system segment. So it's quite well balanced and there's not one specific region that has kind of outperformed the others.

Rahul Jain: Sure, Sir, one more question about the forex revaluation gain. Again, how much was it?

Tarak Patel: The pension?

Rahul Jain: FX revaluation gain, which was reflected in other income, so how much was it?

Tarak Patel: Wait for a few minutes I'll come back to you on that.

Moderator: Thank you we have the next question from the line of Akshay Kothari from Envision Capital Services. Please go ahead.

Akshay Kothari: So do we see any improvement in working capital cycle going forward?

Manish Poddar: We will not be able to further improve from the current level simply because while you see the metal prices, cooling off and all that, and maybe in two three quarters, that will happen but by then the group you know trajectory would have been asked for a more working capital from that perspective. So therefore I think if we could maintain the working capital cycle that should be fine. And most of these cases as we have been disclosing in our half yearly numbers, the inventory, so we have a lot of advance from customers as well so as to mitigate the working capital crunch.

Akshay Kothari: OK, and so you did mention about the new businesses and it will be operated on a fermentation part. Could you please elaborate on paints, bioplastics, food and beverages as well? How are we seeing opportunity?

Aseem Joshi: So on paint certainly we're seeing a fair bit of demand both for mixing business and also for some of our reactor vessels. We've won a few orders in mixing, in particular from some of the newer paint manufacturers or some of the newer facilities that paint manufacturers in India are putting up. So we see this as a good growth vertical for businesses like mixing. And bioplastics is still nascent for us. We are doing some exploration there. I won't be able to comment a lot more on bioplastics right now but with the new acquisition of HARI I think there's potential to expand our footprint in that space as well.

- Tarak Patel:** So just to add to that, so Asian paints, obviously is setting up new manufacturing facility so we got large orders from them, and then also now Grasim is planning investment in the paints. So that also is driving new order intake in the mixing segment from them as well.
- Moderator:** Thank you. We have the next question from the line of Jiten Parmar from Aurum Capital. Please go ahead.
- Jiten Parmar:** Yeah, two questions. I think the first one is answered regarding the other income of 28 crores if you can just throw more light on it whether this is something which is one time and second question is basically what are the margin for the business outside India.
- Manish Poddar:** On the other income that 28 crores that you're talking about is primarily on the accounts of the Euro loans that we have. It's something like I think \$2.6-2.7 million gain. Something like 20 to 23 Crore rupees that we have in this quarter. Primarily this is MTM, revaluation of a liability and that's related.
- Jiten Parmar:** So the other question was on the margins for business outside India.
- Tarak Patel:** There has been a margin improvement in the international business compared to previous quarter and we hope to maintain margins both in India and the international business. We are focusing internally on our cost structure. We're looking at being more efficient and trying to control whatever we can in house so that we can maintain margins and then eventually when metal prices would have cooled off that if energy costs come down, then obviously that will see a nice bump up to the margin profile as well.

Jiten Parmar: OK, so what I get is that you will try to maintain these margins. Can you give a number? Is it quantifiable? How much is the margin for the business outside India?

Tarak Patel: So the business outside India is currently at a 10% to 10.5% margin and India is at about the 16%-17% margin.

Moderator: Thank you. We have the next question from the line Saurabh Shah from AUM advisors. Please go ahead.

Saurabh Shah: The first question on, you know the integration plan when we acquired Pfaudler. You know there was some short term targets and I think there are some longer term targets in two years etc. I just heard that you expect to retain margins at this level. I wanted to check with you are there any long-term integration kind of process is still underway, or you think most of them have been finished in terms of moving production to some extent in India or reducing outsourcing and they know this is outside that gas price bump up and other things that might happen. So just from the integration plan where do you see yourself for the next one or two years.

Tarak Patel: So for integration standpoint our major project that we had is now completed and we've kind of made synergy and integration kind of part and parcel of our daily work and it's not something that we kind of really focus on. But yes, it's still important part of growing our business, both from a revenue standpoint and also from a profitability standpoint as well. So there are multiple things that are in the works that are continuing to kind of gain traction and the momentum. So like I mentioned very early on we had a budget of India sourcing from Europe and we've already crossed, I mean the entire year's or the budget was already

crossed in the first quarter. The opportunity pipeline for India made value sourced equipment is at an all-time high and we hopefully will convert some of these to hard orders in the next few months so. All in all, India sourcing is continuing quite well. On top of that, as I mentioned earlier on, we are being a stock and sale program. Germany is going to stock Indian made vessels in Germany. So when, the customer needs something quickly overnight, they can turn it around and obviously sell it to them very, very quickly. So that's something that we are working on as well. On top of that we also have components being sourced from India, nozzles and other the metal parts. It gives Pfaudler two advantages. One is obviously a price advantage, but the other thing is also just to create a second vendor for them. So that's something that's ongoing. On top of that, there are multiple other kind of synergies that we are working on. like trying to move engineering to India as well, kind of creating low cost kind of back office is here to help and support some of the teams in Europe and in the US and then I would say from a synergy standpoint we also launched our new brand, our profile. We have now a single website in place. We now have a globally ESOP program as well, so I mean getting the company together, trying to have everybody under the same kind of platform also create good synergies within the group.

Saurabh Shah:

One additional point on the sales side; are we doing anything with this new acquisition. It does sound like you have a much wider product kind of basket. So are you investing in creating, especially in the US or elsewhere larger sales efforts we just give us a sense of what you plan to do in the next 12 months. That would be great.

- Tarak Patel:** I think with the sales, network is already quite strong both in terms of having our own sales teams, but also agents and as well as reps. So we have a pretty extensive network. We obviously keep looking at certain areas where we are not well represented like Southeast Asia was one example where we've added people as well. In India we kind of add people. But you're right, I think for some of these new age technologies we might need to bring in expertise from outside the industry, who can really go and kind of tell the technologies to new industries that we don't normally cater to. So, I think from that standpoint, yet we will need to add people who know these industries quite well, like for example bioplastics or plant-based protein, the green technologies for some of these other kinds of processes. We might have to bring in external help as well.
- Thomas:** I could confirm that we are opening some new positions created in Europe as well as in the United States and also in China where we are now working with advisors and contractors to fill those positions, and the skill sets that we are requesting from the new sales people are paying in some insights in the market that we are going to solve so we are already in the mode of increasing our sales force in place power.
- Moderator:** Thank you. We have the next question from the line of Ashit R Kothi with an individual investor. Please go ahead.
- Ashit R Kothi:** Two quick questions. One is on interest cost. And the second one is on green solutions.
- Manish Poddar:** So, interest in India is just under 7% and interest costs overseas is approximately 5% and then coming to green technology, so one of the things that this company that we just acquired does is kind of promote green technologies from very

specific processes of meat industry, starch industry. They kind of reduce the amount of water that's being used and create a much more efficient process, so this is one area that we could sell this product into and give the customer a kind of a better process and more efficient process to work with than their current processes and from the ESG standpoint as well this would be quite nice story where you are actually conserving water and creating new efficiencies as well.

Moderator: Thank you we have the next question from the line of Siddharth, an individual investor. Please go ahead.

Siddharth: I want to know if it would be possible for you to give me a number regarding the new acquisition in the market size that you foresee for the company and what it could be adding to the India company.

Tarak Patel: So the current size of that business is about 7-8 million euros. The market obviously is large across the world, so I can't put a really number to it. But we believe that this business could double in the short term, and that's what our focus is on the back of having a much larger sales network as well as having a little bit more financial clarity will give this company the ability to take in more orders and grow their business.

Siddharth: Just a follow up to that. Have you received any sort of interest regarding orders in these fields from say Ethanol or biofuels in India or anything else from the other geographies?

Tarak Patel: So India specifically, we get a lot of inquiry to many different applications, but they this community acquired have already supplied plans to India to customers like Aurobindo and have quite a few more as well. So they already have a

presence in India. So, we can start building on that already strong foundation that they have got and kind of talk to some more clients in the pharmaceutical area where they have a very strong presence as well.

Moderator: We have the next question from the line of Jason Soans from our Ashika Group. Please go ahead.

Jason Soans: You did mention a new initial remarks investments are coming back to US and Europe we did speak about that last time as well in terms of the aftermath of the Covid crisis, lot of stagnant economies that I mean processes especially the high and critical work. So just wanted to know your comments on the sustainability of this trend. Obviously it will benefit us in a lot of ways that we have the network all over now, so just wanted your comments on how do you see the investments happening more in the developed economies.

Tarak Patel: Heading to your first point that our aftersales business has picked up, it was much lower during the COVID times because our people were not allowed to go and visit factories and people are not allowing engineers and service people who come into factories. Now that since it opened up will obviously create a whole kind of new revenue stream which was earlier not there, so that's definitely a positive, and you'll already see that in our servicing business. The chunk of services business has increased already, so that's definitely a positive sign, but like I mentioned to you earlier, the situation in spite of the global economic environment still remains very strong for chemical and pharmaceutical companies, both in India and in Europe and our ability to cater to these industries now put us in a very strong position. So even making headway into some of the low-cost markets like Spain or Eastern Europe or even Singapore for that matter, or some parts of South America we've had major

breakthrough since we acquired the Pfaudler group, because obviously now we have a much wider range of products that we can offer, plus a different cost structure. So if there was a client that could not kind of would not buy a German made equipment now has access to an Indian made equipment or a hybrid version. So there's multiple different offerings that we can play with and that puts us into a very strong position as well.

Moderator: Thank you we have the next question from the line of Denzil Rodrigues an individual investor. Please go ahead.

Denzil Rodrigues: I have a couple of generic questions. Can you please share your views on continuous flow reactor technologies? Can the reactors be scaled up for large scale industry use? Our contribution to it and the opportunity size. Also, have you seen any increase in enquiries for your glass-line flow reactors?

Tarak Patel: So a good question, and not that the generic actually, so continuous flow reactors are being talked about definitely more now. But again, replacing batch reactor with continuous flow reactors is something that will take a lot of time, however we already have technology available within our network of continuous flow reactors, we recently had a seminar here in Bombay where we were kind of showcasing our capabilities in continuous flow reactors. We also have a new company that one of our group companies has acquired in the UK that does specific work on continuous flow reaction and filtration as well, but that's something that we will continue to build on. It's a nice technology. There are a few small Indian companies who are already talking about it. It is really being converted to order I can't feel that it has been, but for the future, I think it's definitely an area that we should focus on and try to build some technology in that area.

Aseem Joshi: Just to add we are monitoring this trend very closely because there's inherent advantages to continue flow reactions over batch, and we're ready with the product we have a glass line continuous flow reactor, first of its kind in the world that we that we offer in fact we have already sold one unit. As in when this change picks up and we're ready to serve the market when it comes.

Moderator: Thank you. I now hand it over to the management for closing comments.

Tarak Patel: Thank you everybody for this conference call. We'll talk to you again next quarter and in the meantime, if you have any further questions, please feel free to reach out to IR team and we'll be happy to answer those questions as well. Thank you for your time. Good afternoon.

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