



“GMM Pfaudler Limited
Q2 FY ‘23 Earnings Conference Call”

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MANAGEMENT: MR. TARAK PATEL – MANAGING DIRECTOR – GMM PFAUDLER LIMITED
MR. THOMAS KEHL – CHIEF EXECUTIVE OFFICER - INTERNATIONAL BUSINESS – GMM PFAUDLER LIMITED
MR. ASEEM JOSHI – CHIEF EXECUTIVE OFFICER - INDIA BUSINESS – GMM PFAUDLER LIMITED
MR. ALEXANDER PÖMPNER – CHIEF FINANCIAL OFFICER – INTERNATIONAL BUSINESS – GMM PFAUDLER LIMITED
MR. MANISH PODDAR – CHIEF FINANCIAL OFFICER – INDIA BUSINESS – GMM PFAUDLER LIMITED
MS. PRIYANKA DAGA – DEPUTY GENERAL MANAGER - STRATEGY FINANCE – GMM PFAUDLER LIMITED

Moderator: Good day ladies and gentlemen, and welcome to the Q2 and H1 FY '23 Earnings Conference Call of GMM Pfaudler Limited. As a reminder all participants lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priyanka Daga from GMM Pfaudler Limited. Thank you, and over to you, ma'am.

Priyanka Daga: Thank you, Michelle. Good evening, ladies and gentlemen. A very warm welcome to all of you into the Q2 FY23 Earnings Call of GMM Pfaudler Limited. The earnings presentation was uploaded on the Stock Exchange last evening 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 Pömpner; and our CFO of India Business, Mr. Manish Poddar. 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 and on our website, including our call discussions that will happen now, contained 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, and good afternoon to everybody. We are happy to report a strong quarter with a revenue growth of close to 21% year-on-year. Our EBITDA margins have also improved to 15.2%, and our order intake has also increased 6% year-on-year. As for the order backlog, we stand currently at INR 2,119 crores, which gives us visibility for the next 6 to 9 months as well. We continue to see a lot of traction both in the chemical and pharmaceutical spaces around the world and we believe that both international business and the India business will continue to do well, which will be driven by these two main industries.

The international business has done really well this quarter, both in terms of revenue and profitability. Our European business, in spite of the higher energy costs and the cost reduction measures that we have taken, has done quite well. And we believe that looking into the future, the European business will kind of stabilize stabilize with energy prices now stabilizing and also kind of going down.

We've also completed the acquisition of Hydro Air Research Italia. This is a company that we had acquired a few months ago, that acquisition is now complete. This company deals in membrane separation system and opens new industries as well. We've also completed the acquisition of the balance 46% in the GMM International S.a.r.l.

As many as you know, GMM was a subsidiary of the company and now wholly owned subsidiary of GMM Pfaudler Limited with 100% of the profit accruing from Q3 onwards. We also have reaffirmed our credit ratings both by CRISIL and ICRA, AA- and A1+, respectively. We also completed recently our first Investor/Analyst Day, which was held in September 2022.

Now to give you a little bit more color on the numbers, both consolidated and standalone, I would like to invite Manish Poddar, our CFO of the India Business to take you through the numbers.

Manish Poddar:

Thank you, Tarak Good evening, everyone. So, to start with the consolidated balance sheet. We see NCI that the Non-Controlling Interest has netted that's because we just acquired the balance for the 46% of the Pfaudler International. So going forward, you'll see 100% of the profits accruing to us. Similarly, the debt has increased primarily on account of debt that we have taken in acquiring this stake. Pension liabilities have gone down substantially on account of rising interest rates and therefore the present value of the liabilities going down.

Moving on to the goodwill and intangibles there have been some addition on account of the Hydro Air investment that we made in Italy. Similarly, talking about the few ratios, the net debt is INR 767 crores gross minus INR 300 crores cash, say INR 467 crores and so net debt to equity stands at 0.7. Net debt to EBITDA stands at 1.1.

Moving on to working capital. There's a slight increase in the working capital. Some debtors need to be recovered in the standalone business for India. There have been some increases in the working capital overall, primarily on account of heavy engineering taking larger share of the business.

And then moving on to the cash flow. So there has been business cash generation of INR 231 crores and the investment of INR 251 crores on the working capital and capex and the balance has been primarily on account of repayments of the debt and the interest thereon.

Moving on to dividend and the EPS. We have the annualized EPS would turn out to be something like say, INR 50 if we just annualize it for the H1 deferrals and the ROE and ROCE has also improved substantially to 29.2% and 33%. That's it for me. Priyanka, do you want to take it?

Priyanka Daga:

Thank you, Manish. Michelle, we can now open the line for questions.

Moderator:

[Operator Instructions] The first question is from the line of Venkatesh Balasubramaniam from Axis Capital.

V. Balasubramaniam:

My first question is to Manish, more like a book-keeping question. I believe that if you actually look at the numbers, second quarter numbers, your EBITDA is close to around INR 119 crores

for the consolidated entity. The standalone entity has done INR 42 crores, and Mavag and Pfaudler Inc. has done INR 70 crores. So, INR 42 crores and INR 70 crores adds up to 112 and there is another positive INR 7 crores.

So, is there anything else in the company that we are missing here? Because ideally, if you look at the numbers, last year usually, when you added the numbers which you gave in your standalone EBITDA and your international EBITDA, you had to actually do some elimination of INR 6 crores or INR 7 crores to get the consolidated EBITDA.

But since the first quarter of the current year, it's slightly different. When you add up your standalone numbers, which you put in your PPT and the international numbers, you can actually add a small number to get to the consolidated EBITDA. So, can you please explain this?

Manish Poddar:

Yes. Good catch, Venkatesh, yes that's true. That is primarily on account of accrual accounting concept per se. So, what happens is, when you export from India to say, Germany or US in this case, so you accrue to the profit in the standalone business in the earlier quarters.

However, in the consol, you get the profit -- the entire profit of standalone and international business once you sell it out from the group, which happened in Q2. So therefore, the shipments for which India shipped before Q2 and international business then moved out to the ultimate customer in Q2, the entire profits of standalone and consol accrued to this quarter. So that's where the INR 7 crores of positive is there. You may see this small number positive or negative, depending upon-which quarter was higher or lower, going forward as well.

V. Balasubramaniam:

Now I also remember that Mr. Patel had given some kind of colour after the first quarter result, here he said that as of now, you are executing your orders with higher cost inventory of steel and you are expecting that given steel prices have come down, third, second half of the year, your margin should be better. Now you've already got to 15.2% consolidated margins in the second quarter. So, is it reasonable to assume that margins can go up even further from here in the second half? what exactly do you expect happens to the standalone numbers because, which are contracted quite sharply on a Y-o-Y basis in the first half? So, are you expecting that to improve or you're expecting more of an improvement in the international part of the business?

Manish Poddar:

Venkatesh so, I think, Y-o-Y comparison for standalone maybe a bit of an aberration simply because that was the first two quarters of the year of FY22 where we got the rise, but we're still consuming the old plates. And now exactly that the opposite has happened in these two quarters of this current financial year. And that's why you see that huge difference between a 25% and 16.5%, 17% sort of a number. We expect this to normalize in second half of the year. So for Q3 and Q4, we should see maybe improvement there on a standalone basis. International business has already enhanced its performance to something like 13%. So, we expect something like 12%, 13% to continue for them as well.

V. Balasubramaniam:

Just one last question, if I may. What would be a reasonable effective tax rate for the full year for the consolidated entity?

Manish Poddar: Yes. So effective tax rate, something like 27%. If you're alluding to this quarter per se, so there has been a deferred tax credit, and there's a much lower percentage, but that's not a true reflection of a sustained basis. On a sustained basis, something like 27% of an effective tax rate is reasonable.

Moderator: Thank you. We have the next question from the line of Utsav Mehta from Edelweiss AMC. Please go ahead.

Utsav Mehta: I'll just continue on the previous question. So, does that mean that from what you reported in this quarter, the international margins should sort of normalize back towards 12, 13? That is India will pick up. Is that correct? Is my understanding correct?

Manish Poddar: Yes, that is correct, that international business has already, improved considerably in recent past from 10%.

Utsav Mehta: No, I asked because it's at 15 right now. This quarter was, I think around 15-ish, sorry, not 15.

Manish Poddar: 15% is the consol number, international 13%. India is at 16.5%. So, India, you can expect 16.5% to go up and the international business primarily, you may expect to sustain.

Utsav Mehta: Sorry, I was adding INR 5 crores to INR 7 crores.

Tarak Patel: No, you're right. INR 7 crores will give you that differential...

Utsav Mehta: Sorry, you were saying something?

Tarak Patel: No. So, I say, yes, that INR 7 crores is going to give you the differential as well between the numbers.

Utsav Mehta: That may or may not repeat in the coming quarters, basically?

Tarak Patel: Yes, on the steady state.

Utsav Mehta: Tarak, I just wanted to check. So, it's been four quarters running the order book, on an absolute basis, it's around INR 2,100-odd crores. If you could just provide some flavor in terms of, where do you see this number go. What does it take for this to go to INR 2,300 crores, INR 2,400 crores, INR 2,500 crores? Is there enough in the market for this number to continue to go up?

Tarak Patel: Right. So, I think, on the order front, I think, like I mentioned to you, I think we already had quite a sweet spot for the international business. I think having any more backlog means longer delivery time, so that would not be the right place to be at. But I think where we could probably grow order intake is here in India. I've spoken about this in the last few conference calls, where I've said that we have been very selective in terms of glass-lining business to an extent where we have said no to customers when the price did not meet our requirement. And having said that, we were also waiting for some of the larger projects to come through from our key clients. So that when those large projects do materialize, we have enough capacity for that. We've just

started seeing a big, large order intake happening in the glass-lined business here in India. So, I think, looking forward, you will see the India backlog increase, which is right now currently for the glass-lined business around four months, but being around four and six months for is just the right the sweet spot. So, I think we still have some capacity here in India to increase order intake. And I think the glass-line area here in India is going to be a big driver for us in the next few quarters.

Utsav Mehta: And if I'm not mistaken, the Karamsad furnace now we should be able to take on more in terms of the amount of orders we can take, correct?

Tarak Patel: Right. So, I was actually going to say this in my opening remarks, and it completely slipped my mind. But yes, we have now commissioned the 80,000-liter furnace, which is India's biggest furnace, and obviously, will cater to super large vessels, not only for India, but also for the international business. We've actually received an order for 3 x 80,000-liter storage tanks. That's already in our books, and fabrication has started. We're expecting another 5 x 80,000 liters. actually, the timing has been just perfect because as soon as we start, this furnace came online, these orders have now come in, so yes, that will also help us improve both our shipment and the number of EUs that we have that we can manufacture here in India.

Utsav Mehta: Fantastic. And just one last question. Apart from receivables in India, I've also noticed other financial assets sort of increased by INR 50 crores over the last six months. Typically, this tends to be unbilled revenue. I just wanted to clarify what this number is?

Manish Poddar: So, receivables, of course, have gone up primarily. There's some collection that we need to make, and we expect this to improve in the coming quarters, and that is one. But you see, you're right, the unbilled revenues have also scaled up overall in the business, both in India and international business.

Utsav Mehta: And this is just to do with the scale at which we are operating

Manish Poddar: I think there's some 90 crores of POC addition that has happened in this H1, and we expect this to maybe something like 30-40 crores improvement over in H2, but that beyond that, should remain in the business.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management will be able to answer questions from all participants. Please limit your questions to two per participants. Should you have a follow-up question, please re-join the queue. Thank you. We have the next question from the line of Tanayaa from Marcellus Investment Managers. Please go ahead.

Tanayaa: Just a couple of quick questions. So, if I look at our standalone business, though other expenses, just above the EBITDA, they have gone up by around INR 20 crores on a yearly basis. Could you kind of provide some color on that?

Manish Poddar: Yes, expenses have increased by INR 20 crores, primarily on account of power and fuel, if you refer to where we were last year, Y-o-Y. And this increase is also primarily because in heavy

engineering, again, the combination of change is taking an impact. And also, there's some freight outward because we had a larger export shipment. So, freight outward particularly in this H1 or Q2 actually has been also higher.

Tanayaa: And sir, the pension liability reduction on the consol level, just purely because of interest going up, you haven't funding or cash outflow to kind of get this number down. Am I right?

Manish Poddar: Right. So, this is purely on account of the interest rate results.

Moderator: Thank you. We have our next question from the line of Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: –So if you could just give us some color on the demand outlook for GLE overall. So, you had earlier in the Analyst Day as well as spoken about the slowdown in the Pharma segment in terms of demand and order intake. So just a brief outlook I would want, especially amid rising costs, inflationary environment as well as whatever is happening in Europe. Just wanted to understand what's the demand outlook for pharma and chemical both from the end user segments?

Aseem Joshi: I'll start with India, and maybe Thomas can add on the international business. As far as India is concerned, Tarak mentioned earlier, we've been careful about selecting the right set of orders. So, we've made sure that we fill our factory with the kind of orders that we like. Now in recent times, we started seeing a pickup of some of the large projects that we saw on the horizon, and they're starting to move forward. And in fact, one of the big orders that Tarak talked about, is one such project. There are several more that are on the horizon, and we feel we are competitively placed on that. So, I think from a demand perspective, especially for larger projects, we are starting to see reasonably good movement. Of course, some of the smaller projects, run rate business we're still sort of still at a sluggish pace the large projects are picking up, right. And Thomas, would you like to address for the international business?

Tarak Patel: So maybe I'll kind of take that. So, Jason, you're right. So like Aseem mentioned, pharma has been a bit slow. But we have seen some kind of traction, mainly in the PLI schemes that has been launched, especially in penicillin here in India. So, three large orders for penicillin manufacturing, fermentation that we've got. But pharma has been much-much slower. We see the main drivers for us have been the chemical industry, both agro and specialty chemicals. And the large project that we speak about are also kind of for this specialty chemical kind of large projects, right. Also, what we've done now recently we supplied the first lot of our stock and sale vessels to Europe. So, 24 equipment have been ordered in India, which will be stock and sold in the European facility and will be sold when customers have a breakdown and if immediate need for a replacement. So that's worked out quite well. But generally, across the board, I think our chemicals will account for nearly 60% of our total glass-lined sales, and pharmaceuticals will account for nearly about 25% to 30%.

Jason Soans: And one question what I wanted to ask you is, I mean, we are seeing pretty good traction in the international business. So, in terms of revenue growth and margin growth also, which is around 9%, 10%, is now moved up to 12%, 12.5%. And this is in a phase of an energy prices already

growing in Europe. So, I just wanted to know what are you doing different so that to gain such a positive performance?

Tarak Patel:

Yes. So, I think I'll maybe start off, and then if my German colleagues are online, they can kind of just build on that. But we have taken some measures. So, in Germany, itself we have gone down to a 4-day work week. So, we actually have less number of hours. I mean with the same number of man hours being used, so they work longer hours, but one day is additionally factory is closed, which obviously helps us reduce our consumption of gas and energy. In terms of pricing also, we've kind of built in all these material and energy increases into our pricing, and that's also helped us. And then on top of that, we've added new businesses, small businesses through M&A, which are now showing a good amount of turnaround and growth and that's also helping improve profitability.

The last thing that's also changed significantly is the services component because of the pandemic was smaller in terms of the pie, they were smaller. And now we see a lot of factories opening up and the services part of the business is actually growing. And as you would know, services are definitely more profitable than the other businesses, right? Thomas, Alex, if you're on, if you want to speak maybe a little bit about the energy situation in Germany?

Alexander Pömpner:

This is Alex, not so sure if Thomas is in again. In fact, what you said I could definitely echo this. And with regard to the energy situation in Europe, I think, finally, we face an increase already since end of last calendar year, became really strange from February, March, April onwards. But nevertheless, we, currently, we're even, in this situation, with this higher energy cost and able to increase the margin. It's partly due to the shift just that they have a higher share of service business. But nevertheless, we were already behind 2% on some margin improvement, and this now drops through. So, it currently overcompensates the energy cost increases. And now looking forward, that the energy costs stabilize or even they reduced in the last weeks. So, we are confident that the outlook remains positive.

Jason Soans:

Then just two more simple question. Just wanted to know about the ramp up in the Vatva facility. And now that GMM has taken over the remaining 46% stake, and this is going to reflect from Q3. So, are we not going to see any non-controlling interest? Just wanted to clarify.

Tarak Patel:

Yes, exactly. So, I think, currently, 46% is removed for non-controlling and now you see 100% accrual from Q3 onwards.

Jason Soans:

So, we will not see any non-controlling interests, right, from 3Q?

Manish Poddar:

Yes, for non-controlling interest has been eliminated on 30th September, as of 30th September as well. So, in the balance and 1st October was the entire profits accrued to the organization.

Aseem Joshi:

Yes. And as far as Vatva is concerned, we're very pleased with how the site is progressed. As you now, we've taken it over a little over 18 months ago. And since then, the ramp-up has been really to our expectation. So, the site is now full. We've had a number of orders that have already been executed and shipped from there. And we've, in fact, broken the record, in some cases,

about the size of the equipment that's been shipped. So overall, we're very pleased with the way it is progressing.

Moderator: Thank you. [Operator Instructions] We have the next question from the line of Saket Reddy from Polasani Enterprises. Please go ahead.

Saket Reddy: Congratulations on good results. There's one thing in the international balance sheet. Pension liabilities. Can you explain how is it treated in the P&L? If it is treated on the P&L?

Manish Poddar: Sure, Saket I'll start off, and then maybe Alex can jump in. So typically, these are non-funded pension liabilities, primarily in Germany. And these are closed plans, and no new employees are being added to the plan & existing employees age is approximately 80 years. And the accounting treatment is basically – as the interest rate rise as you would imagine, present value of the future liabilities goes down, and that gain accrues the OCI, Other Comprehensive Income. And then the balance sheet movement happens.

Alexander Poempner: Fully correct. In fact, on what we see in the balance sheet will start that assumption or the actual report and changes, and it is especially driven due to the change in the interest rate as Manish already mentioned that the participants and the number of participants will reduce over time just because they pass away. The plan is closed, and now we just have changes due to the interest rates. But from the cash perspective or there an impact on the income statement it's no further impact.

Saket Reddy: Tarak, I think in H1, you did around 11% margin in the international business. So, any further impact on the trajectory there?

Tarak Patel: Yes. So, I think the international business has already shown a strong recovery. I think both revenue growth has been significant and profit improvement as well. We are looking to fine-tune our product portfolio. There are definitely products that we need to bring up to the level in terms of profitability. We are working on those. We have put in a lot of effort over the last maybe a few years. And we believe that some of the things that we have done will start showing results in the next few quarters. So again, the focus area to really improved margins is to really focus on services and grow that part of the business, and then obviously, our non-glass-line business, right. Because that's where we can really grow. We have small market share. We have the small products, which really can be global, can use the Pfaudler global network and be sold. And we're seeing a good amount of growth that will come from there as well. But all in all, I think all the product lines have done well. We also now, thanks to new acquisitions, we've made have access to new industries, right So I did speak about some of this in the past, but these kind of sold products now to meat companies that make a plant-based meat, we sold products to the bio-plastics space. We also made inroads in metals and minerals in terms of also power, we've had a large order here in India. So, all in all, I think in spite of the investment that's going on in our core industries, which is just chemical and pharma, we are also trying to move into new industries that will help us kind of diversify and make sure that our growth is on track.

- Saket Reddy:** And my last question on the services part. So, if you look at your revenue breakup and also the order intake breakup, in the standalone business, services are pretty low compared to international. So, it's in low single digits, low to mid-single digits, whereas the international business itself is around 30% or 40%, if you look at revenue or order intake. So why is such heavy divergence, which is a high-margin product?
- Aseem Joshi:** Saket, you're right. So, this is definitely an area of focus for us. Historically, the service, customer behavior in Europe and the US has been different relative to India in terms the amount of service that they expect from the OEM. Having said that, we recognize that single-digit service as a percent of our business is low, and that's certainly an area of focus for us. In fact, just this quarter, we have made some changes to organization and appointed a service leader in the India business, which is very similar to how the international business also runs it. And so, I expect that with the focus that this individual will bring, we'll start to see an improvement here. In fact, we're already seeing it. And it's really about the approach to our customers, the analysis of our installed base, our service offerings the appropriate pricing, etc. All of those actions are now underway. So, it's certainly an area of opportunity for us, and we are working on it.
- Saket Reddy:** And just one last question on the shareholding. You've completed GMM international acquisition. So now how the shareholding structure looks like? I think Patel's family has 24% and the rest of the promoter's stake would be with DBAG, is that correct?
- Manish Poddar:** The balance 31% as of now is with DBAG, correct
- Tarak Patel:** So just to add to that Saket, the Patel family have increased our stake. We were around 22% something, now we are at 24.2 through the pref-allotment that we recently did. So, our stake has gone up. And the balance is with the public out of which, I think, 18, if I'm not mistaken, Priyanka, maybe you can correct if I'm wrong, is with FPI and we have mutual funds about 5%-6% and then obviously, all the other institutions and public.
- Saket Reddy:** And DBAG is committed to stay with you? Is that right as of now?
- Tarak Patel:** Yes. So, when we did this transaction, we have signed a contract and an agreement where we have a 3-year lock in, and they are committed to the business.
- Moderator:** Thank you. We have a follow-up question from the line of Venkatesh. Balasubramaniam from Axis Capital. Please go ahead.
- V. Balasubramaniam:** Yes, I had a couple of follow-up questions, if I just look at the India business of glass line equipment, and I actually look at the business of one of your largest competitors here, HLE Glascoat. If you notice over the last 1.5-2 years, when you've been busy in consummating the Pfaudler Inc acquisition, HLE Glascoat has grown at much faster pace than your glass-line equipment in India part. So, have you been losing market share in India? And is this a cause of concern? Because I also observed that actually HLE Glascoat, on an average, the India business meets almost 400 basis points lower margins than you. So, has your key competitor been cutting

prices and picking up orders and is this something that you worry about? This is the first question.

Aseem Joshi: Yes. So let me address this. So, look, I obviously can't comment on other businesses performance. What I would say is glass-line is obviously our largest business, and this is an area that we have been a leader in. We intend to remain a leader in. As we outlined earlier, we've always been careful about the orders that we use to fill our factory with, and we'll continue to do that.

So, we are quite satisfied with the performance of our glass-line business. Our Hyderabad factory is also now ramped up nicely. And so, we have used our capacity to satisfy the right kind of customer needs, including some of the export orders that we have started to ramp up on.

V. Balasubramaniam: Okay. What exactly is your capacity in terms of equivalent units currently in India?

Aseem Joshi: With this new furnace that we have now commissioned, we should be up to about 2,900 to 3,000 EUs per year.

V. Balasubramaniam: Okay. And what kind of utilization are you currently at?

Tarak Patel: So, I think in terms of utilization, I think both the Karamsad and Hyderabad facility are close to 80-90% 80%-90% utilization. Obviously, now with this new furnace that has just come in, in Karamsad, that number will drop. So, we are at pretty much very high utilization across all our plants in terms of the glass-line business, where we have very large backlog.

V. Balasubramaniam: Now just one last question from me. I think this question was asked. I just put it across in a slightly different way. Now obviously, the continent of Europe is under severe stress. I mean what is the war, inflation, energy prices going through the roof and the kind of news which we keep reading in terms of end industry, a lot of industries shutting down, things like that.

Now, are your customers basically in the chemical industries and the pharma industries, are they having any ~~of~~ these companies having stress? And if they are having or understate how come it is not impacting your numbers? So, what exactly is the key driver for this very good growth? Because almost 39%, 40% of the consolidated numbers comes from Europe. So, some colour on that would be very helpful.

Tarak Patel: Yes. So, I think some of the news that we get here, obviously, maybe gets blown up a little bit and there is also a lot of the fostering that the happens. But on the ground, what we are seeing today is that customers are finalizing new orders. New factories are being set up, just to give you an example, if I think one of our companies, the Swiss subsidiary, is actually finalizing an order, I'm not mistaken, which is going to be delivered 2.5 years from now, right. So, people have that long-term visibility. People don't even need it immediately, and they're willing to wait. But the order book that we have, gives us a lot of the comfort, right. So that the next 6 months, 9 months in different regions, we already have orders on hand, and our focus really shift to the execution, right.

Are we seeing anything on the ground that tells us that they're going to slow down, things are not looking that bright? I don't think we're seeing any of that right now. The opportunity level, the interest levels, the inquiry that do continue to flow in are of pretty much the same level. The only thing that we probably see now is that the time it takes to finalize something is slightly longer than earlier.

People may take a few months more. That's really the only the difference that we see. And just coming back to India, again, like I mentioned, chemicals have a lot of new projects. Obviously, we work with the host of the chemical companies, and many of them are and have plans to expand further and invest more and more in terms of building new facilities. And obviously, being a major supplier to chemicals, we will definitely benefit from that.

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

Harshil: The government in Germany is aiding companies which are you know keeping the plant shut. So, are we receiving any kind of incentives from the government?

Tarak Patel: No, nothing right now. But the government and what we hear, especially in Germany, there could be a bailout the package that could be kind of a program where the government will step in and help some of the companies who are facing a lot of pricing issues and production issues, but nothing that we have seen. Like I mentioned earlier and what Alex said as well is that we're actually seeing the prices now stabilized energy costs have stabilized. And in the last few weeks have also come down. So, we kind of believe that we are actually past the highest level. So, anything further improvement will have a good impact on the rest of the year as well.

Harshil Shethia: What I wanted to understand is, is there any kind of government subsidy in our margins, which is why we are hitting kind of 12, 13% margin subsidy.

Tarak Patel: No, no government subsidy

Moderator: Thank you. We have a follow-up question from the line of Tanayaa from Marcellus Investment Managers. Please go ahead.

Tanayaa: Sir, on the international business front, you had several new smaller businesses, which are showing good traction apart from your glass-lined equipment business. Could you just kind of go into a little bit more detail on that? And related to that, next question you have tech services system, technologies of that we have been world number one for ages. How do you see growth in system specifically, which new business at kind of dragging attraction?

Tarak Patel: Right. So, I think maybe let me just kind of take you through what we have in our portfolio. So obviously, we have two new acquisitions that we made. Hydro Air is obviously in membrane separation the technologies. That business is about \$8 million or so. We expect to kind of double that business in the short term. So, they are doing a lot of nice and interesting work that will help us not only internationally, but also here in India. They do a lot of work in bioplastics, in bio meats, proteins, EVs and things like that.

So, it opens up a whole new industry segment for us. So that's where we believe our growth will come from. Having said that, we already have a strong foothold in chemical and pharmaceuticals. So, it's definitely a complementary product. The other product that has done exceedingly well is a product called Interseal, which is the sealing technology that we've launched here in India as well. They recently won a very large order, about \$2 million worth with a large German customer.

And in India also, we are finding that there are a lot of interest, and we've also got orders, I think, 20 seals in India. So again, a small business that was about \$3 million is now trading around maybe \$10 million, \$11 million. So, we've grown that business in a very short period of time.

We decide that we also have some smaller businesses. They are not brands per se, but these businesses are small, and they grow quite quickly. They're quite profitable as well. So, we have plans on growing those businesses as well. And in terms of the system business, I think that has done quite well. I did mention to you in the last quarter call that we received our second acid recovery or the year around INR 20 crores plus from a power company. Right? So, this power company, they currently had sulfur that actually goes into the air, which they now want to convert into sulphuric acid, and we got a large chunk of that project because it's also brings into the glass-lined equipment space as well. So, the system also remains an important part.

That's where we really kind of move up the value chain. And since we offer process know-how and technology, they can definitely command much better margins. I think Aseem maybe want to add something to that.

Aseem Joshi:

Yes. So just on this last example that Tarak talked about the acid recovery I'll add a little more color to it. So, it's a very interesting space because it's essentially a flue gas desulfurization application, which is essentially the smoke coming out of smokestacks is cleaned through scrubbers. And it basically creates sulphuric acid which is weak. And then that's where GMM Pfaudler comes in, and we actually help them concentrate that weak sulphuric acid into concentrated sulphuric acid, which can actually then be used.

So, it's an interesting application. It has the potential to scale. Of course, India is just starting off, but we are pretty excited about the possibilities and what GMM Pfaudler has to offer. Tarak talked about some of the other businesses around the bio meat, the plant-based meat, etcetera. That too is now new to GMM Pfaudler through the Hydro Air acquisition, but we see potential to scale that up reasonably quickly as well.

So, all in all, we have a portfolio now where we think we have a number of interesting bets that play on macro trends, and we believe we should take them forward. One moment, Tarak just going to add something?

Tarak Patel:

Yes. So just to build on that, I think we have some ideas in terms of how we further enhance our portfolio as well. I mentioned to you that certain businesses that don't fit that well and new businesses that fit better. So, we are always looking at opportunities and I think that's going to

be the cornerstone of our growth strategy as well as in M&A is in a very important part of our growth strategy. And we always have interest in increasing and improving our portfolio.

Moderator: Thank you. We have the next question from the line of Rohit from Progressive Share. Please go ahead.

Rohit: Two questions. First one is a follow-up. When you mentioned that there are certain businesses that don't fit the entire system that well. It reminds me of Edlon and its divestment. So, any update on that?

Tarak Patel: Right. So, Rohit, yes, Edlon was up for sale. The process is still ongoing. However, while this process has been ongoing. Edlon has done quite well. They do have a large order backlog and their profitability has also kind of improved significantly. So, we are still reviewing and we're still working on that when we have an update on Edlon, we will definitely let you know.

Rohit: My second question is related to Mixion - industrial paints and the development that you are doing with Mavag AG you can just take us through numbers in terms of millions or crores

Tarak Patel: So, I think Mixion is a business that has seen significant growth, and we'll continue to see a significant growth. It's a complementary product because it's mixing. It's used in the same industries that we cater to. We can use mixing in the glass-line business as well. It's very complementary. We will really like that business. It's quite profitable as well. And recently, we've had major breakthroughs, like I mentioned, not only in the historic chemical and pharmaceutical industries that we've got into fermentation, we've got into Metals & Minerals, we've got into paints. And I think I can continually say that today in India, we would probably be the biggest mixing player in the market.

So Mixion is definitely a focus area for us, growing this business not only here in India but internationally as well. And we do need to probably look at building the resources and capabilities, but this business, on a long-term view, is something to be very excited about.

Rohit: Currently, approximately what percent of turnover is coming from Mixion?

Tarak Patel: In India, I think last year, we did about INR 60-odd crores of revenue this year should be twice as much. So, we have a very large order backlog. The business is doubling in size, if not more and we wish to really grow the business and become a large player in this space.

Rohit: And on the international front?

Tarak Patel: International front mixing is something that is quite small. We don't export a lot of these mixes. We have sold some to Europe and the US. But again, having a strong footprint in international business, we would probably need to have a little bit of local manufacturing as well. And that's where probably an M&A opportunity if it were to come up, would be very interesting for us. But yes, but mixing is something that definitely is on top of our minds right now. How do we grow this business and how do we become a relevant player in this market.

Moderator: Thank you. We have the next question from the line of K Ramesh Achar, an Individual Investor. Please go ahead.

Ramesh Achar: There was a talk about relocation of your Hyderabad facility some 2, 3 quarters back, and we haven't heard anything further. Can I know what's the position now?

Tarak Patel: Yes. So, the Hyderabad facility right now, there is no plan on the relocation, the Hyderabad plant, we've just invested and just commissioned a new furnace. We are also renovating some of the factory sheds. But our thought was that when Pharma City were to come up, we would then ask the government for land in the Pharma City so we could be close, obviously, to the industry that we cater to. As of now, there is no plan in place to move. And when Pharma City were to be available, we would definitely like to look at that as an alternative production facility.

Moderator: Thank you. We have a follow-up question from the line of Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: Just wanted to know in terms of margins and standalone results, we have seen quite a sharp dip from 25% around margins last year, now they're at around 16.4%. Just to wanted to know from you what were the reasons for the same one would probably be the higher steel prices and the higher cost of inventory which you've been holding. But some other reasons are that some of the Vatva ramp-up is you'll have lesser margins than GLE equipment, obviously, so that the product mix also has an impact on that. Just wanted some color on that, the margin bit?

Aseem Joshi: Yes, I take this I'll take it first. First of all, the basis for comparison this year is a little unfortunate last year, this time, we were really benefiting from the strong tailwinds, and we were achieving close to 25% EBITDA. That was quite abnormal. –And as Manish mentioned earlier, a year later now, we're seeing the opposite effect of the high commodity prices affecting us.

So that's probably the biggest factor, the commodity prices that have let us down. Yes, you also identified the second factor around product mix. That's something that was not unexpected. So, as we scaled up in some of the Equilloy kind of business, is probably not as high margin as our traditional business. But these are things that we are addressing, and we are confident that as we continue our sales strategy around being selective around orders, we will be able to get back on track. Manish gave an outlook for the rest of the year already, where we expect to see a continued improvement in margins in the standalone business. So, we feel pretty comfortable that we're on track to do that.

Jason Soans: So, Manish did give an outlook for the margins. So, in terms of margins, probably we'll be looking at an effect from the standalone entities and probably international margins, we can at least expect them to be steady, steady stage from hereon?

Aseem Joshi: Yes, I think that's broadly what we expect.

Jason Soans: And just one thing, just in the presentation, there is a statement mentioned backlog with net of POC. Just wanted some clarification on the POC concept, if possible?

Tarak Patel: I think we are out of time, but maybe you can take this up separately off-line with them because that concept itself will be kind of long, and you'll have explained.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

Priyanka Daga: Thank you, Michelle. Thank you everybody for participating in our earnings call today, and we look forward to meeting you again in the next quarter. Thank you, and good night.

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