



GRAVITA INDIA LTD.

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24th October, 2024

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To,

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Dear Sir/Madam,

Sub: Transcript of the earnings conference call for the quarter and half year ended September 30, 2024.

Pursuant to Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and half year ended 30th September, 2024 Conducted on 22nd October, 2024 for your information and records.

The above information is also available on the website of Company:
<https://www.gravitaindia.com/investors/financial-details>

This is for your kind information and records.

Thanking you.

Yours Faithfully
For **Gravita India Limited**

Nitin Gupta
(Company Secretary)
FCS: 9984

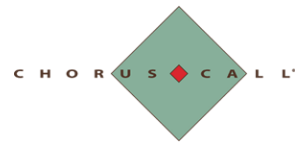
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**“Gravita India Limited
Q2 FY '25 Earnings Conference Call”
October 22, 2024**



MANAGEMENT: **MR. YOGESH MALHOTRA – WHOLE-TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – GRAVITA INDIA LIMITED**
MR. VIJAY PAREEK – EXECUTIVE DIRECTOR – GRAVITA INDIA LIMITED*
MR. NAVEEN SHARMA – EXECUTIVE DIRECTOR – GRAVITA INDIA LIMITED*
MR. SUNIL KANSAL – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – GRAVITA INDIA LIMITED
*NON-BOARD MEMBER

MODERATOR: **MR. JENISH KARIA – ANTIQUE STOCK BROKING.**

Moderator: Ladies and gentlemen, good day and welcome to Gravita India Limited Q2 FY '25 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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 Mr. Jenish Karia from Antique Stock Broking. Thank you and over to you, sir.

Jenish Karia: Yes. Thank you, Del. Good morning, everyone and thank you for joining the 2Q FY '25 Post-Results Conference Call of Gravita India. I would like to thank the management for giving Antique Stock Broking the opportunity to host the call. From the management, we have Mr. Yogesh Malhotra, Director and CEO; Mr. Sunil Kansal, Director and CFO and Executive Directors, Mr. Vijay Pareek and Naveen Sharma. Without further ado, I now hand over the call to management for their opening remarks, post which we shall open the call for Q&A. Thank you, and over to you, sir.

Yogesh Malhotra: Thank you, Mr. Jenish. Good afternoon, ladies and gentlemen and welcome to our Q2 and H1 FY '25 Earnings Call. I trust you have had the chance to go through the earnings presentation and financial results that we have uploaded on the stock exchanges. I'm pleased to announce that Gravita has delivered outstanding performance in both financial and operational aspects during Q2 and H1 FY '25.

Before we dive into the results, I would like to discuss about some key strategic highlights and project updates. Gravita's step-down subsidiary Gravita Netherlands has signed a Memorandum of Understanding to acquire a waste rubber recycling plant in Romania from an established local entity with a capacity of approximately 17,000 metric tons per annum. This acquisition will mark Gravita's first recycling facility in Europe. This aligns with the company's vision of diversification and expansion aimed at replicating our recycling business across various geographies.

The acquisition will be carried out by establishing a separate special-purpose vehicle in Romania where GNBV will hold 80% equity along with management control, while the remaining equity will be held by local partners in Romania. The total investment for this transaction is estimated to be approximately INR40 crores with GNBV contributing around INR32 crores, subject to comprehensive financial, environmental and legal due diligence.

GNBV aims to grow its recycling business throughout the European market by seizing new opportunities and establishing strategic partnerships that drive growth. The Board of Directors have approved raising funds of amount up to INR1,000 crores. These funds, if required will be raised for additional capex, M&A opportunities, debt reduction and other general corporate purposes. Our progress on setting up a pilot project of lithium-ion battery recycling and our first Indian rubber recycling plant in Mundra is going as per plan.

We expect them to be operational in H1 FY '26. Gravita is strategically advancing to achieve its short-term, midterm and long-term goals set for FY '27, FY '34 and FY '50 respectively as detailed in its ESG roadmap. This comprehensive roadmap outlines the company's commitment into integrating ESG principles into its operations and decision-making processes. As Gravita progresses along the strategic path, it aims to position itself as a leader in sustainable practices within the industry, ultimately benefiting both the company and the communities in which it operates.

The long-term vision will help to drive innovation and strong governance practices will promote transparency, accountability and ethical conduct within the organization. Coming to operational performance. On the capacity expansion front, Gravita is making steady progress towards its goal of increasing its capacity to over 5 lakh metric ton per annum by FY '27. The company has strong investment plans of INR600 crores which includes capex for both existing as well as new verticals like lithium-ion paper, rubber and steel recycling.

The capex done in H1 FY '25 is around INR30 crores and we are expecting an additional investment of around INR100 crores to INR120 crores in capacity buildup in the H2. On the volumes front, we saw an overall growth of 8% in Q2 FY '25. Volume for lead and aluminium showed an increase of 9% and 3% year-on-year to 42,151 tons and 3,515 tons respectively. Volume for plastics stood at 3,000 tons. Due to strict government regulations under BWMR and EPR the availability of domestic scrap is on the rise leading to an increase in our sourcing of domestic scrap as well.

In Q2 FY '25, we experienced with 140% growth in the domestic availability of scrap on a year-on-year basis. Coming to quarterly EBITDA per ton performance. EBITDA per ton of lead and aluminium increased significantly by 22% and 57% to INR21,642 per ton and INR18,386 per ton respectively. The company was able to increase these margins by leveraging arbitrage opportunities between international and domestic markets.

Moving to financial results for H1 FY '25. Consolidated revenue increased by 19% to INR1,835 crores. Consolidated adjusted EBITDA increased to INR192.72 crores, up 30% on a year-on-year basis. EBITDA margin stood at 10.5%. Consolidated PAT showed significant increase of 27% to INR139.33 crores. PAT margin increased to 7.6%. FY25 is standing strong at 25% which is in line with company's targets. Cash flow from operations has increased to INR73 crores.

Coming to financial results for the quarter. Consolidated revenue for Q2 FY '25 increased by 11% year-on-year to INR927 crores. 47% of revenue came from value-added products which is in line with our vision of achieving 50% revenues from this category by FY '28. Consolidated adjusted EBITDA increased to INR101 crores, up 27% and 11% on Y-o-Y and quarter-on-quarter basis respectively. EBITDA margin increased to 11%. Consolidated PAT showed a significant increase of 24% year-on-year to INR72 crores.

In conclusion, Gravita is making significant progress towards its clear Vision 2028, our strategic emphasis on expanding existing verticals while diversifying into new sectors such as lithium-ion, steel and paper recycling aims to achieve a volume CAGR of over 25%, profitability growth exceeding 35% and ROCE of more than 25%. Additionally, we are dedicated to increasing our

non-lead business share to over 30%, utilizing more than 30% renewable energy and reducing energy consumption by over 10%.

Through our successful strategies which include capacity expansion, diversification both segment-wise and geographically, enhancing the share of value-added products to over 50% and managing risk with back-to-back hedging, we have achieved strong and sustainable margins. With over 30 years of expertise in recycling 12 cutting edge eco-friendly facilities around the globe, our presence in over 70 countries and integrated supply chain, strong capex plans and compliance with stringent BWMR and EPR regulations, we are on track to realize our Vision 2028. That's all from my end. I would now request to open the floor for questions and answers. Thank you and over to you, Mr. Jenish.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: Hi, good afternoon everyone and thanks for the opportunity. I have a couple of questions. The first one is on the expected volume growth this year. So while volume growth, if I look at for H1 it was around 12%, 12.5%. So what kind of volume growth can we expect for the full year? And what are the key avenues for this growth between lead, aluminium and paper -- sorry, and plastics?

Yogesh Malhotra: Yes. So the H1 growth rate so far is 17% year-on-year basis. And we are expecting the same -- I mean, as we have given the guidance of around 25% CAGR growth in the next 4 year, it will be in the same vicinity of 25% this year also. There can be some slight difference of 2% to 3%, both downwards or upwards because as you know that the growth cannot be absolutely linear. So there may be some difference. And the growth projections for lead is around 17% to 20%. And for plastic and aluminium, it is going to be around 35% to 40% going forward.

Amit Dixit: Okay. The second question is essentially around aluminium. So in the last call, we indicated that we expect the listing of aluminium on MCX -- ADC12, I think, so that we can also hedge aluminium. So I just wanted to get more sense on that and what could be the aluminium capacity utilization by end of the year?

Management: Okay. On the part of listing of aluminium contract on MCX, so that is in process and all the approvals to MCX has been received from finance ministry. And we expect that in Q4, this contract should be listed. And on the part of capacity utilization, the -- this year 2024-'25, the utilization around 45%.

Yogesh Malhotra: And forward in the H2, we expect it to slightly higher capacity utilization because we are increasing the volumes considering this upcoming hedging solution. So we are increasing the capacity utilization closing beyond 50% for this year.

Amit Dixit: Okay. So the sense that I get from both the answers is that H2 should be much stronger compared to H1 on volume front and with aluminium also helping. So we could see a distinctly better profitability in H2 compared to H1?

- Yogesh Malhotra:** So profitability, again, as we mentioned, that would be in the same range. We expect 25% growth rate in volume terms and around 35% in profitability. This year, if you look at this quarter as I mentioned in my speech also that there was an upside in profitability. Although the volume grew by only 11%, the profitability went up, EBITDA margins were up by 27%. That was because of arbitrage opportunity. Otherwise, there is some difference, but it will be in the same tune.
- Amit Dixit:** Okay. Got it. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Chetan Thacker from ASK Investment Management. Please go ahead.
- Chetan Thacker:** Hi, sir. Good afternoon. Just two questions. One is on the hedge gain that we've seen. What is the quantity against which this has been booked?
- Management:** Okay. So what we do is whatever volume we have approximately 10% to 15% we are doing like -- if you're doing 50,000 tons of volume, so approximately 10,000 tons we hedge through this mechanism. So whatever hedge quantity is approximately 10,000 tons to 12,000 tons. That's the -- but it also changes on a day-to-day basis because it fluctuates whenever we do the sourcing on the same day we hedge on the -- we take a sales contract on LME for the remaining quantity which we are not able to hedge on the physical side. So -- but that quantity changes on a day-to-day basis, but on an average, you can take it 10,000 to 12,000 tons.
- Chetan Thacker:** So this INR40 crores pertains to 12,000 tons per quarter?
- Yogesh Malhotra:** The turnover is much higher. It's at any point in time, the total hedge quantity is around 10,000 tons to 12,000 tons, but the turnover could be much higher because you do hedging on a daily basis against each and every contract. So the turnover would be much higher than this 10,000 to 12,000 tons.
- Chetan Thacker:** So then, sir, fair to assume that for this quarter, say, for example, we've got volumes of 42,000. And you would be on an average doing 10,000. But for the quarter as a whole whatever gains or losses that we see pertains to just 10,000 or it pertains then to the full 40,000.
- Yogesh Malhotra:** It pertains to full 40,000. So what happens is that once we -- sometimes when we have an ordering in hand or on other side we have a procurement in hand, then that gets cancelled. But whenever there is a lag in between the purchase or the sales during that time we go and hedge it on the exchange and then reverse that deal once the lag is complete.
- Chetan Thacker:** Got it. The reason why I was asking was because we've actually seen lead prices go down on an average this quarter while your realization, if I don't add the hedge gain is also flattish. So just wanted to get a sense of why would that be happening as well?
- Yogesh Malhotra:** So generally, what happens is that, I mean, whenever the prices of lead goes down, there is a higher profitability from the hedging gain. What happens is that when the prices are down, you will not -- the vendors will not generally want to sell that their material. So during that time you will have to hedge that on the purchasing side. Whereas when the prices go up, you will have to

hedge on the sales side. So that is why you will see profitability from the hedging gain more when the fluctuation is higher.

Chetan Thacker: Understood, sir. Understood. So INR40 crores -- INR38 crores pertains to 40,000 tons that we've seen in this quarter, and that is how we should look at it. So that is approximately INR10,000 a tons. That is the right way to look at it?

Yogesh Malhotra: So it is higher this side because of variation or fluctuation was higher. If it remains same, then we will see a very little gain or loss in the hedging quantity or hedging amount also. More to do with the volatility in the market than to anything else.

Chetan Thacker: Sure. And sustainably, we still maintain INR19 to INR20 a kg for lead in terms of...

Sunil Kansal: INR18 to INR19 per kg in lead.

Chetan Thacker: Perfect. Sir, second question pertains to the fundraise. So we are doing INR1,000 crores fundraise, given our capex, given our cash flow. Just wanted to understand where do we need this additional INR1,000 crores.

Yogesh Malhotra: So as there are certain policy changes that are taking place, the recent one is this reverse charge mechanism that is going to come up. And also we are looking at some opportunities in merger and acquisitions across globe. So we want ourselves to be ready as and when such an opportunity is there. So that is why we have taken a mandate, but we'll raise the fund as and when we have these opportunities in place.

Chetan Thacker: Got it. And sir, reverse charge would essentially in your assessment lead to what kind of opportunity opening up for refining?

Yogesh Malhotra: So what will happen is that, as we mentioned that this battery waste management rule of the extended producer responsibility help in converting the unorganized sector into organized sector. The reverse charge mechanism will also fast track this conversion from unorganized to organized because currently in the unorganized sector, a lot of GST vision is taking place. With this reverse charge mechanism, that will reduce. So that will fast track this conversion.

Management: So I'll add on this, basically on reverse charge mechanism when you buy material from unorganized or unregistered person from who doesn't have a GST number. The tax can be paid by the buyer. So this has been already introduced in metal scrap from Chapter number 72 to 81. While on the other scrap, battery and all it is expected soon.

And apart from reverse charge, there is an additional TDS of GST, that is 2% has been introduced again on metal scrap. So we expect the same in batteries to -- in time to come. So it's already there on aluminium scrap and other metal scrap, ferrous and nonferrous. So this will bring some transparency and tax compliances. So there will be a lot of material flow into formal sector from informal.

Chetan Thacker: So the advantage of GST which the unorganized had today, they will gradually start coming into the net. So even they would ideally either have to come on books very clearly, that in turn will

increase their cost of doing business also. And certain companies would want to then shift to more organized players. That is how we should approach this?

Yogesh Malhotra:

Absolutely.

Chetan Thacker:

factors that will play out. So not only one person will gain, but even the organized guys will start to move into the formalized channel as well?

Yogesh Malhotra:

Absolutely. So the entire formal sector will gain on this change. And Gravita being a leader in this recycling business and have pan-India presence. So -- we have -- we would set to gain a little bit more than other companies who have only a single set of operation in any location.

Chetan Thacker:

Understood. And sir, one last question on particularly this quarter, when I look at the OP per tons. So we've got an advantage of better domestic scrap availability and that in turn has led to this improvement because of mix. Because the understanding was that, ideally, if we get imported and sell in domestic that is also more profitable. So just wanted to get a sense on that?

Yogesh Malhotra:

Definitely, that is more profitable. And what has happened in this quarter is that we have diverted some of the material from our overseas locations into India to take advantage of this arbitrage opportunity. And that is why, if you see the volume growth is not as much -- I mean, it's not there because we have moved some of the materials back into India from our overseas and they have then -- so to take advantage of this arbitrage opportunity. And, of course, domestic scrap is more or less for tooling business most of the time. So it does not impact the EBITDA margins that much.

Chetan Thacker:

Understood. And the last bit on the sales from Africa to Europe that had got impacted. So fair to assume now that has got stabilized and we found alternate buyers there and those volumes are now back to normal?

Yogesh Malhotra:

So one of the reasons that volumes are not growing, although our production has grown in the last quarter is because we are diverting some of these materials into India. Also because there is some advantage of arbitrage opportunities in India, so we have diverted some of the materials from East Africa into India. As in -- selling it into Europe now.

Chetan Thacker:

Got it. Thank you sir for all these clarifications. All the best.

Moderator:

Thank you. The next question is from Khush Nahar from Electrum Portfolio Managers. Please go ahead.

Khush Nahar:

Thanks for the opportunity. So sir, my first question was what was the percentage of domestic scrap collection for our Indian plants for this quarter?

Yogesh Malhotra:

In this quarter, the battery scrap procurement is around 37% and 63% is from the overseas scrap.

Khush Nahar:

Okay, sir. And then my second question was on basically on the volume growth. So any particular headwind or any reason why we saw only a 8% volume growth this quarter, although our H2 will be better, but any particular logistic issue or demand issue that we're facing?

- Yogesh Malhotra:** Yes. So as I mentioned earlier also, if you look at the overall production over last quarter, it is around 7%. But as I mentioned that because we're moving some of the material from our overseas location into India to take advantage of the arbitrage opportunity, it's not showing in the consolidated sales number, because that gets eliminated once we sell it from our own plants into India. So it's not getting reflected. But if you look at the bottom line number, you can see that growth there.
- Khush Nahar:** Right. Okay. Sir, so just last question, if I can ask. Any update on the paper recycling plant set up in Central America?
- Yogesh Malhotra:** So I mean, paper recycling and steel recycling is going to take a little longer. You can expect it in FY '27, but not -- I mean, any movement in this happening in FY '27, not before that.
- Khush Nahar:** Okay sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.
- Bharat Shah:** The one issue that you mentioned for fundraise and you talked about reverse charge mechanism. I couldn't understand what is the correlation between the two?
- Yogesh Malhotra:** So what we are saying is that there could be a changeover -- I mean, fast track conversion from the unorganized sector to the organized sector, so that may probably fast track our capex investments in this year and the coming year. So because of that, we may have to put up capacities much faster than we earlier thought. And therefore, we may have to raise some funds for that also.
- Bharat Shah:** Okay. So basically, the INR1,000 crores potential fundraise is to deal with fast tracking of capex and to available acquisition opportunity?
- Yogesh Malhotra:** Yes, sir.
- Bharat Shah:** But this is an enabling provision or it is definite raising right away that you are...
- Yogesh Malhotra:** Not definite raising right away because we are looking at some of these mergers and acquisition opportunities. And as and when we have some clear picture about those opportunities also, then we will do that. Currently, we don't have -- I mean, it may take a couple of months before we decide on this.
- Bharat Shah:** So for the present, it is an enabling provision and it will be specifically linked to any definite acquisition or other opportunities that you concretize?
- Yogesh Malhotra:** Maybe, sir, it will take a couple of months to get that clear picture. If it happens before that, then -- I mean, it all depends on when we get a clear picture about some of the merger and acquisition opportunities that we are looking at. As and when that happens, we will then do this.

- Management:** We are already evaluating a few of the opportunities. So whenever we see that things are more clear on that, definitely, we are going to take an action of this fundraise.
- Bharat Shah:** So then it is fair to say that the amount could be different than INR1,000 crores. And second, whether it will happen or not happen itself could change depending upon on whether we get any targets or otherwise?
- Yogesh Malhotra:** Absolutely, sir. Absolutely.
- Bharat Shah:** So time variability, amount variability and the -- basically will be linked to the opportunity identification and otherwise, it may or may not happen or it may happen at a later date or a different amount?
- Yogesh Malhotra:** Yes, sir. You're absolutely right, sir.
- Bharat Shah:** And these, given the fact that hedging is integral to our business and given the fact that margins are modest, obviously, we can't -- and given the fact that supply chain issues are very important part of the business model, the hedging gains or any losses, I believe you should treat it as basically core integral income of the business, isn't it?
- Yogesh Malhotra:** Yes, sir, we do that. But this new financial standard, IndAS. Yes. So IndAS accounting doesn't allow us to consider it in EBITDA or operational income. So for the purpose on IndAS accounting, it is as good as other income or other expense in case of loss. So in case of loss, it is already part of operational income because it is considered as other expenses. But in case of our income, it is considered as other income. So what we do is we -- when we present our presentation, so we consider it as operational income in case of other income. So we publish as EBITDA -- adjusted EBITDA considering that additional income from hedging as the operational income.
- Bharat Shah:** In the last part, the 4-year projections of the compounded growth, you said volume growth of 25%. And you didn't mention about the top line. So presumably, top line probably will grow at a similar pace or -- what is the underlying presumption on that to be made on a 4-year basis?
- Yogesh Malhotra:** So it will all -- I mean, so why we talk about volume growth is because the metal prices fluctuate a lot. So the top line growth will depend on the metal prices at any point in time, so which is not in our control. So that is why we do not mention the top line growth in our projections. We only talk about the volume growth of each and every vertical there. So as I mentioned that the lead would grow at around 17% to 20%, the other commodities of plastic and aluminium by FY '28 would grow at around 40% -- 40% to 45%. So the top line would depend on the prices of each of these commodities.
- Bharat Shah:** No, absolutely. That makes highest sense. So essentially, when we are talking about 25% volume and 35% EBITDA, we are basically saying that inherently we will manage those situations as well as we have done so far. And that increased growth of the business to reflect in improving margins bit by bit. That's how those two numbers are correlated, right?

- Yogesh Malhotra:** Absolutely, sir. So there are some advantages of economies of scale that is going to kick in as we grow bigger. And of course, because we have plans to increase the value-added content from current around 45% average to 50-plus percentage in future. And then there would be some operational efficiencies also along the way, which will contribute to some increase in overall margins.
- Bharat Shah:** And one last bit. Given the fact that our return on capital employed has held up and has continued to improve, sustain more closer to 28%, 29%. It would be fair to say that the interest cost and depreciation charge compounding would occur at a lower pace than what will occur on the EBITDA compounding?
- Yogesh Malhotra:** Yes, sir, to some extent, you're right. But as we are doing new capex, so the depreciation may not come down. But definitely, the interest cost will go down in the future.
- Bharat Shah:** No, I didn't mean absolute amount coming down. I said compounding of interest and depreciation charge would grow at a lesser pace than the growth that you're forecasting for volumes in the EBITDA. That was the statement I was making.
- Management:** Yes, sir, you're 100% right because there will be proportion -- the finance cost and the depreciation will not rise in the -- in proportion to the rise in the EBITDA.
- Bharat Shah:** But you were saying that absolute amount itself may decline, is it over a period of time?
- Management:** Absolute will not decline. Absolute will keep on increasing, even slightly the finance cost also, considering that we are not using the fundraise for the debt reduction at this moment. So considering the debt at the same level or slightly higher level, the absolute interest cost and the depreciation will go -- keep on increasing, but not in the same ratio as EBITDA will grow faster. EBITDA will grow faster slightly.
- Yogesh Malhotra:** As we grow, a lot of investment would be done in increasing the inventory cycle also. So therefore, the absolute number will not come down, but as a percentage it will come down I think.
- Bharat Shah:** Yes, that's exactly what I meant. And therefore, all of this should translate into steadily improving capital efficiency, isn't it? Because if our margins are rising bit by bit, and scale is giving us an advantage of improvement on the overall efficiency, if working capital continues to remain managing the same way? And then obviously, our return on capital employed would rise over this journey.
- Yogesh Malhotra:** Definitely, what you're saying is right, sir. And also because we are going into new verticals of plastic, et cetera, and we expect these new commodities and new verticals to give us higher margin as compared to lead -- so that would also contribute to some extent, but we also see some pressure coming on the raw material sourcing also as we go forward. So -- but overall, yes, there would be some slight increase in increased EBITDA margins going forward as well.
- Bharat Shah:** Sure. Now thank you very much.

- Moderator:** Thank you. The next question from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.
- Sumangal Nevatia:** Good afternoon everyone and thanks for this opportunity. My first question is on the plastic volumes. Now if we consider -- if you look at last 4 years, our volumes quarterly has been in the range of 3,000 to 4,000 tons. So just want to understand what is the constraint here? Is it a capacity constraint or is it the raw material -- the scrap constraint? I just want to understand this better. And going forward, what is our outlook and guidance on this?
- Yogesh Malhotra:** Yes. So I mean we've been saying that plastic is a little tricky as compared to other businesses that we are doing because you will have to develop new products to meet the market demand, that is how the EPR works in plastics. And it is taking a little longer than we expected to develop new products that can cater to the requirement of our customers. But as and when we keep on stabilizing one product after another, we see a huge value addition in this business also.
- And the growth is also going to come exponentially once we stabilize the products. So until that time, probably you will see a similar number. Maybe next quarter would also be in the similar line. But definitely, we see some improvements in the way business is being done in plastic. So going forward, definitely, there will be a huge growth as and when the products are stabilized.
- Sumangal Nevatia:** Understood, Yogesh, sir. Sir, one question on the RCM. So on the ground, has the transaction started to happen as per the new policy or it is still a few months away?
- Yogesh Malhotra:** So as Mr. Naveen has just mentioned that it has been announced on metal scrap. Unfortunately, battery scrap and plastic scrap has not come so far in this -- and we are expecting it any time. So hopefully, by this month or next month, we would get a reverse charge mechanism also implemented on battery scrap. So once that happens, then definitely, we will see some movement.
- Sumangal Nevatia:** Okay. Understood. And sir with this -- sorry, did I cut you?
- Yogesh Malhotra:** No, please.
- Sumangal Nevatia:** Okay. Just one last question. With this environment compensation now being introduced, one, are we seeing any change in behavior or more seriousness of the OEMs towards recycling? Any anything visible in your interaction, number one? And number two, with the EPR credit being now priced in the range of INR5 to INR18, do we see this as a new potential revenue stream for us in the future? Or it's more of an enabler of our recycling business?
- Yogesh Malhotra:** To answer your first question, definitely, there's a huge change in the attitude of producers or brand owners. And we see -- as you've seen the domestic scrap availability has increased, and that is 100% because of this EPR regulations coming into place. And this new -- I mean, although we are not seeing this new steam as a revenue stream for us, but definitely, this will help us procure more material, more domestic material in the future. So we -- although there may be some opportunities in this also, but currently, we are not considering this as a revenue or profit stream.

Only -- I mean, so we can -- we are able to pay higher prices for scrap in future to fight with the unorganized sector. So that's all.

Sumangal Nevatia: Okay. Understood. And is it possible to share what is the mix of tolling in the existing domestic business?

Yogesh Malhotra: So till the time this reverse charge mechanism is in place, majority of it is going to be tolling only. Once this reverse charge mechanism comes into play, at that point in time we would probably go into the market to start procuring on our own. Right now, if you look at it, probably 80% of the material is coming from tolling only -- in domestic, sorry.

Sumangal Nevatia: Understood. And are we in touch or any new OEM empanelment are we looking at or any potential in the bearing?

Yogesh Malhotra: Yes. We are on a regular basis, in touch with all these OEMs and hopefully, very soon, we'll start tying up with some of the major OEMs at least in battery.

Sumangal Nevatia: Okay. And just one last question for Sunil sir. For our -- I mean, M&A opportunities which we keep exploring, what is our focus? Is it existing verticals or is it new verticals? Any thought process if you can share, sir?

Sunil Kansal: So, yes, we are open to any recycling business in any geography. But definitely, the first focus will be on our existing verticals which is lead, aluminium, plastic and rubber. So because plastic and rubber we're very small in this. So plastic and rubber definitely will be in focus. So -- but we're open to lead also, but lead we are not seeing any opportunity in India, but yes, we are open for any -- but we are open to new verticals also. That's not also not restricted.

Yogesh Malhotra: So I would add here that looking at the RCM coming into play, we may look at some opportunity in India for lead also to speed up the capacity expansion.

Sumangal Nevatia: Okay. Understood sir. Thank you very much and all the very best to the team.

Moderator: Thank you. The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.

Jenish Karia: Thank you for the opportunity. Sir, first is on the rubber recycling acquisition that we have done. So what kind of revenue run rate we can expect next year onwards and what kind of per kg margin we are expecting in the business?

Yogesh Malhotra: So this capacity of this is around 1,500 tons. So we are expecting to generate around 1,000 -- I mean, sort of 60% to 70% capacity utilization will be there right from the beginning. But that is only a very small project and we are planning to increase the capacity there. We'll increase the capacities, we'll put up more capex to -- so it's a very small acquisition currently. But more strategic than anything else where we want to set up our own businesses in Europe. So the moment we'll acquire this company, we will increase capacity in that company. And we'll also look at opportunities in other product categories as well like plastic, battery and aluminium recycling in the same geography.

- Jenish Karia:** Sure. Sir, just from a rubber recycling point of view, since you are setting a plants in India also what kind of per kg margins or percentage margins do we factor in for this business....
- Sunil Kansal:** Jenish, your voice is not clear. If you can repeat the question, please?
- Jenish Karia:** So I was just trying to understand what kind of per kg margins can rubber as a segment make because you're planning to do expansions within India also?
- Yogesh Malhotra:** So basically, we keep on mentioning that you cannot look at per kg or per -- percentage margin because it will vary from geography to geography. So the best way to look at it is how much ROCE it is going to generate. And we expect ROCE upwards of 35% in rubber in overseas locations and in India around 25%.
- Jenish Karia:** That's kind of helpful. Secondly, on the Sri Lanka entity buyback. So is it happening to provide an exit to the partner or will Gravita Netherlands also participate in the buyback?
- Sunil Kansal:** So we have not yet decided on that. It is under consideration. But yes, so buyback is already announced, so we'll decide on that.
- Jenish Karia:** Okay, sir. And sir lastly, last quarter, we had mentioned around 2,500 tons of material was in transit. So is there any container availability issue in the current quarter also, firstly? And secondly, we do not see the impact of the 2,500 tons on the sequential volume. So sequentially, the volumes were up by around 1,000, 1,500 tons only. So can you help us understand the gap between the same?
- Yogesh Malhotra:** Yes. So basically, I mean, there is some issue -- logistics issue that is continuously going for the last two to three quarters, but that is not very material. As far as the transit material we are talking about, generally, it gets -- it does not get reflected in the consolidated statement. So as I mentioned that the growth that you see is -- I mean, you have to reduce the intercompany transactions in that. So therefore, although if you look at the bottom line, you can see growth happening there. But if you look at the top line, probably you will not see the growth. So that will not get reflected in the top line numbers.
- Jenish Karia:** Sure. No problem. That's helpful. Thank you sir and all the best for the coming quarters.
- Moderator:** Thank you. The next question is from the line of Aditi Loharuka from CD Equisearch Private Limited. Please go ahead.
- Aditi Loharuka:** Sir, can you just give me a sense of your bargaining power with both buyers, like suppliers and customers?
- Yogesh Malhotra:** So it depends from geography to geography, wherever we are present, currently. If you look at the procurement network that we have, we go to the last mile to small scrap dealers, and that increases our bargaining power with them. If we go and buy from aggregators, definitely that bargaining power is not there.

As far as suppliers are concerned, generally, in value-added products, wherever we are dealing, we have a better bargaining power because quite a few people do this. But if we talk about commodity products like refined lead or some normal products, then definitely the buying power lies with the supplier. So it's different for different things.

Aditi Loharuka: Okay. So while I was going through the presentation, I came across a partner network that you have. I came across companies like Exide, KEC, Amara Raja, they are very large players. So with them, like do they come to you for like selling their scrap and not go to SME as the bargaining power is high?

Yogesh Malhotra: Their bargaining power is high, as I mentioned that -- but at the same time, they need vendors who can provide them regularly -- there have to be a trust from the vendors because their operations depend on material coming, the quality of the material, the quantities of the material, the consistency, et cetera. It all depends on the vendors they tie up with. And there are very few people who can do this.

At the same time, there is another benefit that Gravita has and that is our global networks, both in India as well as overseas we have many plants. So we can take advantage of logistic cost also. We can supply to the customer from various plants, various operational facilities. So all these help us in getting these big names as of our customers.

Aditi Loharuka: Okay. And sir, one more thing that we import most of our scrap. So why is it so like -- can't you procure it domestically?

Yogesh Malhotra: So see, basically, there are two reasons: one is that imported scrap is cheaper. As I mentioned that we have a network in some countries where we have our own scrapyards. So we import materials from those scrapyards. So it's cheaper to us compared to the domestic scrap prices, and that is one of the reasons. The other reason is that until now, most of the domestic scrap was going to the unorganized sector because in India, there is a GST of 18% on scrap.

But now with this new battery-based management rules and extended producer responsibility, also the newly -- a new policy of reverse charge mechanism, we have started getting more and more scrap in the Indian domestic market also. So if you look at our last few years, the domestic content has increased, and it will continue to increase in future also.

Aditi Loharuka: Sir, but this is off late since like quite a few years, we have been importing?

Yogesh Malhotra: So the import is not growing as much as the domestic scrap is growing. So if you talk about 3, 4 years back, 90% of our total production in India is dependent on import of scrap. Currently, it's around 60%. And we have grown around 3x -- in the last 4 years, we have grown 3x. So you can see the amount of domestic scrap that we started getting in India now.

Aditi Loharuka: Okay. So it's nothing related to the availability of quantity?

Yogesh Malhotra: Sorry?

Aditi Loharuka: Availability of quantity of scrap in the domestic market.

Yogesh Malhotra: What is the total amount of scrap in the domestic market that we get. So in this year out of the 46,000 tons that we have procured in lead terms in India around 14,000 tons have come from domestic market only.

Aditi Loharuka: Okay and sir one last question...

Moderator: Sorry to interrupt ma'am. Please rejoin the queue for further questions. Thank you. The next question is from the line of Aman Soni from Nvest Analytics Advisory. Please go ahead.

Aman Soni: Good afternoon sir. My question is on the lithium-ion battery recycling. So just to understand a bit on regulations related to lithium-ion battery. I understand we are quite focused on it. But can you let me understand as per the latest regulations, by when do you expect a significant portion of these batteries to come into the circular economy for recycling? And what percentage of market share are we targeting with our pilot plant in this category, sir? So that is my first question, sir?

Yogesh Malhotra: So in lithium-ion battery, the regulation is same as in lead-acid battery. It comes under the battery waste management tool only. So there is no difference. And it is already in place. The only issue with the lithium-ion battery is that currently the lithium-ion battery that is coming into the market, the scrap that is coming into the market is coming from these mobile batteries and laptops, et cetera. But the major volume will come when the EVs will start generating these lithium-ion batteries. So year '28, '29, maybe from year 2030 also.

So we are just setting up this plant to understand the technology, to understand the ecosystem, tie up with these vehicle manufacturers who are into EVs. So that as and when the scrap starts coming, we shall be ready for that. That is number one. And number two, we are also looking at some opportunities where we can import these EV scraps in some countries like Europe and US.

So currently, we are not targeting the Indian market for this domestic battery scrap and computer scrap -- computer battery scrap that is coming into the market. We are eyeing the EV battery segment majorly.

Aman Soni: Understood, sir. And secondly, on the API regulations related to rPET recycling, that is the bottle-to-bottle recycling in India. Do you see any forthcoming regulations from Government of India in this regard. And are we looking to capitalize the same? Because as far as I understand, the segment is a margin-accretive one. And a few players in India are building up the capacity in this direction. So what's your comment on that, sir?

Yogesh Malhotra: So there is going to be huge demand as and when this start -- this will get implemented, this rPET -- I mean there is a 30% rPET resin requirement in new bottle manufacturing. So the overall market demand will be very high and that will ensure that the people who are doing recycling for yarn, etc, will get marginalized. And more and more scrap will come into the bottle-to-bottle grade because that is more profitable. And that is going to be more profitable because of this regulation.

And there is enough space available in this segment in addition to the two major players in this currently. So we see a lot of opportunities because unlike lead or aluminium where you can put

a plant in 1 region and then cater to that region. In plastic, you'll have to put multiple plants in various locations within the region also. So setting up these many plants probably is not very easy for any one particular company. So there will be enough space for new entrants to come into this bottle-to-bottle grade manufacturing also.

Aman Soni: And what is our thinking in this direction, sir, like for next 2 to 3 years like what kind of capex are we putting in?

Yogesh Malhotra: So we are actively looking at an opportunity, but this PET recycling is not part of this Vision '28, where we said that we will do 25% growth in volume terms. We have not considered PET volumes in this Vision 2028. If anything comes, that will be in addition to this 25% growth rate, but we are definitely looking into food grade or bottle-to-bottle opportunity that is coming up in India.

Aman Soni: And lastly, sir, what is the guidance for remaining of the year? Like margins impacted in this quarter. So what is the guidance for rest of the year in terms of margins and top line growth?

Yogesh Malhotra: It's in line with our projections for the next 4 years. So there can be a slight -- because this is never going to -- we have always maintained that this growth is never going to be linear. So there will be a period where you will see higher growth, some period will see lower growth also. So it will -- but it will remain in the same line, same range of around 22%, 23% to 27%, 28%. So this year could be 23% also, could be 27% also. But in the longer run, if you look at it, if you look at FY '28, then definitely 25% -- upward of 25% volume growth is expected.

Aman Soni: Got it sir. Thank you very much sir. That's it from my side.

Moderator: Thank you. The next question is from the line of Amit Lahoti from Emkay Global Financial Services. Please go ahead.

Amit Lahoti: So given that you are maintaining EBITDA per kg guidance of INR18 to INR19 per kg. And with the first two quarters, higher than this range especially the Q2, are we expecting these levels to kind of decline and normalize in H2 or we can beat this guidance?

Yogesh Malhotra: No. Actually, as I mentioned that the sustainable number for lead is around INR18 to INR19 per kg. Sometimes you get arbitrage opportunities as we got in Q2, and therefore, the numbers are a little on the higher side. Although in the longer run, if you talk about it, there would be some improvements. We can take it to around INR19 to INR20 in the next 2 years. But if you look at the near future or next quarter or the quarter after that, the sustainable number would be INR18 to INR19 only.

Amit Lahoti: Okay. Sir, for this year, could it be on the higher side of, say, INR19 per kg? Or you still want to guide for a midpoint?

Yogesh Malhotra: Sorry, I couldn't hear your question.

Amit Lahoti: Yes. So I'm asking for this year FY '25, could it be on the higher end of the range of INR19?

- Yogesh Malhotra:** Yes, it could be a little higher. There is an opportunity we have done in Q2. So if this opportunity remains there, then definitely will probably get a little higher than INR18 to INR19. There's a possibility, yes.
- Amit Lahoti:** Sure. Thank you.
- Moderator:** Thank you. The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking. Please go ahead.
- Bhavya Gandhi:** Thanks for the opportunity. Couple of questions from my end. Sir, one, if you can mention what will be targeted EBITDA and ROCE for the plastic business? You said it's on the higher range. But on the ROCE front, if we were to compare with the existing business, is it higher? EBITDA, I understand it's higher, but then the capex requirement is also higher?
- Yogesh Malhotra:** Percentage-wise is higher. Although on absolute number, it is around INR10 crores to INR11. But if you look at the percentage-wise, it's around INR12 to INR14 -- 14%, which is higher than lead. And ROCE is also higher, but currently, we are not running it at full capacity. So capacity utilization is not there. So therefore, you may see a similar ROCE of around 25% in Indian operations. But going forward, as we improve the utilization and as we develop the product, the ROCE is going to be much higher than the lead or aluminium.
- Bhavya Gandhi:** So you're seeing higher ROCE is there in plastic recycling, rPET food grade than the lead and the existing businesses like aluminium and all those?
- Yogesh Malhotra:** So we are not currently in India in rPET. So we can't comment on that. But yes, from our experiences in bottle-to-bottle flakes overseas, we see higher margins and higher EBITDA numbers in rPET.
- Bhavya Gandhi:** I understand margins. On the ROCE front, I'm asking?
- Yogesh Malhotra:** The ROCE also is higher.
- Bhavya Gandhi:** ROCE is also higher. Okay, got it. And unlike your lead you cannot hedge plastic...
- Yogesh Malhotra:** We are not talking about the Indian operations so far. We'll have to really look into it because capex has also changed over the years and Indian market is a little different than overseas market. So we can't comment on the Indian market as far as bottle-to-bottle rPET is concerned.
- Bhavya Gandhi:** Right. Got it. And also, unlike your lead, plastic has a different grade. You mentioned that you're developing different products. So how do you hedge, what would be the hedging mechanism when it comes to plastic or will it be like an open market sale and we'll have to bear the risk of the commodity?
- Yogesh Malhotra:** Generally, what happens is that in plastic is basically dealing directly with the OEMs, where you will be developing products based on their requirements. And then you can link that product price with these companies based on the prevalent prices, which currently are Reliance prices

for those grades of plastics. That is what we are developing. So there is a natural hedge here in plastic as we see it.

Bhavya Gandhi: No, if you can help me understand how is it a natural hedge, sir?

Yogesh Malhotra: So what happens is that you buy plastic in India based on the prices of Reliance. And then if you can sell these at the same prices -- index prices to the end customers, then there is a natural hedging wherein which you don't have to go to the exchange and get it hedged.

Bhavya Gandhi: Okay. You are trying to say you would be more of a facilitator. You will just have some cost plus margin mechanism in place or absolute margin in place -- that is what you are trying to say?

Yogesh Malhotra: It's a combination. We'll take a delta. But what happens is that when you buy scrap in India, generally, the scrap is priced at a percentage of the Reliance's price of that particular grade. So what we do is that when we sell it into the market, we just talk to the customer that we'll sell you at a price of the same grade of plastic Reliance has and there is a formulation based on that. So there is no difference and here also the inventory level are also not going to be high because you're not importing the inventories you're using the domestic plastic inventory. So -- I mean, so the overall cycle is not that big. So the requirement of plastic hedging is not that prevalent currently.

Bhavya Gandhi: Right. Just one last thing. I wanted some comfort on the corporate governance side, although we have Walker Chandiook auditor in place, but the partner who is signing the documents also belongs to the similar community as that of promoters. So if you can throw some light on that, if they're related or what sort of relation -- community relation do they have? Or -- or are they clearly independent of that?

Yogesh Malhotra: Can you come again, sir. We couldn't hear your question properly.

Bhavya Gandhi: I just wanted some comfort on the corporate governance. The auditor who is signing the documents -- signing from the Walker Chandiook belongs to the same community that of our promoters. So if you can give me some comfort on that?

Yogesh Malhotra: How many chartered accountants in this community -- I mean, you look at it, then you'll realize. There is -- GT -- the company's GT, and there is no relation whatsoever with the owner or the promoter of the company.

Bhavya Gandhi: Got it. Fair enough. That's it from mine. Thank you.

Moderator: Thank you. The next question is from the line of Bhavin Pande from Athena Investments. Please go ahead.

Bhavin Pande: Thank you for the opportunity. So we could see that volumes have grown by 8% and realization seem to have gone higher. And you have EBITDA per ton, specifically in the lead business has been increasing sequentially on a Y-o-Y basis. And EBITDA and PAT growth has been robust. So what is triggering this operating leverage? And secondly, again, I think you expanded on why...

- Yogesh Malhotra:** I'm sorry, the voice is not very clear. Can you come up again?
- Bhavin Pande:** Yes. So I just wanted to -- so the revenue growth, the 3% gap between volume and revenue, it was on account of realization improvement. And secondly, what is changing the operating leverage because our EBITDA and PAT growth is extremely high as compared to revenue growth? And secondly, I think you touched a bit on moving -- a transition from foreign markets to the domestic market. So what was that because I missed it in the initial commentary?
- Yogesh Malhotra:** So what happens is that Indian market follows a different price and overseas or global markets follow a different price. So whenever there is an arbitrage between Indian prices and overseas prices, we moved some of the products from overseas plants into India. And also, when we import material from third parties also into India, rather than exporting it, we sell that material into India.
- So if you look at it, 70% generally, we -- of the Indian production, 40% is sold outside and 60% is sold in India. If you look at current year, we have sold 70% of the total production into India, which means that we've taken advantage of the arbitrage opportunity that lies between prices -- global prices and Indian prices. And that is what has helped us increase the EBITDA margin, but this is not a sustainable additional margin. The sustainable margin is around INR18 to INR19 only.
- Bhavin Pande:** Okay. And sir, what explains the operating leverage -- apart because I assume it cannot be all realization, right?
- Yogesh Malhotra:** I didn't get it.
- Bhavin Pande:** Sir, EBITDA growth and PAT growth -- on a Y-o-Y basis, so what explains the operating leverage in that?
- Yogesh Malhotra:** The operating leverage?
- Bhavin Pande:** Sir, EBITDA growth on a Y-o-Y basis.
- Yogesh Malhotra:** It's around 27%.
- Bhavin Pande:** Correct. And while revenue growth is 11%. So what explains the operating leverage bit here? That's what I wanted to understand.
- Yogesh Malhotra:** As I mentioned that when you move some of your products into India, then it does not get reflected in a double sales. So it will not get reflected in revenue numbers, but because it is the same company, but it will reflect on the profit margins. So that is why there is a difference between the top of the revenue growth and the EBITDA growth or the profitability growth. Some of the material from our overseas companies, we have used it in India. So it gets cancelled out in the consolidation.
- Bhavin Pande:** Okay. I understood. Thanks a lot sir and good luck to you.

Moderator: Thank you. The next question is from the line of Parth Shah from Tara Capital Partners. Please go ahead.

Parth Shah: Thanks for the opportunity. On the revenue the volume growth part, I know you've explained it twice. But if you could just once more explain why the revenue -- the volume growth is lower on account of the raw materials being transferred from the overseas market -- from the overseas presence to the domestic markets?

Sunil Kansal: So let me explain once again. Okay. So what we do is normally, we have a customers also in the international -- for the international business whatever we manufacture internationally in overseas plants, we usually sell to international customers directly from those plants. But whenever the Indian prices because the Indian prices is a different index which is Indian index, and it does not follow same price arbitrage like -- international market goes with the LME, but the Indian market goes differently.

So sometimes during the year, when the Indian prices are higher than the international market, so we don't -- we discourage the selling of direct selling from those overseas plants to directly to the customers. We import that good in the Indian market, and we slightly do some value addition in Indian plants and sell it in India to get better price. So those signs that volumes get cancelled whatever we sell from overseas plants to Indian plants, that volume is not considered as sales volume.

And -- but we get slightly better margins at that point of time. And -- but we have to compromise on the volume side, but we are better on the margin side. So that's the reason which happened in this quarter, we are better on the margins, but we compromise on the volumes.

Parth Shah: Okay. Got it. And the next question is the peers have actually reported better -- significantly better volume numbers. So are we seeing any market share loss over here?

Yogesh Malhotra: So generally, what we mentioned that there is a new regulation of battery waste management rule which is converting the scrap that was going into the unorganized sector to the organized sector. A lot of consolidation is happening and the share of organized sector is increasing vis-a-vis the unorganized sector and that is what is changing, what is increasing the overall scrap availability to us in India.

Moderator: Mr. Shah does that answer your question.

Parth Shah: Yes.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of our Q&A session. I would now like to hand the conference over to the management for closing remarks.

Yogesh Malhotra: Thank you, everyone for participating in this call. We trust that we have addressed all your queries during this session. However, if there are any remaining questions, please feel free to reach to our Investor Relations team at Go India Advisors. Once again, we extend our gratitude to all the participants for joining us today. Thank you and have a great day.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thanks for joining us. You may now disconnect your lines.