From | Corporate Office: 510, A Wing, Kohinoor City C-I
Kirol Road, Off L.B.S. Marg, Kurla (W)
Mumbai - 400 070, India
T: +91 22 6708 2600 / 2500

GRP
IMPACT POSITIVE

26/11/2024

To
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001.

Scrip code : 509152

To
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E),
Mumbai - 400 051.

Symbol : GRPLTD – Series: EQ

Dear Sir / Madam,

Subject: Earnings Call Transcript

Please find enclosed herewith transcript of earnings call with analyst/ institutional investors 18th November, 2024 to discuss operational and financial performance of the Company for Q2 & H1FY25.

Kindly take the same on your records.

Thanking you,

For **GRP Limited**

Jyoti Sancheti Digitally signed by Jyoti Sancheti Date: 2024.11.26 17:54:26 +05'30'

Jyoti Sancheti
Company Secretary & Compliance Officer

"GRP Limited Q2 and H1 FY25 Earnings Conference Call"

November 18, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 18th November 2024 will prevail.

MANAGEMENT: **MR. HARSH GANDHI – MANAGING DIRECTOR, GRP LIMITED**
MS. SHILPA MEHTA – CHIEF FINANCIAL OFFICER, GRP LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to GRP Limited Q2 and H1 FY '25 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions, and expectations of the Company as on date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

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 the star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Harsh Gandhi, Managing Director, GRP Limited, for his opening remarks. Thank you, and over to you, sir.

Harsh Gandhi: Thank you so much, and very good afternoon to the ladies and gentlemen that are on the call. Thank you for joining us on the Q2 and half year FY '25 Earnings Call for GRP Limited.

Along with me today, I have our CFO, Ms. Shilpa Mehta and SGA, our Investor Relations Advisors, on the call.

We have uploaded our investor presentation on the stock exchanges and the website, and I hope you all had the opportunity to view the same.

Before I dive into the results, as we have been alluding to in our previous calls, our 50th year milestone isn't just about celebrating our legacy. I think all of us within the organization have been very clear that this is an opportunity for us to set the stage for our future. Over the past year, we have therefore been strategically evaluating high growth adjacencies that align with our expertise and vision and aim to strengthen our position as a leader in the sustainable materials space.

I am eager to share a few of the highlights in this area. The recycling industry is undergoing a significant transformation, as we all know, marked by increasing global demand for sustainable materials.

Within the industry of relevance to us, which are the tire manufacturers, they are actively and aggressively setting sustainability targets to integrate more recycling materials such as reclaim rubber, crumb rubber, biopolymers, and pyrolysis-based polymers into their products and formulations.

This shift has led to strategic partnerships being created between tire companies and recyclers to incorporate recycled content into their operations and is driving sustainability across the value chain.

The recovered carbon black sector, as an example, and recovered carbon black is one of the key replacements to carbon black in the manufacturing of a tire, is entering a new growth phase driven by emerging markets like India and Asia Pacific as well as rising opportunities in North America and Europe. Standardization efforts for RCB are gaining momentum to enable a greater adoption of this material in tires. Beyond tires, non-tire rubber goods like conveyor belts and auto components are also starting to commercialize using recovered carbon black in their formulations.

In Europe, the use of tire pyrolysis oil under mass balance systems is expanding, with petrochemical companies adopting its use to replace Naphtha. And now, over the last few quarters, even virgin carbon black producers are forging agreements to source TPO as a replacement to CBFS or to blend RCB into their products and partner with RCB producers for outsourcing such materials.

On trends in other materials that impact GRP's businesses, natural rubber prices for this year continue to trend higher during the year, and that is mostly because of a demand-supply mismatch, while synthetic rubber prices continue to stay elevated in tandem with the crude oil prices. Amidst these challenges, we have managed to implement a modest price increase for our reclaim rubber portfolio in the quarter under review.

Given the bullish demand in the coming years across geographies, our board had previously approved a CAPEX investment of up to 250 crores for related diversification initiatives. This was to be executed in two phases.

The first phase involving an investment of about 150 crores is scheduled for completion by December 2025, while the second phase will be contingent on the success of the initial projects. This project involves an outlay to grow capacity of crumb rubber manufacturing, including from radial tire sources, accompanied by downstream expansion in tire pyrolysis and recovered carbon black manufacturing.

These expansions are progressing as planned and expected to commence operations in Q4 of FY '25. Till date, we have already incurred an expense of about 24 crores in CAPEX towards this project. This is in addition to CAPEX incurred towards the creation of capacity for new technology to produce reclaim rubber.

To fund these growth projects, the company has signed a definitive term loan of up to 15 million euro to be drawn across three phases through an ECB from Proparco of France. This partnership with Proparco, which as an organization has been promoting sustainable economic, social and environmental development for over 45 years, will not only address our funding requirements, but also strengthen the integration of ESG principles into our operations and decision making.

Deepening our commitment towards sustainability, our investments in new technologies and the transition to renewable energy sources are specifically focused on reducing our carbon footprint.

The company has committed to invest in an SPV to establish a 4.3-megawatt solar plant under a group captive power scheme in Maharashtra. This plant is expected to contribute to our target of sourcing 50% of our energy needs from renewable sources in the coming years.

As part of this journey with Proparco, we aim to further enhance our governance, transparency and accountability metrics which we will appraise you through the BRSR framework in due course.

The Board has also approved raising an additional up to 150 crores through equity shares or other eligible securities via a qualified institutional placement or other permissible modes subject to necessary approvals to fund not just the above opportunities but others that are also on the horizon.

Our non-reclaim rubber business has shown significant growth with volumes increasing by 36% year-on-year during the quarter accompanied by a double-digit EBITDA margin. This growth was primarily driven by strong sales in the engineering plastics business.

We have successfully developed and commercialized grades of polyamide derived from ocean plastics and secured approvals from global majors, expanding into new markets, including the much stringent European nations.

This underscores our ability to diversify raw materials sources, reduce dependence on in-house inputs and mitigate supply risks while broad basing our customers within India and internationally across multiple end segments.

On the anvil is a government regulation directing auto companies to use recycled plastics in new vehicles which will possibly help our business grow further.

Meanwhile, our repurposed polyolefin business being operated under the wholly owned subsidiary GCSL, faces headwinds of delays in enforcement of plastic EPR regulation, which is stifling its scalability. While we remain optimistic about its growth potential, the evolving regulatory landscape is expected to drive the adoption of materials in plastics beyond the packaging sector.

The sourcing of polypropylene poses unique challenges, as it is typically not entering municipal waste streams in the same way that other plastics do. While these challenges are ongoing and the PP segment continues to be harder than what was envisaged, we have taken proactive steps by signing an agreement with the brand owner to procure post-industrial recyclers in select regions.

Revenue from our subsidiaries, which include GCSL and GSPL, where the polyolefin business is housed, totaled 147 million in H1 of FY '25. While these businesses incurred a loss during the period, we anticipate that they will start making a meaningful contribution to the bottom line as they will scale.

At GRP, our team is focused on overcoming the short-term challenges towards long-term value creation. To further align our employees with this agenda and the growth of the company, select team members are being offered ESOPs, allowing them to actively participate in our continued success.

With this operational background, let me hand over the call to Shilpa to take you through the financial highlights for the quarter and the year or the half year gone by. Shilpa, over to you.

Shilpa Mehta: Good evening, everyone. Let me take you through a brief on the consolidated financial highlights for Q2 and H1 FY '25 along with operational performance. For Q2 FY '25, our total income grew by 15% to INR 1,319 million compared to INR 1,148 million in Q2 of FY '24.

Although no EPR income was recorded this quarter, we are strategically positioned to maximize value from our credits. With the CPCB portal setting the EPR price band between INR 2.5 to INR 8.4, we continue to focus on optimizing our approach to maximize benefit of the same.

In the reclaim rubber segment, our revenues rose by 9% on a year-over-year basis to INR 1,119 million in Q2 FY '25. Reclaim export revenue increased by 8%, overcoming mixed trends in the global tire market, including growth in replacement tire demand but declining OE demand, particularly for truck tires in Europe and North America as well as challenges like Red Sea disruptions and container shortages.

Domestically, reclaim rubber consumption grew by 10% year-on-year basis in Q1 of FY '25, and our domestic revenue grew at the same rate in Q2 of FY '25 on year-on-year basis. GRP domestic market share has improved from 20% in FY '24 to 22% Q1 of FY '25.

Gross profit for Q2 of FY '25 stood at Rs. 670 million as compared to Rs. 608 million in Q2 FY '24, it was up by 10% while the gross margin stood at 51% for the quarter.

EBITDA for Q2 of FY '25 was Rs. 100 million compared to Rs. 115 million in Q2 of FY '24 reflecting a 13% year-on-year decrease. EBITDA margins for Q2 of FY '25 stood at 8% as compared to 10% in Q2 of FY '24.

Profit after tax for Q2 FY '25 was Rs. 25 million compared to Rs. 47 million in Q2 of FY '24 with a 47% decline on year-on-year basis due to a higher depreciation charge on account of new capacity creation and a rise in interest costs for the period.

For H1 of FY '25, we are pleased to report that our revenue reached Rs. 2,586 million in H1 of FY '25, which is reflecting a 20% year-on-year growth. The revenue growth led to a meaningful rise in EBITDA. Of this revenue increase, in the reclaim rubber segment, our revenues increased by 16% in H1 of FY '25 to INR 2,231 million.

Our earlier investments in renewable energy sources such as solar, wind and bio briquettes have continued to deliver savings resulting in a 2% reduction in energy cost, equivalent to Rs. 47.6

million during the half year, despite an increase in power tariffs between 9% to 11% in base rates.

Gross profit for H1 of FY '25 stood at Rs. 1,340 million as compared to Rs. 1,135 million in H1 of FY '24, which is an increase of 18% on year-on-year basis.

EBITDA for H1 FY '25 is Rs. 233 million as compared to Rs. 185 million in H1 of FY '24. That is an increase of 26% over FY '24. EBITDA margin for H1 FY '25 was 9%, which is consistent with the margin of H1 FY '24.

Profit after tax for H1 FY '25 is at Rs. 69 million as compared to Rs. 67 million in H1 of FY '24, which is up by 3% on year-on-year basis.

On the debt side, our gross debt, which includes both long-term and short-term debt, stood at Rs. 1,155 million in H1 FY '25, and our debt-equity ratio is at 0.69 in H1 FY '25 compared to 0.67 as on March 2024.

With this, I now open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Kabir Dewan from Rio Investments. Please go ahead.

Kabir Dewan: Just a question from the EPR credit. Like what is your strategy on EPR credit in coming quarter? As I could see, there is no revenue coming in this quarter from EPR credit.

Harsh Gandhi: As far as the EPR revenue is concerned, we have maintained that our policy will continue to be booking the revenue on a cash sale basis. We continue to build inventory of EPR credits, and in the last few months, there has been one change as far as the regulatory update is concerned.

Starting September, the government has put in place a notification to announce the minimum support price and the ceiling price for the credits, which was one of the uncertainties until September. So, given that condition, now there is a little more predictability on the price of the credits and, therefore, a way to sort of estimate the revenue potential for the same.

However, on the other side, as far as the number of credits itself is generated, since we are in year two of the regime, currently, the producers are required to procure up to 70% of their production of the previous two years as credits in this year. We will know the full extent of the impact once it gets to 100% requirement as to whether there is a demand-supply imbalance or not.

And as a result of that, if there is likely to be any change to the weightages in the assignment of credits, we will not know until the regime is at 100% of procurement of credits. So, as a result of that, we have not sold any credits in Q2 of FY '25, and we continue to build an inventory of the credits that we have on the portal.

Kabir Dewan: I think fair enough. And again, on circling back on the same thing, like if it remains at 70% or if it remains at 100%, can you share how many credits do we have like maybe a tentative number?

Harsh Gandhi: As I said, because there is a lack of clarity as far as the final weightages and the conversion factors are concerned, there may be changes undergoing in that. As a result, so far, we have refrained from announcing the number of credits because these are subject to fluctuations. As I said, as and when we book income against the credits that are there, we will not be in a position to announce the numbers. Last year, as I mentioned again, we sold a large part of credits of '22-'23 in FY '24. Some others were sold in Q1 of this financial year.

Moderator: Thank you. The next question comes from Radha from B&K Securities. Please go ahead.

Radha: Sir, my first question is that for the last three consecutive quarters, there has been a constant increase in raw material prices. So, as prices are revised with customers every quarter for our company, so, I believe that in this quarter, we will see gross margin expansion because of price revision with customers. However, that is not played out. So, sir, by when do you think we can pass on the raw material increases to the customers?

Harsh Gandhi: So, gross margins are both function of the realizations as well as the raw materials. You are right that gross margins over the last couple of quarters, consecutive quarters, there has been a little pressure. This is on account of two factors.

One is the dip in the export volumes, and as has been said in the past, our margins from exports have always been higher than the margins in the domestic market. The fact that our export volumes, on a quarter-on-quarter basis, in absolute terms have dropped, this has partly affected or resulted in the gross margin reduction.

The other factor is also the product mix. I think our gross margins are not always consistent in like-to-like comparison because there are certain synthetic rubbers that are of much higher value than the natural rubber reclaims we sell. So, depending on the percentage of mix between natural and synthetic rubber, our overall gross margins vary accordingly.

In the last couple of quarters, there has been increasingly more pressure on synthetic rubber reclaims when it comes to margins, and that is the reason overall margins are little muted.

I would say, even this quarter, the way the outlook is, given that more than half of this quarter is over, we are continuing to see a little bit of a pressure on gross margins on account of both the lower sales in the export market, as well as a little pressure as far as the raw material prices are concerned for the synthetic rubber-based reclaims.

When it comes to tire-based or natural rubber-based reclaims, our margins continue to actually, I mean, there has been an expansion in the margins there. The synthetic rubber continues to be a little bit subdued on account of this.

With synthetic rubber, our sales are mostly international. So, therefore, it is a double whammy. When the demand for synthetic rubber reclaims drops, it is mostly the international markets and that is why the overall gross margins are impacted a little more than otherwise.

Radha: What percentage of sales are natural rubber versus synthetic rubber?

Harsh Gandhi: Roughly 60 odd percentage of our volume sales are natural while about 40 has been synthetic. But as far as the current year is concerned, as I said, the exports have dropped from a little more than 60% in the previous year to closer to about little lower than 60% (Factually corrected). And when it comes to natural rubber-based reclaims, the number kind of continues a little bit at a similar level.

Radha: Sir, your presentation mentions that the synthetic rubber prices have remained elevated. So, is it fair to understand that when the prices remain elevated, that time we will witness an adverse mix?

Harsh Gandhi: Yes, you are right. While synthetic rubber prices would be higher, it would be easier for us to absorb or rather pass on the price increases to the customers, but this financial year along with the synthetic rubber prices, the freight costs have gone up and therefore our ability, I mean, if you look at last year, freight costs had come down over a period compared to FY '23, and we were able to ride on the margin with expansion on account of the export freight reduction.

In FY '25, we have seen for the first six months, in fact, up till October, the freights were fairly high compared to FY '24 freights on account of the Red Sea tensions, which now we are starting to see the moderation happen, but as a result of the freight price increases, not all of the raw material price increases in synthetic rubber we were able to pass on.

This quarter, while the benefit of freight is available, the price increase in materials is a little more steep than before. But I do see that, if I may, next year the demand outlook is looking fairly flattish. I would expect that the raw material prices would sort of start moderating post December-January of this fiscal.

Radha: So, sir, what I understood is that if the synthetic rubber prices go up and the freight trade prices reduce, so that could be a favorable scenario for us and that could be a scenario where we would experience expansion in gross margins. Is that understanding correct, sir?

Harsh Gandhi: Look, ideally, whatever increases in prices, if we are able to pass through, obviously we retain or improve our margins. But that is an ideal world, unfortunately, where we don't live in. You know, there is a demand-supply imbalance at times, but increasingly, as I said, freight costs for this year have been a little high, and that has been compounded with higher raw material prices for synthetic rubbers and has been compounded further with our export volume dropping a little bit compared to the previous years. I would say it is a combination of these three factors where the gross margins are lower on a sequential basis over the last three quarters.

Radha: Sir, actually, raw material is end-of-life tires for us, and I am unable to track the raw material prices. Is there a way where we can track the end-of-life tires or is it correlated or interlinked with any commodity that we can track on a quarterly basis or monthly basis to understand how our gross margins could pan out?

Harsh Gandhi: I would say our sourcing of raw materials is end-of-life tires which is all going towards the natural rubber reclaim, but then the synthetic rubber reclaims are all based on automotive inner tubes, EPDM profiles, etc., which actually have no link to the tire prices. So, they are two operating and independent categories.

When it comes to waste tire prices, they are dependent a little bit on prices of oils because the alternate use for end-of-life tire waste is tire pyrolysis, and therefore the prices of furnace oil as well as crude oil have a role to play in determining the price of the end-of-life tires.

When it comes to synthetic rubbers, that is not the same dynamic at play. There are other factors at play: synthetic rubber reclaim is produced in several other parts of the world, and therefore, there is global trade which has a role to play, so is the freights have a role to play, etc. So, the two dynamics are very different when it comes to natural rubber reclaims as well as synthetic rubber reclaims.

Radha: Another question was that the PPT mentioned that the company has incurred, and you mentioned in the opening remarks also, that we have incurred a CAPEX of 24 crores for this new project of recovered carbon black and pyrolysis oil. This will commence from 4Q FY '25. I was under the impression that our Phase 1 CAPEX will complete by December '25 and post that only our plant will start. So, some clarity on how this is going to work, I mean, from when can we book revenues from the current CAPEX and also if you can layout the CAPEX break-up, like how much would we spend in FY '25, FY '26, FY '27?

Harsh Gandhi: So, I am happy to comment on what we would spend. I mean, as has been indicated, we have considered a total outlay, which is far larger, but by December 2025, the total CAPEX starting earlier this fiscal, which is, you know, we have been mentioning that right from when the land acquisition for this new project all the way through to expansion of reclaim rubber capacity using new technology, as well as setting up this new project as a Greenfield, all of it is within the overall CAPEX of 150 crores.

Out of this, the project, which is the greenfield project for production of crumb rubber, production of tire pyrolysis oil, and production of recovered carbon black, this in itself will also come in two phases on that same piece of land, and therefore, the 150 crore will be through the entire phase of all of these capacities getting commissioned.

We are starting the crumb rubber facility in one line or one phase of the tire pyrolysis facility, for which commissioning will be completed in this fiscal. Therefore, in Q4 of FY '25, revenues from this phase 1 of phase 1, so I would say phase 1A would be operationalized. There is a certain further investment in building out downstream of recovered carbon black etc., which would be another 3 to 5 months post the commissioning of Phase 1A, and then there is Phase 1B, which will be an additional line of pyrolysis and crumb, which will all be completed by December.

So, this is a fairly large project, and therefore we are phasing it out such that revenues can start from Q4 of this fiscal. And as we are adding more parts to it, both at the upstream and downstream, and we are also building capacity, all of this will be completed by December 2025. As I said, part of this 150 crore will also be used for adding capacity of reclaim rubber using the new technology, one line of which has been commissioned, and the other lines for that will get commissioned also during either Q1 or Q2 of FY '26, and that is also inbuilt in this Phase 1 of overall 150 crores.

I think some of this, if there is a need for clarity, we will update our investor presentation or provide more details of the same after the Q3 results of the company. By then, there will be greater clarity on the timeline, and we will be happy to provide a more detailed timeline on this.

Moderator: Thank you. The next question comes from Ajay Kumar Surya from Niveshaay. Please go ahead.

Ajay Kumar Surya: Sir, we have incurred a CAPEX of around 24 odd crores. Sir, I wanted to quickly ask on the capacity which we are building for recovered carbon black and the tire pyrolysis, the capacity, the technology which we have adopted for manufacturing recovered carbon black and on the product approval side, and do we have approvals from the tire companies for selling the recovered carbon black, or are we going to sell this for non-automotive users?

Harsh Gandhi: As far as recovered carbon black is concerned, as I mentioned, the phases 1A, B and C. The recovered carbon black will be part of 1B. So, therefore, currently, we are evaluating a couple of technologies which are based on a combination of equipment which we are sort of customizing based on our understanding of the industry. So, we only have a pilot plant at the moment, from where we have commenced sampling, but this is not the commercial plant, and therefore we do not have any approvals from any tire manufacturer as of today.

As I mentioned in the preamble or in the opening, we will be exploring and offering our RCB not just to the tire companies but also working closely with virgin carbon black producers, as well as petrochemical majors, when it comes to sale of the tire pyrolysis oil. So, we are keeping our options open and working with not just tire companies but also with others in the value chain.

As far as the capacities are concerned, it is fairly complex because the capacity of crumb rubber, part of it will be used for sale externally, part of it will be used for in-house consumption for TPO as well as reclaim rubber, and then, within the pyrolysis capacity, some amount of capacity will be captive for production of recovered carbon black, while some amount of material will get sold.

So, I think some of it we will provide clarity on as part of the timeline that we put out in Q3. It is a little complex because we will be building the largest capacity of crumb rubber, followed by a funneled down capacity of pyrolysis, followed by a funneled down capacity of the recovered carbon black. We will be able to provide all this information in the subsequent presentation uploaded post the Q3 results, by which time, hopefully, we will commission this capacity. So, I think the announcement will follow closely with capacity commissioning as required by the stock exchanges, as well as by the DIPP.

Ajay Kumar Surya: Sir, my next question is on the EPR income. Sir, you mentioned that there has been a regulatory update where the floor and ceiling price has been announced for EPR credits. Sir, just wanted to ask the previous credits which we have sold, are those in that price band or have we sold that above the price band which has been announced by the regulatory bodies?

Harsh Gandhi: So, I have made it clear during the previous calls that we have sold credits at prices ranging between Rs. 2.8 to Rs. 3.5 a Kg. As I mentioned, the floor price has been set at Rs. 2.54 a Kg. So, most of our past credits have sold above the minimum support price, way below the ceiling price but reasonably higher than the minimum support price. And we have not sold the credits which were available to us for the FY '24 production, but we will be undertaking sale of those during the course of the next two quarters, including this one.

Ajay Kumar Surya: Sir, my final question is again on the reclaim rubber. Sir, can you provide the current capacity and the current capacity utilization? And you mentioned that we are adding a new line and reclaim rubber changing the method of production. So, post that now what will be our capacity in reclaim rubber, if you can also provide that?

Harsh Gandhi: So, our stated capacity for reclaim rubber is 72,000 tons or 72 KTPA, of which currently we are operating at closer to 90% of utilization. As far as our new tech is concerned, the capacity will be to the order, depending on the product, and again we are in the process of final configuration and deciding how much of natural and synthetic rubber it can produce.

But between the two categories of products, the capacity could be between 3.5 to 5 KTPA, and there the utilization is much lower, closer to maybe 30% or thereabouts, because we are still in the phase of product approvals and process stabilization. We are much closer. I mean, we have now moved.

I have been mentioning that this is a technology which will allow us to produce a better quality reclaim with lower emissions and lower dependency on manpower. I must state, since you asked the question, that we have moved to advanced stages of piloting with two tire companies in India and with one of them, we are already having conversations about possible commercial volumes.

But I think we are fairly hopeful that before the end of this fiscal year, we should get a meaningful approval and hopefully start adding capacity as well as utilizing more than 50% to 60% of that capacity as well.

Moderator: Thank you very much. The next question comes from Karan Gupta from InvestSavvy PMS. Please go ahead.

Karan Gupta: So, the first question is how much EPR credit we have as we are confused about the EPR conversion, but in terms of units can we measure that? Can we get an annual estimate of, let's say, what kind of number are we generating on a quarterly basis and what inventory we have assuming, let's say, the rate is Rs. 3 a unit. Now I know it's a ballpark very off, but say Rs. 2.5 to Rs. 3 a unit which you get because we are not able to ascertain that what is the kind of inventory which is already being generated and what is the plan like?

Harsh Gandhi: So, I can answer the question in terms of how one can estimate the EPR, but as I mentioned, some of this continues to remain fluid, and therefore it is tough to put an exact number. Yes, we do have an inventory of credits, but as I said, because there is uncertainty around the weightages as well as the conversion factors, and there is a likelihood that this may change, it won't be fair for me to put out a number of current inventory.

Karan Gupta: Sir, you can give us a range. Sir, the challenge is it's fluid. If you can't estimate, you can obviously understand we are in a much worse position to try an estimate.

Harsh Gandhi: Yes, I don't want to necessarily mislead you.

Karan Gupta: I would take it with a handful of salt instead of a pinch of salt and you can give a wider range also, but some estimate as to what is there because basically EPR is becoming an integral part of the company value. It is no longer a small portion of the overall revenue. It could be a large portion. So, at least some guess if you were to hazard because you are definitely in much better place than any of us to get anywhere closer.

Harsh Gandhi: Karan, I get your question, and I understand your conundrum. I will answer this. I have already, if you think about it, Karan, if you put numbers together, I have already answered this. It is just that I can't go beyond a certain level of disclosure. The formula for EPR, and I am reminding you again, is very clear. It is there on our investor presentations, but I will be happy to take you through this.

It is the quantity of reclaim rubber that we sell which is produced from domestic waste of materials that we procure, multiplied by a weightage which in case of reclaim rubber is 1.3, multiplied by a conversion factor which for reclaim rubber currently is 1.3.; multiplied by a yield factor which for waste tires is at 78%. (if considered on purchases)

So, that is broadly the amount of credits that we generate. I have already answered the question on capacity, utilization, and therefore if you put all of this together you will have a fair estimate of what is the current inventory of EPR that we are holding,

Karan Gupta: You said quantity into 1.3 for weightage, 1.3 for conversion and 78% for yield.

Harsh Gandhi: I am sorry. Again, you said quantity into weightage of 1.3, conversion of 1.3 and yield of around 78%, ballpark.

Harsh Gandhi: The yield is essentially, for every tire, the extent of rubber that comes out is about 0.78, and that is why there is a 1 divided by 0.78 or 1.3x conversion factor, which is how it is getting calculated.. So, very broadly, if you were to look at it, of our domestic sourcing, whatever is the reclaim that we produce, multiplied by 1.3, multiplied by 1.3. That is a fair estimate of the number of credits that we are generating.

Now, I am saying this in multiple conference calls, that our sourcing percentage from domestic and import sources I have been putting out there. I have been putting out our capacity and utilization, and this formula is out there. So, Karan, I think beyond this, to put out a specific number would be unfair disclosure of things which is not within our purview.

Karan Gupta: The first thing is about what percentage? So, domestic sources, what percentage is the total sourcing?

Harsh Gandhi: Look, for last year we have indicated that about 92% of our total sourcing was domestic. This changes on a month-to-month, year-to-year basis. This is as much of information that we can provide for you to estimate

Karan Gupta: And current, this year what kind of capacity do you expect to utilize?

Harsh Gandhi: I gave that answer in the previous question. We are currently operating for our traditional capacities at closer to 90% and for new techs at closer to 30% to 35%. I have already given these numbers, Karan.

Moderator: Thank you. The next question comes from Tanya Desai from Elevate Research. Please go ahead.

Tanya Desai: I have a couple of questions. My first question is what steps are being taken to improve profitability for GCSL and GSPL? Also, how soon do we expect these subsidiaries to start contributing positively to our bottom line.

Harsh Gandhi: Why don't you run through all your questions, so I will answer them all together? You said you have a couple of questions. That's why I am asking you.

Tanya Desai: My second question is regarding the non-RR segment. That particular segment has shown a promising potential. So, how do you see this segment evolving in the next few quarters? I just had these two questions.

Harsh Gandhi: So, I will start with the second question first. The non-reclaim rubber business within GRP is essentially the business of polyamide, which is nylon recycling, as well as the rubber composite and the CDF businesses, which are fairly small businesses at the moment, but they are fairly strategic for the overall operation.

As far as the engineering plastics or the nylon business is concerned, I have indicated that we are slowly getting to an increasing level of utilization as we are getting approvals, both from global compounding players, I mean engineering plastic compounders, as well as tier 2 and tier 3 automotive component producers. We are also making inroads in the furniture and the electrical segments.

So, we are starting to diversify our customer base across these four broad categories, and we are slowly but surely getting customer approvals from this. It took us some time to establish a set of products, but now we are fairly confident, and we are kind of building the scale there. We have capacities of roughly 6 KTA, of which now we are getting closer to 70 plus percentage of utilization levels, and we are fairly confident that as this scale up happens, we should be able to target more markets.

We have now, in the last two quarters, actually, this financial year, we have got a couple of global approvals, and therefore, we are starting to see that this business will also have an export potential in markets where automotive products require recycled plastics to be incorporated, Europe being one of the key examples or markets for this. So, we are building out scale in there, getting more approvals, and becoming a preferred supplier to several compounding companies.

Now, therefore, that is as far as the outlook for non-RR is concerned. We are fairly confident that by end of this year, if we get to beyond 85% utilization, we will start drawing up plans for the next round of expansion for the engineering plastics or the polyamide business. So, that is broadly as far as the non-RR is concerned. Sorry, within non-RR, I didn't touch upon the composite and the CDF business. Currently, they are maintaining status quo. We are working on a few developments, and as and when we have any progress to report, I will come back to you on the same.

Now, getting to the subsidiaries, which is GCSL and GSPL. GCSL is a subsidiary created only for the purpose of repurposed polyolefin recycling, and that is one where, as I have been indicating in my past conversations, plastics or rather the polyolefin plastics are a much larger opportunity volume-wise compared to rubbers and some of these others, but this is a fairly nascent industry. This has been established on the back of government regulations mandating circularity for packaging companies and brand owners that are in the paint, lubricant and all kind of other organized rigid packaging spaces.

However, the regulation has been pushed out by one year on account of the lack of readiness by the recycling industry to meet the demand for this material, both from a performance as well as a capacity point of view. So, while currently the brand owners have approved our material for use in their packaging requirements, until the regulation kicks in, there is no hurry for the brand owners to incorporate this on a regular basis. So, we are hoping and waiting for April 2025 for the regulation to kick in before the demand curve sort of picks up on a steep basis.

As far as GSPL is concerned, it is a company that was set up for sourcing of end-of-life tire and plastic waste in different parts of the country and to set up satellite units that can become feeders for our main units. The idea being that end-of-life waste collection is optimized when it is semi-processed and a reduction in size is achieved before it goes to our main units.

Now here, a large part of this is based on achieving a certain scale and then expanding the footprint of collection when the mother units require larger volumes. So, this is, in some ways, a longer-term thought process. As our pyrolysis business gains momentum and requires much larger volumes, the GSPL or the unit for semi-processing of tire waste will actually start adding much more value to GRP because we will be collecting material from far off places, processing it into semi-processed crumb rubber before it moves to our mother unit such that the efficiency and optimization of freight can take place and overall cost synergies can be achieved.

Since this is linked to a large part to the setting up of the tire pyrolysis businesses and the crumb rubber facilities, as and when that unit comes up by Q4 of FY '25 and keeps building up, the profitability of GSPL will also improve. I hope this answers the questions on the subsidiaries and how we are seeing them likely to contribute to the profitability going forward.

Moderator: Thank you. The next question comes from Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, sometime back we had announced for the right issue and then that plan was dropped, and I believe in last con call, it was mentioned that this 250 crore CAPEX would be done in internal accrual and through debt, and now again, there is a QIP of 150 crore and ECB loan. So, sir, what are the plans to finance this 250 crore and how do you propose to go for this QIP?

Harsh Gandhi: I think it is fair to ask because, in the last one year we have made several of these announcements and intentions. So, I appreciate your asking the questions. So, let me take you through each of these.

The rights issue was announced at the time more or less same time as last year. Unfortunately, the approval processes from the stock exchange were fairly lengthy, and during the period when approval was received from both the stock exchanges, there was a fair run-up in the share price, as a result of which there was a lack of confidence from a large portion of the investors as far as the subscription was concerned.

And as a result, while we have that approval and we are still contemplating exercising the same, we decided to look at alternate means of funding. As we had indicated in the overall plan that we want to look at a combination of debt, equity and internal accruals, we continue to maintain that same balance as far as the deployment of the funds is concerned.

The ECB was taken both with the view that it fulfills our debt component of the contribution. However, going to a DFI was more to validate the technology given that things like RCB, TPOs etc., are more mainstream and commercialized in Europe, and therefore, getting a validation of a European development agency allows us to sort of validate what we are doing, provides us also comfort and confidence when it comes to the technology that we are working with. And of course, in the long run, we believe that there will be fair amount of synergies with the kind of companies that they are working with. So, rather than a traditional plain vanilla bank loan, we decided to look at a DFI ECB to fulfill the debt part of the obligation.

The reason that the QIP has also been taken is that as we are having the conversations with our customers, we are seeing that the need to build scale will be much quicker than what we thought we would need in the past, and that's why we are taking this enabling resolution from the Board to allow us to look at this equity infusion.

Of course, it will go through the necessary approvals as far as the shareholders are concerned, and at that stage, once we receive the approvals and we know the sense of enthusiasm as far as investment is concerned, within the equity route, we will now have an option of looking at a QIP and or the rights to fulfill the equity portion of the commitment.

As far as internal accruals are concerned, we have already maintained that steps are being taken to improve the profitability through a combination of investment in reducing energy costs as well as building scale that will allow us to make more profits, and that, along with the EPR income approval, will address the third leg of the contribution which would be the internal accruals.

So, I mean, these are enabling resolutions up to a maximum of and it will depend a lot on the level of dilution, the level of investment interest, and the investment in the project will also be, as I mentioned, across multiple phases. So, we will be very careful in ensuring that we will not overleverage, we will draw against what we create as capacity and what we add as investment on the ground.

So, I think the idea of taking the resolutions and taking the permissions is to allow us the flexibility. The final calls will be taken based on the most prudent mix of the three, which are the internal accruals, the debt and the external equity raises.

Ritesh Poladia: That is fairly elaborated. The other thing was this 15 million Euro ECD, it is from the development institution Proparco. So, is this having some differential interest rate, or it is a market driven or what are the other advantages to go for a DFID?

Harsh Gandhi: There are two parts. One is the loans are not going to be at a preferential rate in any way, I mean, they are going to be on par with other debt securities, but with the added monitoring as far as ESG credentials are concerned. And therefore there are specific targets that we have jointly adopted towards environment compliances for reducing carbon emissions and overall GHG reduction, as well as social impact measures that we are building in as part of our business plan and are getting recognized by the DFI with support that they will provide us on several of the social agendas, including social impact along our supply chain, targets for women empowerment, as well as community building etc. So, the DFI will help us on the ground for the development of the supply chain which is a key component of our business plan itself. So, that is one of the reasons.

The third is, of course, that given that your company generates 60% of its revenue through foreign currency, ECB makes sense, given that there is a natural hedge as far as the payment of the principal and the interest are concerned. So, combination of these three factors, we have decided to go for a DFI ECB rather than, as I said a plain vanilla interest, I mean, Indian bank loan.

I think we will probably extend and take one last set of questions, moderator?

Moderator: The next follow-up question comes from Ajay Kumar Surya from Niveshaay. Please go ahead.

Ajay Kumar Surya: Sir, my question is more on the, if you can throw some light on what's happening across the industry because even we are expanding aggressively. So, if you can also highlight like are other players also setting up capacities all in terms of reclaim rubber, pyrolysis or the recovered carbon black, how aggressively are they building in capacity and what sort of challenges or opportunities do we see in the market going forward?

And just another one on the previously asked question by me, so, sir, what sort of capacity are we planning to add in the phase 1B for recovered carbon black? And do we expect the margins to be better than the reclaim rubber?

Harsh Gandhi: I will take each of these questions separately. First one is regarding the competitive opportunities or what's happening as far as the competitive landscape is concerned. And I will divide this into three separate sections. I mean, you talked about reclaim rubber. I think within the reclaim rubber space, we do understand that there are several of our competitors that are also expanding in line with what the market expectations are.

Most of the organized players, in my view, would be expanding given that the proximity to the tire companies or the relationships with the tire companies would ensure that there is growth for them as well as they grow.

So, I would say, if you were to look at the tire sector, there is a fair bit of growth that is expected, and that growth should obviously mean that there will be an expansion of capacity as far as reclaim rubber for tire sector is concerned.

When it comes to the GRG sector or the non-tire sector, it has been fairly strange. But in India, in the last one year or so, there has been a significant growth even in the non-tire consumption of reclaim rubber. So, this is an industry which is a lot more sensitive to prices in virgin rubber. And therefore, as the virgin rubber prices have moved up in this calendar year, there is an increasing consumption of reclaim rubber by the GRG sector as far as India is concerned.

I don't know and can't comment on whether this growth is going to be sustained into the coming years, especially if the virgin rubber prices sort of reverse from here on forward. So, we are tagging our growth, as far as reclaim rubber capacities are concerned more to the expectations and conversations we are having with the tire industry. I can't comment on whether the others that are expanding are mirroring that growth or are growing beyond or lower than what the expectations of the entire sector is. So, that's far as the capacity for reclaim is concerned.

Within the reclaim rubber space, there is maybe one or two players more that are adding capacity with the type of new tech, if I may, and I am saying new generation of technology for reclaim rubber, which will be less dependent on manpower, etc., and there is some amount of capacity expansion in that space that is happening, not as much in India but mostly in North America and Europe. So, we are seeing some amount of competitor intensity from those markets when it comes to capacity creation for reclaim rubber, using quote-unquote, new generation of technology.

When it comes to the next part of your question, which is the capacity for recovered carbon black, I think the reason why this is being done in phases is very clear that we need to validate the product and get approvals from carbon black producers as well as from the tire companies. So, the reason we are keeping it as a phase 1B is because we want to first establish our technology for pyrolysis as well as crumb rubber, ensure that the right product is put through our pilot process to produce the right product which gets approval, and thereafter we will sort of create the large capacity as far as commercial scale is concerned.

So, at this stage it may be a little premature to announce what is the capacity of RCB that we are setting up although we do have an idea of what that configuration is likely to be. I will only answer this a little subjectively. The capacity has to be large enough so that the tire industry will be interested in it, and it has to be a little small to ensure that the financial risk of the investment is not going to be a burden as far as the balance sheet is concerned. So, I think that balancing is something that we will look at, at the right stage once our pyrolysis unit and our crumb rubber facilities get built out.

The other side is also the crumb rubber itself, I mean, there has been a lot of public news around the use of crumb rubber for road surfacing in other sectors. So, mirroring that, as I have mentioned in the past, this is not a high technology area, but this is an industry and a product category that we can expand into quickly because we have the know-how and the technology.

So, we are putting up capacity, and we will start getting a feel of those markets which are not to do with the rubber industry but outside of the rubber industry, which could be road surfacing and others. We will mirror the capacity to reflect what tire pyrolysis is, but we are creating a buffer and an excess capacity of crumb rubber which we will want to use for non-reclaim rubber or non-pyrolysis applications as well. So, that capacity is also inherently getting created as part of this expansion.

I think I have answered all your questions with regard to the competitor landscape, capacity creation as well as the RCB. I hope that addresses your question.

Ajay Kumar Surya: Sir, just on the margins, if you can also add a comment like what sort of margins and asset turn would be in the CAPEX for RCB?

Harsh Gandhi: So, RCB, as I said, since it is going to be an investment that we will be making at least six months after our pyrolysis plant comes on stream, I would say, it is a little early for me to comment on whether the margins will be equal to or better than reclaim. Of course, our aspiration and objective would be to have margins which would be better, but I think we will at some stage start looking at consolidated margins because we will have one raw material and five different end applications or industries to cater to.

At some point, we will start looking at consolidated margins. And the expectation, and I think the confidence is very clear that the overall margins with us having multiple industries to sell to and having multiple raw materials, which is not just relying on bias tires but also being able to use radial tires, also being able to use two-wheeler and four-wheeler tires will allow us to get much better margins than what we are getting on a consolidated basis.

So, I can leave you with that thought that overall margins at an EBITDA level would be significantly better, given that we will use different raw materials, and TBB, or the truck and bus bias is among the most expensive raw material and all the others are much lower cost, and us having access to a much larger set of industries will ensure that our overall margin pool will be better than what it is currently.

I leave you with that thought and we thank each of the participants for attending this meeting. I am sorry, it's taken a little longer than what we expected, but happy to have addressed all the queries. If there are any specific queries that any one of you may have independent of this, I would be more than happy to address them. Please write to us at our Investor Relations link on the website and or reach out to our Investors Relations Advisors, which is SGA, who are on the call today. We would be more than happy to take some of these calls and address your concerns from time to time. Thank you once again for attending this conference, and look forward to speaking to you all in a quarter from now. Thank you.

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