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GRP
IMPACT POSITIVE

27/05/2024

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 held with analyst/ institutional investors on 21st May, 2024 at 5.00 p.m. IST to discuss operational and financial performance of the Company for Q4 & FY 24.

Kindly take the same on your records.

Thanking you,

For **GRP Limited**

HARSH RAJENDRA GANDHI
Digitally signed by HARSH RAJENDRA GANDHI
Date: 2024.05.27 17:41:57 +05'30'

Harsh R. Gandhi
Joint Managing Director

“GRP Limited Q4FY24 Earnings Conference Call”

May 21, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 21st May 2024 will prevail.

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

Moderator: Ladies and gentlemen, good day, and welcome to GRP Limited Q4 and FY '24 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 the operator by pressing the star then zero on your touchtone phone. Please note that this conference is being recorded.

Today on the call, we have Mr. Harsh Gandhi, Jt. Managing Director, Ms. Shilpa Mehta, CFO. I now hand the conference over to Mr. Harsh Gandhi. Thank you, and over to you, sir.

Harsh Gandhi: Thank you and a very good afternoon to all the participants on the call. Thank you for joining us on GRP Limited Quarter 4 and FY '24 Earnings Conference Call.

As indicated, I have along with me today our Company 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 Company's Website, and I hope each of you have had the opportunity to go through the same.

Fiscal Year 2024 has been an eventful year for the Company. Several Company-wide initiatives that we have been working on over the last years seem to have fructified and the macroeconomic environment in the industry which we are operating in has provided the much-needed tailwinds and in our view is setting us up for continued success.

I will briefly highlight the key macro events and internal highlights of the Company before providing the outlook for the forthcoming year:

After three long years of working alongside the Government of India's Committee on Extended Producer Responsibility comprising policymakers, regulators, (which is the Central Pollution Control Board), the tyre brand owners and the tyre recyclers, the EPR regime was successfully launched, the portal created, and sales of credits have commenced.

It has been an arduous journey, which incentivizes recyclers to generate an additional stream of revenue to invest in upgrading supply chain and deployment of new technologies. Your Company has partially realized sales of EPR credits against its entitlement for the year 2022-23 and has generated credits on the CPCB monitored portal for the years '22-'23 and '23-'24 and as well for the current financial year.

As global brands focus on their ESG credentials and emissions scopes, a key expectation that these brand owners have from recyclers is the need for improved visibility across their supply chains and emissions through their processes. GRP has been at the forefront of such initiatives and through the years has worked on improving its matrix.

This has resulted in GRP being the first reclaim rubber manufacturer to be certified for ISCC, (which is International Sustainability and Carbon Certification). Its efforts at supply chain and workplace practice improvements have led to an upgrade in its CDP rating, (which is the Carbon Disclosure Project), and its engineering plastics and repurposed polyolefin business has been certified for GRS, (which is the Global Recycling Standard) for traceability in recycling value chains.

As GRP set up the repurposed polyolefin business under a wholly owned subsidiary, this Company formally started its manufacturing operations in Q4 of FY '2024 along with obtaining key customer approvals in the paint and lubricant packaging sector. These stringent product approvals obtained post-extensive process and application testing will go a long way in establishing GRP as a partner of choice in this industry. And as the industry is compelled to use a higher amount of recycled content, this will benefit GRP, establish, and continue its success in the non-tyre business.

Another highlight during the year under review was the successful approval of the engineering plastic product portfolio by a global compounder based out of Europe. As Europe is at the forefront of recycled content use, this approval paves the way for potential use in automotive, OE brands and increased dependence on GRP products in that category.

As brand owners detail their intent to increase consumption of recycled rubbers, the onus on technology development to allow for increased use rests on the tyre recycler. GRP has successfully commissioned a new technology for manufacturing reclaim rubber. This new technology is based on increased mechanization, provides for improved mechanical properties of the rubber and in turn allows for increased use in formulations by the tyre brands. This technology, hopefully, will be approved during the current year and provide the much-needed growth momentum for the reclaim rubber business in the coming years.

With emerging clarity in the EPR regulation and the resultant incentives for different types of tyre recycling technologies, GRP has acquired land adjoining its existing facility in Solapur to set up a crumb rubber plant and venture into downstream recycling over the years. The proposed plant will implement clean technology devoid of any waste generation.

Let me go through the macroeconomic update affecting individual businesses. As far as the rubber business is concerned, the tyre industry in both India and key global markets has had a volatile year. The economic slowdown and the inventory reduction across the value chain that has been taken up by the tyre companies globally has resulted in an overall demand of replacement tires to go down in calendar year 2023.

In India, on the other hand, the demand for rubbers has increased by 4% in calendar year 2023, but the reclaim rubber demand fell by about 4%. In backdrop of this, GRP has been able to grow its market share in India by 3 percentage points in the calendar year 2023 over 2022.

Our export volumes have decreased by about 11%, and that is aligned with the subdued global market conditions, which reflected in a 3.5% decline in overall rubber consumption, although the reclaim rubber exports from India were by and large unchanged. Our share of exports from the country is maintained while notable improvements in margins have been witnessed, thanks to the significant reduction in ocean freight costs over FY’2023, which enabled us to manage these challenges of exports effectively.

I will now go over the non-reclaim rubber businesses. During the year under review, the price of key polymers, essentially nylon or polyamide, which is a key product category for your Company, has been volatile with a deviation of as high as 14%. Despite such volatility in the nylon prices during the year, GRP was able to grow its volumes in this sector by 13%. Now this increase is quite significant given that the Company's operations had not stabilized until the end of Q1 post the fire incident in February 2023 at its engineering plastic plant.

As the Government of India focuses on implementing the EPR regulation also in the plastic sector, the focus is on embedding increased circularity. The recognition that the recycling industry needs much longer time to come up to the standards of recycling required to feed the growing plastic packaging sector of the economy. This has prompted a delay in implementing the EPR regulation and the same is likely to be stabilized in the current year. Despite this, brand owners continue to increase usage, and this has led to a Q-on-Q increase in volumes for GRP for this particular business.

GRP was also successfully able to introduce a new range of products in its engineering plastic business made from ocean plastics, which is mostly fishnet waste. The growing focus on cleaning up the oceans has created major opportunities for end products based on such recycled materials and GRP is confident of this new product development and introduction in the sector as a way to create another pillar of growth for the future.

Let me provide you with a quick snapshot on the operational efficiency achievements that the Company has witnessed during the year. The volume growth in the reclaim rubber business was at 6%. However, the growth in volumes in the domestic market was over 21% over the previous financial year. Within the non-reclaim rubber business, the engineering plastic business experienced a volume growth of 13%.

So, as the industry is experiencing input cost increases on account of energy and fuel surcharges, the impact of the same has been a total of 9% in unit costs. However, on account of substitution to green energy sources by way of wind power and solar power, the energy cost at GRP has reduced by 4% with further savings expected in the full year on account of investments that the Company has made in Bio Briquette systems to reduce its fuel consumption.

On account of increased wage inflation, minimum wages across most states that we operate in have risen by 9%. Again, on account of steps towards automation and improved manpower efficiency, the overall wage cost increase for GRP has been only a 2% increase versus the 9% minimum wage increases.

We have had a further reduction in the working capital cycle of about 24 days compared to previous years, tightening the working capital across all businesses, allowing for improved turns and faster cash realization within the system.

While ocean freights tended lower for the first half of the year, increased tensions, and escalation of the regional conflict in the Middle East led to an increase in freight costs as a result, lowering margins in the fourth quarter of the financial year.

As we continue our quest to help brand owners embed more circularity in their operations, here is a brief outlook on FY 2025 as we view it based on the current economic reality. As far as the reclaim rubber side is concerned, we expect continued strength in the order book for most of 2025 based on projections received from key customers. We expect approvals for new products developed during the year and that is likely to provide a boost for future earnings.

We are hoping that the EPR regime will stabilize during the current financial year and will provide long-term positive cash flow to allow for increased investment in building scale to compare with global benchmarks. We will continue to remain focused on tightening working capital as we invest in synergistic businesses, and we are hoping this will bring our overall working capital even lower.

Expansion in the crumb rubber capacity will hopefully pave the way for future plans in other end uses like pyrolysis, recovered carbon black, CRMB among others.

As far as the non-reclaim rubber side is concerned, the focus on the compounding industry shall provide opportunities for long-term global partnerships for your Company. And the new application development initiatives we have taken on in the composite and the Custom Die Forms post a successful restart of the relationship with the new partner should sort of reap dividends over the current year.

We do believe that the repurposed polyolefin portfolio that has been developed should stabilize in the current year and will contribute significantly to the consolidated financials in the years to come.

At this stage, I would like to hand over the call to Shilpa Mehta to take you through the financial highlights for the quarter as well as for the year gone by. Shilpa, over to you.

Shilpa Mehta: Good afternoon, everyone. Let me take you through the consolidated Financial Highlights for Q4 and FY '24:

First, Q4 of FY '24 total income stood at Rs. 1,381 million as compared to Rs. 967 million in Q4 of FY '23, an increase of 43% on a year-on-year basis and on a sequential basis, it increased by 26%.

Gross profit for this Q4 of FY '24 is at Rs. 790 million as compared to Rs. 494 million in Q4 of FY '23, an increase of 60% on a year-on-year basis and sequentially it increased by 29%. Gross profit adjusted for exceptional items has increased by 22% due to favorable low material costs and product mix.

EBITDA for Q4 FY '24 is at Rs. 229 million as compared to Rs. 70 million in FY '23 Q4. This is an increase of 227% on a year-on-year basis and sequentially it increased by 110%. EBITDA margin is at 16.6% in Q4 of FY '24 as against 7.2% in Q4 of FY '23. And PAT for Q4 FY '24 is at Rs. 117 million as compared to Rs. 28 million in Q4 of FY '23.

In respect of the fire which occurred in the preceding financial year in the holding Company, the insurance claim on inventory loss has been settled during the year and the loss of Rs. 239.57 lakhs has been recognized as an exceptional item in the results.

In the case of property, plant and equipment of the holding Company, the same has been reinstated during the year (at a cost of Rs. 538.26 lakhs) and has been added to PPE. The WDV of the PPE that was so destroyed (Rs. 350.50 lakhs) was treated as insurance receivable in the preceding year.

The Company had lodged a claim of Rs. 996.20 lakhs towards the same and the final claim in respect of the said reinstatement has not yet been approved by the insurance Company. A sum of Rs. 250 lakhs has been received as an advance against this claim. The net amount of insurance claims when approved by the insurance Company shall be reduced from the gross block of property, plant, and equipment.

And for FY '24, the total income in FY '24 is at Rs. 4,630 million as compared to Rs. 4,605 million in FY '23. Revenue from operations grew on the back of increased volume of 7%. Gross profit for FY '24 stood at Rs. 2,537 million as compared to Rs. 2,512 million in FY '23.

EBITDA for FY '24 is Rs. 523 million as compared to Rs. 343 million in FY '23 and EBITDA has increased by 53% driven by the gain from EPR and a 4% reduction in power cost following the switch to wind energy starting from April 2023.

EBITDA margin for FY '24 is at 11.3% as compared to 7.4% in FY '23. PAT for FY '24 is at Rs. 226 million as compared to Rs. 139 million in FY '23 which is an increase of 62% on a year-on-year basis.

On the debt side, I am pleased to share that we were able to reduce our working capital days from 98 days to 74 days in FY '24. During the year, the Company has invested in CAPEX of Rs. 499 million in various projects including biofuel heating system for energy cost saving, technology upgradation in manufacturing process, site upgradation across all locations, firefighting system upgradation and for purchase of land at Solapur and for the subsidiary.

Our debt-equity ratio is 0.67 in FY '24 and the interest coverage ratio has changed from 4.49 to 6.63 in FY '24. The Debt-EBITDA ratio stands at 2.14 compared to 2.91 in FY '2023.

We are happy to announce that the board has recommended payment of a final dividend of Rs. 37.50 per equity share, which is 375% on the equity shares of Rs. 10 each for the year ended 31st March 2024, which amounts to Rs. 50 million as a symbolic payout on the eve of 50-year celebrations.

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. The first question is from the line of Ajay Kumar Surya from Niveshaay. Please go ahead.

Ajay Kumar Surya: My question is on the EPR side. Sir, based on our capacity of 72,000 tons, how much are we eligible for EPR credits? I mean, how many credits can we generate in terms of units? Sir, I have more question on this. So, sir, also, sir, because if I look at our business mix, some 60% of our revenues are from the export market. So, are we also eligible for credits even on the exported volume? That's one thing I wanted to know.

And sir, more question, sir, out of the EPR requirement which the tire companies have to fulfill, sir, how much has been currently fulfilled by them based on the targets which were required to be met, like, have we met like 5-10% of that or is it still more or less? Any clarification on that?

And sir, one last question, sir, if I look at, if we exclude the 15 crore EPR which we have generated this quarter, our margins look pretty suppressed for this quarter. So, sir, is it going forward there is a possibility that players might incur losses or even sell the reclaim rubber on lower margins, but generate higher income through selling credits? So, how are you seeing that going forward? If, you can answer that.

Harsh Gandhi: So, that's a load of questions about four of them and I will try and answer each of them. So, number one as far as the credit generation is concerned, there is a policy document which has certain weightages for recycling that you do, and it is based on the type of recycling that you do. Each category of recycling, which is reclaim rubber, crumb rubber, CRMB, rCB, and pyrolysis, each of these carries a weightage and as a result the eligibility of credits varies.

There is also a conversion factor which is under the purview of the steering committee of the government and therefore there is a possibility that it will change. I am not able to answer your question in terms of what is the extent that we will as a Company generate on an annual basis because this is a number which is not 100% frozen. There are likely changes in the policy when it comes to the weightages, when it comes to the conversion factors, and the categories of the products within it.

As we have indicated that we have sold part of our EPR credits and that brings me to the next question, which is the target of the tyre Companies. I can't comment on what it is that they have purchased and what has been sold. I mean, I can only confirm from GRP's point of view, we have, as a Company, sold partial credits that we generated for the year '22-'23. I cannot comment beyond that in terms of how much the tyre companies have purchased and how much it is against their requirements etcetera because that is not something that is visible for us to see. We as a recycler only have access to the recycling side of the portal to see the extent of credits generated and against that the credits that are sold onto the system.

As far as your next question on whether exports out of these different product categories, whether they are eligible for EPR, the EPR is very clear. The policy states that you will generate EPR if you use domestic waste of end-of-life tires and that is what is eligible. It is not linked to where you sell the output, which is reclaim rubber in our case. So, yes, we will generate EPR credit even for the exports that we undertake.

Your last question was regarding the margins of the Company without the EPR. As I said that the margins were partially subdued because of the ocean freight increases in Q4, but apart from that, there was also a one-time write-off on account of loss due to the insurance and other provisions and write-offs. So, therefore, comparing all of that, yes, the margin was marginally lower than the previous quarter, but was significantly better than the Q4 of FY '23.

Hope that answers the question and maybe we can move on to the next.

Ajay Kumar Surya: Sir, I wanted to ask if have we made any tie-up with tyre companies with them approaching us for a particular number of units that they want to tie-up with us for meeting their obligation on EPR?

Harsh Gandhi: EPR credits will be sold to the tyre companies. There is no question of tie-ups. This will be an open market. We have generated EPR credits. There are a lot of other tyre recycling companies and tyre companies will buy credits from all these tyre recycling companies.

Ajay Kumar Surya: Okay, so no such tie-up.

Harsh Gandhi: There are not going to be any tie-ups. I mean, the good thing for us is that all the tyre companies are our customers because we sell them reclaim rubber. So, the relationship is robust and that allows us to conduct the sale of the EPR credit seamlessly with these customers.

Ajay Kumar Surya: And sir, you said that you sold only partial credits. Sir, can we know how much we are still in line to sell or how much more can we sell?

Harsh Gandhi: As we sell the credits, because all of this is very dynamic, the price of the credits is changing, the number of credits that we will be accruing may change on account of the policy. So, I think we will make announcements or rather we will report our income as and when the EPR credits get realized, I mean our income from the credits get realized. So, I don't think there is any point in reporting the number of credits. I mean, it's a number that will keep fluctuating.

Ajay Kumar Surya: But sir, would we have sold like 30%, 40% of the eligible credits?

Harsh Gandhi: I can't comment because the prices are dynamic and so are the generation of credits.

Moderator: Thank you. The next question is from the line of Aditi Sawant from ADM. Please go ahead.

Harsh Gandhi: (Unclear audio) Sorry, can we move to the next caller and bring them back in?

Moderator: The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, just on our EPR credits, does that place in any of the balance sheet items? Unrealized EPR credits?

Harsh Gandhi: No, the accounting principle, we have taken an approach, as far as the revenue recognition is concerned, it will be on the sale of credits. There is no balance sheet reflection of the credits.

Ritesh Poladia: And, sir, how do we envisage the EPR? I mean, how many credits we can accrue or is there any, you know, visibility or recurring element into it or is this like occasional as and when you realize?

Harsh Gandhi: The credits will be generated through the portal and as I indicated before, there is a policy document in place which outlines the process for the generation of credits. We are generating credits for every ton of reclaim that we produce made from waste, which is sourced from domestic end-of-life waste in India. But the portal reflects the number of credits. It does not reflect the value. The value is outside of the portal negotiated between a customer and a recycler.

Ritesh Poladia: Is this negotiation on one-on-one basis or is there an exchange kind of a platform?

Harsh Gandhi: There is no exchange at the moment.

Ritesh Poladia: If you can comment on what is the ongoing EPR rate?

Harsh Gandhi: I can't comment on what is the ongoing rate. I mean, we have a broad sense of what we are selling the credits at. But this is a wide range. I mean, I can't comment on what is the range of rates. I only know what our rates are. Obviously, these are not matters that can be discussed in open forums. I mean, this is similar, akin to asking price of products which are obviously all range based on customer relationships and the extent of volume of credits that are sold.

Ritesh Poladia: But you will generate credits on each ton of rubber which you are recycling?

Harsh Gandhi: Correct.

Ritesh Poladia: And is the EPR now applicable in the non-rubber business or there is a thing planned to go?

Harsh Gandhi: As far as the plastic EPR is concerned, as I outlined in my speech earlier, there has been a delay in the implementation of the regulation. However, as I mentioned before and is available in public domain, the plastic EPR is not based on sale of credits. The plastic EPR mandates packaging companies to use a certain level of recycled content back in the material. As far as companies that are using plastic packaging is concerned, they have to buy EPR credits and that is also generated by recyclers. But that market at the moment is going through a volatile phase and currently the portal is not operational as far as plastics are concerned.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: So, sir, just wanted to ask, so now if we can segregate the business into a normal business and EPR business. So, the normal business, what kind of growth and margins are we looking at, sir, for the upcoming year?

Harsh Gandhi: We don't make comments on percentage growth or any of those. That's number one. But the other part is, I mean, EPR is not a separate business. EPR is embedded into the recycling business that we are operating. So, we are not considering EPR as a separate business activity at all. EPR is generated for, as I mentioned, what we produce and currently what we are selling is credits that were generated from our production of two years ago. We have credits for 2023 to sell, apart from the balance credits of 2022-2023 and we will continue to generate credits. But again, mind you, this is not a separate business. This is an integral part of the recycling operations that we are currently operating. The revenue recognition is different, but this is an integral part of the tyre recycling business. It's not a separate business.

Darshil Jhaveri: And sir, just wanted to get, so the EPR credits that we will sell, it will be a very recurring, every quarterly thing or maybe at the end of your thing. Any comment on how it is or is it just too dynamic? So, just like, how is it that we are planning, sir?

Harsh Gandhi: I think it's a combination of what are the market prices and so on. Again, it's too early. The regulations have been introduced freshly. The sales commenced only in Q4 of FY '24. So, some of these questions are honestly a little too nascent. I think we will be able to give a better response to this by next year when there is more stability in the entire regime.

Darshil Jhaveri: And just one more question, sir. Currently in Q4, like our margins were built by our EPR credit and I understand there were some one-offs that we are seeing due to our insurance loss and freight prices, but so for upcoming FY '25, can we go back to our historical margins or just any, not or maybe a quantitative answer, but just what would you see as margin outlook going for the business currently, sir?

Harsh Gandhi: Again, I mean, if you look at the historic numbers over the last three or four years, EBITDA margins have been steadily increasing. So, the attempt at and efforts are all at improving the margins on a standalone basis. As far as the outlook is concerned, I can only say that as our utilization is improving, we will start seeing an improved or rather impact of that on EBITDA margins going forward as well. So, yes, hopefully the trend continues to be positive.

I mentioned, again, exports have dropped. So, therefore its share in our overall portfolio has dropped. Against that the freight costs have gone up. So, some of these are all dynamic factors. There is little predictability in the way these markets are operating.

Until last year we were talking about the lead times coming down and as a result, customers are reducing or thinning down on their inventory. Today we are talking 12 months later, again, a warlike situation in the Middle East, leading to tensions, leading to again volatility in ocean freight pricing as well as availability and that is again compelling them to hold some material and build inventory.

So, these are dynamic factors, it's not possible for us to provide projections on the margins as a result of this volatility. But yes, we can only provide guidance on volumes, and I can only say that the volumes are increasing quarter-on-quarter on account of the focus that the tyre companies have in incorporating more circular materials.

Moderator: Thank you. The next question is from the line of Mrunali Gala from Centra Insights. Please go ahead.

Mrunali Gala: Sir, I just have one question. You mentioned earlier that, you know, your EPR credits are based on per ton of your reclaim rubber. So, on an approximate basis, how many EPR credits are generated on per ton basis?

Harsh Gandhi: I gave the answer before, but as I said these are numbers that are dynamic because the policy is undergoing changes. There is a conversion factor as well as a weightage of the type of recycling activity that we undertake and that determines the extent of credit that we generate.

You know, these are ranges for different product categories and it's tough to give you a simple number because reclaim rubber generates a certain number of credits, crumb rubber generates a certain number of credits et cetera for every ton that it produces. So, there is no static answer to this. I honestly recommend that you look through the government guidelines or the policy guidelines because that gives clarity on some of the questions that you are asking.

Moderator: Thank you. The next question is from the line of Rohit B, an individual investor. Please go ahead.

Rohit B: I wanted to ask; I don't know if it was covered, I joined the call late, but any update on the rights issue? Because in the last call you mentioned something will be out by 90 days. So, just curious to know what's happening there.

Harsh Gandhi: So, as far as the rights issue is concerned, we have very recently received the approval from both the exchanges on the draft letter of offer. However, the rights issue was meant for expansion and the growth CAPEX that we were planning on spending. Now when the approval for the rights was made, there was ambiguity around the EPR as well as the cash flow generating from this.

Now that there is greater clarity on the operational cash flows from the business on account of the better cash flow position, we will take a call at a suitable time when the proceeds will be required. The approvals are in place. We will take a call as and when needed.

Rohit B: So, I went through the draft letter of offer, and I noticed that you mentioned the capital would be required for setting up capacity in crumb rubber and if I remember in the past, you mentioned that crumb rubber is not exactly a sustainable return generating business. Could you clarify on where we are intending to use the capital for?

Harsh Gandhi: So, I think crumb rubber again is in some ways a building block to a lot of other downstream opportunities. So, our objective is in the first phase to build adequate capacity of crumb rubber and that crumb rubber capacity then would be subsequently used for a combination of different downstream recycling activities. As I indicated, it opens the doors to either supply or start looking at on our own manufacturing of a variety of items.

I mean, there is the thermoplastic elastomers. There are the composite materials which we are already producing these two. There are opportunities in other sectors like pyrolysis, recovered carbon black, etc. So, I think at this stage, we are clear that we will make the investment in the additional capacity for crumb rubber and then in future evaluate alternate opportunities in the downstream as and when they become viable. We want to be capacity ready depending on how the opportunities shape up.

Rohit B: That was helpful and on this EPR credit, what you mentioned about the cash flows being better than we initially thought in EPR, what is the cash conversion cycle there? So, I mean, how soon after we manufacture a recycling material does the credit get generated and after the negotiated transaction to sell the credit, how soon do we get the cash? Is there a receivable component here?

Harsh Gandhi: A, the first part of your question is it is almost immediate. It is equivalent to a RoDTEP or a drawback or whatever it is. It is essential for us to generate the credit immediately after a sale transaction of reclaim has been made. So, that is your first part of the question.

As far as the cash conversion is concerned, as I said, these are very early days of the EPR regime. I mean, we are not selling on a month-to-month basis or a build-to-build basis. There is a lot of backlog of credits that require to be sold and bought by the tyre companies and I think some of this stability will emerge only once the backlog of the credit required and to be sold are all encashed.

At the moment, there is also a large backlog as far as the portal is concerned in terms of approval of a lot of recyclers and a lot of the credits that are to be generated or have been generated aren't being sold because of certain technical glitches on account of the portal or approvals that the recyclers need to have in place.

So, again, I am saying these are all very, very early days. There is, I understand, a lot of interest and a lot of questions in this, but I can only say, do not speculate. There will be more clarity that will emerge in maybe the next two or three quarters.

And this would be a request to everybody that is on the line and looking to ask questions on EPR. As I keep saying, there is limited information available. These are very, very early days of this. So, I would only say that reserve some of these comments or speculation till at least another two or three quarters from now.

Rohit B: So, my last question then is on the capacity utilization on the major segments including the new one that will recycle polyolefin that we started and the CAPEX plan for expansion in any of the segments in the coming financial year.

Harsh Gandhi: So, as far as capacity utilization is concerned in the engineering plastic business, we continue to keep growing quarter after quarter. As I said, there is a 13% increase in volume overall. That is given that Q1 of FY '24 was pretty much write-off because the plant was still not operational.

And as far as the reclaim rubber is concerned, we are slowly getting into the mid to late 80s in terms of utilization of capacity. When it comes to the other businesses, again we are pushing past the earlier numbers of 40-50% to get into a number of more than 65 odd percent of utilization.

As far as this leading to the growth cycle, I would say, in reclaim rubber, I have already indicated that we have invested in new capacity, I mean new technology, and that those approvals will possibly lead to expansion in that area.

As far as engineering plastics is concerned, we will take up expansion or capacity expansion plans only once we hit the 80 plus percent utilization. So, hopefully by the end of this financial year, if all goes well, we will probably be back on the drawing board for the next round of capacity expansions.

Rohit B: And for recycled polyolefin, we don't need any capacity right now. Is it?

Harsh Gandhi: No, it is early days. We have added capacity, which will hopefully take us through most of the current financial year. So, definitely no new investments in this financial year.

Rohit B: And the high value-added recycled rubber that you talked about, we spoke about in the last couple of years as well. So, what proportion of recycled rubber capacity is that right now?

Harsh Gandhi: Currently we have just set up a single line which will probably be to the extent of about 5% to 7% and assuming approvals come through, this percentage will start moving up.

Moderator: Thank you. The next question is from the line of Ajay Kumar Surya from Niveshaay. Please go ahead.

Ajay Kumar Surya: Sir, can you provide me with the capacity which we are going to put up and crumb rubber like how many tons? And how much CAPEX are we going to incur for the same?

Harsh Gandhi: I think this is also going to come across two phases. The capacity will come in two phases. I believe the capacity as put out in there, I think the total project cost envisaged is closer to about 35 to 40 crores over and above the land acquisition that's being made. As far as the capacity is concerned, as I said, it's happening in two phases. So, I don't have the exact numbers, but I think you will pick it up in the MDA once it is done, but approximately it will be 30-40,000 tons in each phase.

Ajay Kumar Surya: 1,000 tons per month?

Harsh Gandhi: 30,000.

Shilpa Mehta: Yes, 30,000.

Harsh Gandhi: 30,000 tons in each phase.

Ajay Kumar Surya: Sorry. Sir, also based on this, you also mentioned about recovered carbon black. And if I look at the portal which sees the weightage and conversion factor, so is recovered carbon black has the highest weightage and conversion factor? So, sir, doesn't require any new technology or are we sufficient in our experience to manufacture that? What are the plans going forward for recovered carbon black?

Harsh Gandhi: So, I indicated that our capacity expansion program in crumb rubber will allow us the opportunity to explore some of these downstream areas. I did not indicate that we are investing in this. This is an area that we are looking at closely. There are a lot of technologies as far as recovered carbon black is concerned available across the world. We are evaluating the technologies and depending on the right fit for an investment as well as from an environmental compliance point of view, we will take a call or a decision. At this stage, no decision has been made in the type of technology or whether or not we will invest in the recovered carbon black facility.

Ajay Kumar Surya: And sir, last question again, sir, on the EPR. Sir, if I look at the overall capacity of recyclers like across crumb rubber or reclaim rubber or any other end product which the recyclers make, is the current industry capacity sufficient to meet all the EPR obligations of the tyre Company or will there be a sufficient demand-supply gap which will allow us maybe better realization on EPR credit? So, just your thoughts on that, like what is the current demand-supply scenario, which will be?

Harsh Gandhi: So, I will be honest. I mean, we have our own estimation of how much capacity is of different categories of product. But I mean, those are all estimations. I am pretty sure that the Central Pollution Control Board has adequate data on the basis of which they have taken a call on the weightages as well as the conversion factors of the different categories.

So, honestly, I mean in my view, if there is a gap either in the demand or in the supply, the lever that the steering committee of the EPR committee has is to adjust the weightages and all the conversion factors.

So, I think the government is very clear that they will not allow either of the brand owner or the recycler to make gains which are disproportionate to the industry size and therefore that will get controlled through the deployment of the levers of conversion factor and weightages. So, that's how I can respond to it.

Again, as I said, of the capacity, how much is actually being produced and where it is going, there is not the adequate visibility that we have. We have absolutely a fairly good idea as far as the reclaim rubber sector is concerned, but we do not have the same level of visibility when it comes to pyrolysis, recovered carbon black, etc. So, I am not able to comment on it at an industry level but as I said, the government has the right levers, and it will use it as and when there is a gap in demand in the plan.

Ajay Kumar Surya: Sir, if I can squeeze in one more question?

Harsh Gandhi: Can we come back to you? I think I appreciate the level of questions, but I would like to offer opportunity to others to question as well.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: The question is on new technology for reclaim rubber. You said that approval is pending. So, is it the **(Audio Distortion) 48:50** need any approval?

Harsh Gandhi: I am sorry, Ritesh, but I cannot hear you at all.

Moderator: Thank you. The next question is from the line of Madhu from MJ Investment. Please go ahead.

Madhu: Apologies for coming back to the EPR again, but I think there is still clarity required. So, can you please tell me what is the current conversion factor? I mean, you have realized 15 crores in the last quarter. So, what would be the conversion factor for that? I was going through the policy documents. So, I think in reclaimed rubber, we have a 1.3 weightage, but the conversion factor is decided by the Pollution Control Board. So, what would be the conversion factor that we have received?

Harsh Gandhi: At the moment, as far as tyres are concerned, the conversion factor for reclaim rubber is, I think, 1 by 0.78, which is about 1.298 (corrected for factual error). As far as the weightages are concerned, what you have is in the policy document, and that's currently where it is. But these are, as I said, keep changing. Therefore, it is very tough to provide a number.

Madhu: And one more thing, one more question that I wanted to ask. I mean, do you think this is kind of the inflection point for GRP as a Company because last quarter seems to be complete off the hook. We have leapfrogged on our numbers and our performance. And like you alluded to initially in your initial discussion about EPR is going to come in the non-reclaim rubber segment as well, in the engineering plastic segment as well, and as well as you are also looking at many opportunities in crumb rubber and other diverse segments as well. So, where do you envisage GRP would be in the next maybe 3 to 5 years, a slightly longer-term vision about the Company, please?

Harsh Gandhi: I think I will break it up into two parts. One is, I think, this is a great incentive for the entire recycling industry, but I think it is also an opportunity for the brand owners to partner with the recycling companies across the spectrum. By the way, EPR is not just in plastics and tyres. It is in 11 sectors of the economy and there is a separate document on each of these policies. So, I think the entire recycling industry in the country will benefit from the initiatives around the extended producer responsibility.

As a Company or as GRP is concerned, our strength currently has been in the tyre recycling business, and we will explore ways and opportunities to build a scale in that side. Apart from that, wherever we see synergies on the supply chain and waste collection areas, we will take baby steps to sort of experiment, build capacities, validate our technology claims and then, obviously also go deep into building scale in those sectors.

So, again, I don't want to give an answer as to where GRP is likely to be because we are exploring opportunities across the entire waste spectrum. As I said, there are 11 sectors in the economy which have opened under the EPR for waste, and we will explore opportunities based on what the appetite is, what the cash flow is and what each opportunity brings in terms of synergies.

I don't want to kind of preempt because as I kept mentioning, this is new. This is nascent. We cannot take risks without knowing how stable this is going to be, but we will also carefully explore different sectors and create our roadmap for the future.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today's conference call. I would now like to hand the conference over to Mr. Harsh Gandhi for closing comments.

Harsh Gandhi: Thank you again all for, again, as I keep saying, I learn a lot about our own business by the questions that each of you ask. So, today was no different. I have learnt a lot about the perception that each of you have about our industry and indirectly I have also hinted and indicated the kind of opportunity that exists for us in this industry. We will continue to sort of keep our heads down, continue to focus on building capabilities in this space and leveraging them to explore new opportunities for the future.

These set of numbers that we have demonstrated in this quarter, some of you have asked whether we will be repeating, not repeating, etc. I don't have an answer to that, but we have been over the last few years painstakingly working at ensuring that this ecosystem of waste collection, technology development and global scale by way of partnerships with large brands, we are able to leverage in different businesses that we get into.

So, all I would request is each of you wish us luck so that we can fulfill that and deliver or continue to deliver on the set of numbers that we have done in the last quarter. Thank you so much for participating in the call and until the next time, thank you.

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