GRAVITA

GRAVITA INDIA LTD.

Corp. Office :Gravita Tower, A-27 B, Shanti Path,
Tilak Nagar, JAIPUR-302004, Rajasthan (INDIA)
Phone : +91-141-2623266, 2622697 FAX : +91-141-2621491
Web : www.gravitaindia.com
CIN:- L29308RJ1992PLC006870

27th January, 2025
GIL/2024-25/233

To,

The BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai- 400 001 Fax No.: 022-22721919 Scrip Code- 533282	The Listing Department The National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra- Kurla Complex, Bandra(east) Mumbai- 400 051 Fax No.: 022-2659 8120 Company Code- GRAVITA

Dear Sir/Madam,

Sub: Transcript of the earnings conference call for the Quarter and Nine-Months ended December 31, 2024

Pursuant to Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the Quarter and Nine-Months ended December 31,2024 conducted on 23rd January, 2025 for your information and records.

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

This is for your kind information and records.

Thanking you.

Yours Faithfully
For **Gravita India Limited**

NITIN GUPTA

Digitally signed by NITIN GUPTA
DN: c=IN, o=Personal, postalCode=302013, l=Jaipur, st=Rajasthan, street=94-B Murlipura, Jaipur, Rajasthan India- 302013- Behind Govt. School, title=3990, 2.5.4.20=b06401c9a609ebd81b526bd0baddb42dc4ea8897dfcd0cddc5ec428a611f561a, serialNumber=64edf71a99714fa3ea6723068a8c3414a9e3e05a9e3c14ec5054dbcfbb8feda2, email=nitin.gupta@gravitaindia.com, cn=NITIN GUPTA
Date: 2025.01.27 10:39:27 +05'30'

Nitin Gupta
(Company Secretary)
FCS: 9984

Encl: As above

"Gravita India Limited

Q3FY25 Earnings Conference Call"

January 23, 2025

MANAGEMENT:	**MR. YOGESH MALHOTRA – WHOLE-TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – GRAVITA INDIA LIMITED** **MR. SUNIL KANSAL – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – GRAVITA INDIA LIMITED** **MR. NAVEEN SHARMA – EXECUTIVE DIRECTOR – GRAVITA INDIA LIMITED*** *NON-BOARD MEMBER
MODERATOR:	**MR. JENISH KARIA – ANTIQUE STOCK BROKING.**

Moderator: Ladies and gentlemen, good day, and welcome to the Gravita India Limited Q3 FY '25 Conference Call hosted by Antique Stock Broking Limited. 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 any assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jenish Karia from Antique Stock Broking Limited. Thank you, and over to you, sir.

Jenish Karia: Thank you, Alerik. Good afternoon, everyone, and thank you, everyone, for joining the 3Q FY '25 post results conference call of Gravita India. I would like to thank the management for giving Antique Stock Broking the opportunity to host this call. From the management, we have Mr. Yogesh Malhotra, our Director and CEO; Mr. Sunil Kansal, Director, CFO, and Mr. Naveen Sharma, the Executive Director of the company.

Without further ado, I now hand over the call to the management for their opening remarks, post which, we shall open the call for Q&A. Thank you, and over to you, sir.

Yogesh Malhotra: Thank you, Mr. Jenish. Good afternoon, ladies and gentlemen, and welcome to our Q3 and 9 months FY '25 earnings call. I trust you have had the chance to go through the earnings presentation and financial results that were uploaded on the Stock Exchanges. I'm delighted to share that Gravita has achieved outstanding financial and operational performance in Q3 and 9 months FY '25. Before we dive into the results, I would like to discuss about some key strategic highlights and project updates.

Recyclers Ghana Limited, a step-down subsidiary of Gravita, located in Ghana, West Africa, has commenced commercial production of recycled aluminium alloys at its new recycling facility with an annual capacity of approximately 4,000 metric ton per annum in Phase 1. The company plans to expand this capacity to 8,000 metric ton per annum in near future.

Gravita Netherlands BV has increased its stake from 52% to 100% in Navam Lanka Limited, a step-down subsidiary. Gravita has successfully raised INR1,000 crores through QIP, which will be strategically utilized to support the company's growth initiatives, including capacity expansion and diversification into new verticals. This investment aligns with the company's vision of becoming a global leader in the recycling industry, while delivering sustainable value to stakeholders.

Out of the funds raised, INR245 crores has been utilized for various purposes, including repayment of borrowings and working capital. We are making steady progress on establishing a pilot project for lithium-ion recycling, and our first-ever rubber recycling plant in Mundra, India. Both projects are on track and are expected to become operational in H1 FY '26.

Gravita is strategically processing -- sorry, progressing towards its ESG goals of FY '27 -- FY '34 and FY '50, as outlined in its road map. By integrating ESG principles, the company aims to lead in sustainable practices, drive innovation and uphold strong governance for long-term value creation and community benefit.

Coming to the operational performance on the capacity expansion front, Gravita is steadily advancing towards its goal of exceeding 5 lakh metric ton per annum capacity by FY '27. Currently, the company has a capacity of over 3 lakh metric ton per annum. In addition to this capacity expansion, the company is also exploring for strategic M&A opportunities to fuel its growth plan.

Despite of the global economic slowdown, which has seen a large impact on the metal sector, on the volume front, we saw an overall growth of 33% in Q3 FY '25. Volume for lead plus aluminium showed an increase on both Q-on-Q and Y-o-Y basis. On a year-on-year basis, the volume for lead, plastic and aluminium increased by 27%, 33% and 92% to 43,900 tons, 3,279 tons and 6,264 tons, respectively.

Strict government regulations under BWMR and EPR have led to an increase in domestic scrap availability, resulting in higher domestic scrap sourcing. In Q3 FY '25, we experienced 50% growth in the domestic availability of scrap on a year-on-year basis.

Moving to the financial results for 9 months FY '25. Consolidated revenue increased by 23% to INR2,832 crores. Consolidated adjusted EBITDA increased to INR295 crores, up 18%. EBITDA margin stood strong at 10.4%. Consolidated PAT showed a significant increase of 28% to INR217 crores. PAT margin increased to 7.7%. 46% of the revenue came from value-added products, which is in line with our Vision 2028 of achieving 50% revenues from this category.

Coming to financial results for the quarter. Consolidated revenue for Q3 FY '25 increased by 31% year-on-year and 7% Q-on-Q to INR996 crores. Consolidated adjusted EBITDA increased to INR102 crores, up 14% on a year-on-year basis. EBITDA margins stood strong at 10.3%. Consolidated PAT showed significant increase to 29% year-on-year to INR78 crores. PAT margin stood strong at 7.8%.

In conclusion, Gravita is progressing strongly towards its Vision 2028 with a strategic focus on expanding existing verticals and entering new recycling verticals. Key targets include a volume CAGR of 25% plus, profitability growth of 35% plus, and ROIC over 25%, along with increasing the non-lead business share to 30% plus using 30% plus renewable energy and reducing energy consumption by 10%, with more than 30 years of experience, 12 eco-friendly facility worldwide and presence in over 70 countries, Gravita is well positioned for growth.

The company's ambitious capex and capacity expansion plan, adherence to stringent government regulations, global operations and integrated supply chain provides a strong foundation. This growth is further supported by a commitment to operational excellence, our focus on high-margin value-added products, proactive risk management through hedging and experienced management team and strong stakeholder support.

That's all from my end. I would now request to open the floor for questions and answers. Thank you, and over to you, moderator.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Amit Lahoti from Emkay Global Financial Services.

Amit Lahoti: So, the first is the margins, the EBITDA per kg continues to be towards the higher end of the guidance range. So, is it fair to assume that in FY '26 as well, you will be doing INR19 to INR20 of guidance?

Yogesh Malhotra: Yes. So basically, EBITDA per ton for lead is going to be in the range of INR18 to INR19, stable margins, considering the more scrap from the domestic market, which leads to slightly lower margins, but we will be compensating it from more business from the overseas market, which is a higher-margin business, more valuated products, more volumes. So, all this going to compensate this dip in the margin because of more scrap from the domestic market. So overall, we will be in the range of INR18 to INR19 per ton for lead.

Amit Lahoti: Sure. Then the second one on projects. Specifically, I'm looking at Mundra. So, if you could give some commissioning timeline in terms of commissioning for lead, aluminium, plastic and rubber, respectively. And then how much we could be producing from Mundra alone in FY '26.

Yogesh Malhotra: So Mundra should be close to approximately 72,000 tons from Mundra itself, approximately 6,000 tons per month. But all the other projects in Mundra, which we are doing expansion, so should be done by Q1 of next year. Probably H1 of next year, yes. So, which includes lithium and battery recycling and new rubber recycling unit in Mundra. So, in addition to lead and plastic recycling in Mundra, we are going to increase these 2 verticals also in those -- in Mundra facility, which will contribute to further increasing capacity at Mundra plant.

Amit Lahoti: So, all of these will commission in the first half of FY '26. Is that correct?

Yogesh Malhotra: Yes, yes, yes.

Amit Lahoti: And then just the Oman expansion, how is the current progress looking like?

Yogesh Malhotra: So, we have plans to go, and there are 3 projects overseas that currently we are looking at. One is Oman, of course, where we are -- also, to fast track, we are also exploring and evaluating to acquire an existing plant in the Gulf region. And then there is this capacity expansion in Dominican Republic. We are expecting a license to establish by H1 FY '25 -- '25, '26. And then also Romania, where we have acquired a rubber recycling unit, where FDA approval is already in place.

And most likely, the transaction would be complete by Q4. So, these are on the overseas expansion plans or new expansion plans or merger and acquisition opportunities that we are currently pursuing.

Amit Lahoti: Sure. And if I could squeeze in one more question, like do we have any update on RCM in battery scrap?

Naveen Sharma: Yes, the battery scrap RCM got missed because of HSN code mentioned by Ministry of Finance. So, they have included Chapter 72 to 81 and the battery Chapter 85. That process is already been initiated and letter has been sent. So hopefully, maybe post next GST council meeting, it should come in chapter as well.

Moderator: The next question is from the line of Amit Dixit from ICICI Securities.

Amit Dixit: First of all, congratulations for a good performance and return to 10% EBITDA margin. 3 questions, if I may. The first one is on the utilization of QIP proceeds. While you provided a little bit of shape that INR245 crores has been used for repayment of borrowings and working capital, going ahead, just wanted to give a little bit more color on this that whether it will be used for geographic -- geographical expansion abroad?

If you can highlight some of the commodities in which you would be interested, whether it is related to steel and paper at the moment and that's what we understand. Could it be utilized for some kind of copper recycling opportunity. So just wanted a little bit more color on that. This is the first question?

Yogesh Malhotra: Yes. Basically, as far as utilization QIP proceeds is concerned. So, as we have already -- whatever objectives we have taken for the QIPs, according to that, initially, we are going to repay the debt, partly we have already repaid, remaining has to be repaid in the near future. And after which, we will be having some liquidity for using it in the working capital. So remaining amount will be utilized for the expansion. Whatever business we are doing -- additional business we are doing, so that will be utilized for the working capital.

But on a longer period, when we see the opportunities for further expansion of this business, we have to take some debt again for acquiring some companies which -- because we are already doing -- exploring some M&A opportunities in different geographies and different business verticals. So, we can take again some debt and go back to acquire some companies for.

And we will be doing some greenfield expansions also where we will be establishing some more units in different countries like we are already doing some projects in -- one in Dominican Republic. So that kind of projects will be there. But yes, not in -- copper you mentioned. So copper is -- we are not exploring at this moment. But yes, other like the lithium-ion expansion, rubber recycling expansion and lead and aluminium expansion. So, all these 3 will be there.

New verticals will be initially focusing on lithium-ion only at this moment. But yes, we are open to explore others also. So, overall, in the next 3 years, there would be a total inflow, including the INR1,000 crores, of around INR2,500 crores, which includes around INR1,500 crores of internal cash generation also. So, all this INR2,500 crores, out of that, we would be using around INR1,500 crores for these new expenses and INR1,000 crores would be required in working capital, additional working capital that would be there.

Amit Dixit: Okay. Very clear, sir. The second question is on the aluminium. So, if you look at the aluminium volume, it has jumped up sharply compared to the last quarter or even on Y-o-Y. Have we seen some movement around the listing on MCX that we were thinking that we would be able to hedge aluminium with?

Yogesh Malhotra: Yes. So no, it hasn't materialized so far because of some technical issue at MCX. The government of India has also introduced...

Naveen Sharma: Actually, Government of India has introduced QCO, quality control order. So that was -- that came in 2023. Later on, it got postponed. And recently, it has been implemented from 1st December 2024. So now any brand, which is not having BIS markup of aluminium alloy will not able to deliver or sell domestically. So MCX wanted that, once this is being implemented, then they will start this process. So, since this has been implemented now, any time they will be taking up this process of listing of this alloy and brand approval maybe this quarter end.

Yogesh Malhotra: But this quarter, aluminium volumes were slightly higher because there was some inventory which was piled up and we were not able to sell because of the price fluctuations. So, we sold in this quarter and the run rate for aluminium is going to be around 4,000 till the time we have -- 4,000 tons per quarter. So, till the time we have this hedging mechanism in place for aluminium. So, we expect to grow at around 40% in aluminium in the next 3 to 4 years. So that growth is intact. That growth...

Amit Dixit: The third question is on the scrap procurement. If you can just break it in 3 buckets for this quarter, that how much scrap of the total usage of scrap was procured from domestic market? How much was from overseas market you kind of brought in the domestic market? And how much was procured in the overseas market for the overseas? If you can provide in the 3 buckets in percentage, that would be very helpful?

Yogesh Malhotra: So around 35%, 36% was overseas, which we source for overseas centres only. And out of the balance is 64% of -- 56% was imported scrap and 44% was scrap in India.

Yogesh Malhotra: Around 44% of the total scrap that we procured in India.

Yogesh Malhotra: And which is around 50% higher than the Q3 last year.

Moderator: The next question is from the line of Bhavin Pande from Athena Investments.

Bhavin Pande: Congratulations on wonderful set of numbers. My first question regarding scrap availability. You got answers. Second question, sir, how do we foresee the risk of capacity being set up by the players from where we procure scrap, sort of they are putting together their own captive arms for recycling. So how do we tackle this risk from a long horizon?

Yogesh Malhotra: So, the overall capacity in India that is going to increase because of the shift from unorganized to organized and this EPR regulation coming into place, also the RCM that has come up. We expect a 3x increase in the next 2 to 3 years from the current availability of battery scrap. And there is enough scope for everyone to come into. So, the battery manufacturers are also putting up their own units. But we believe that we will be able to manage, if not increase, our market share in domestic sector.

So even if we keep the same market share, which is what we have projected in our estimations for the next 3 years, that shift from unorganized to organized will be enough for us to meet our targets of 25% growth rate in the next 3 to 4 years. So because of our pan-India presence, we are

-- we are having this logistic advantage of taking more scraps from the domestic market. So that is the reason we are very -- even after all these companies establish their own capacities, we are very sure to get this volume growth from India.

Bhavin Pande: And sir, just one clarity on used cars, if we were procuring batteries from them and on account of the GST implementation on used cars from dealers, so would that have an impact on our business?

Yogesh Malhotra: So yes, it is going to have an impact because more battery scrap would now start coming from that sector also. We already have tied up with most of these end-of-life for vehicle facilities in India. And we are expecting, but it will take some time for that scrap to come. Generally, most of the old batteries actually come through replacement market, which is around 70%. This is only going to be a very small part of that overall -- in the, at least, next 3, 4 years.

But beyond that, probably it will improve in -- and we will start getting more batteries from these sectors in probably more than 5 years from now.

Naveen Sharma: Actually, the new regulation on used cars called end-of-life vehicle, ELV policy that will be active from 1st April 2025. So as per that regulations, the used car will be going to RVSF, registered vehicle scrappage facilities, and these RVSF will supply the 5 waste to the respective recyclers. Among them, battery is one of the scrap, battery, oil, tire, plastic and e-waste. So as soon the ELV targets are being -- comes maybe next 1, 2, 3 years, so there will be more flow of such vehicle to RVSF and flow of battery to recycler.

Bhavin Pande: That was very helpful. And sir, just one bookkeeping, Mundra capacity would be?

Sunil Kansal: So current Mundra capacity is 72,000 tons, which we are expanding further.

Bhavin Pande: And it would go up to any number that you can give out?

Yogesh Malhotra: So close to 30,000 tons more, around 100,000 tons.

Bhavin Pande: 100,000. Okay. That was really helpful, sir, and good luck.

Moderator: The next question is from the line of Shweta Dixit from Systematix.

Shweta Dikshit: One question on the stand-alone financials. If you look at the EBITDA margins that is excluding the other income that dropped to 5.6% this quarter and this number compares to around 8.1% in the same quarter last year, so was there anything -- what has actually driven this margin drop this quarter? And were there any seasonality or any one-off factors in place in the third quarter of FY '24?

Yogesh Malhotra: So actually -- generally, the Indian EBITDA margins are lower than the overall EBITDA margins of the company because the domestic scrap is a little expensive. And our sustainable EBITDA margins from Indian market is around INR11 to INR12 per kg. And we have maintained that EBITDA margins this year. But when we talk about last year, there were certain arbitrage opportunities, which we make use of. And therefore, if you see historically, you see a higher EBITDA margins from Indian plants also.

But going forward, you can expect an EBITDA margin of INR18 to INR19 per kg on a consolidated basis. And we have always -- I mean, we've always mentioned that you have to look at the entire total EBITDA margins per ton rather than looking at Indian or domestic or overseas EBITDA margin separately. Because of our overall operations globally, we sometimes get this opportunity where we take advantage of arbitrage and bring our materials from our overseas plants into India.

And that is why sometimes you will see higher revenue coming from India also and sometimes you will see higher margins also in Indian context, but overall margins would remain in the same region of around INR18 to INR19 per kg.

Shweta Dikshit: Okay. So, sir, what's your outlook -- so you were saying something?

Yogesh Malhotra: No, I was asking if I was clear or not.

Shweta Dikshit: Yes, yes. I understood that. Another question would be like what's your outlook with domestic policies.

Yogesh Malhotra: If we exclude any arbitrage opportunities, the Indian domestic margins would be around INR11 to INR12, and overseas would be around INR28 per kg. So, on a consolidated basis, you can expect INR18 to INR19 per kg margin, which does not include any arbitrage opportunity that comes up. As and when those opportunities are there, you can expect an increase of EBITDA margins going forward.

But in the longer-term period, if you ask me, because of increase in value-added content and also higher capacity utilization going forward, you can expect more value-added products, you can expect some slight increase of around INR1 per kg in the next 3 to 4 years, progressively.

Moderator: The next question is from the line of Sani Vishe from Axis Securities.

Sani Vishe: So, continuing on the question asked by the earlier participant. So is it – is my understanding correct, when we say that despite a higher revenue growth, the EBITDA margin was not -- EBITDA growth was not that significant because in the last quarter, we had higher arbitrage opportunities. Is that correct?

Yogesh Malhotra: Yes, that is correct.

Sani Vishe: Yes. So, we can expect similar margins as this quarter. This is more sustainable, at least in the near term?

Yogesh Malhotra: Yes. So going forward, as we mentioned that the sustainable margins in net would be an in at around INR18 to INR19. And in aluminium, we can expect around INR14 per kg and around INR10 per kg in plastics. But this would improve a little bit going forward in the next 3 to 4 years where we would -- where we are focusing more on value-added content and increasing capacity utilization, and more volumes would also increase the EBITDA margin number to some extent. But these are the sustainable numbers.

Sani Vishe: Understood. And one other small question. What would be your current debt level and cash level? And what do we -- where do you expect it to be by the end of the year?

Yogesh Malhotra: Yes. So current debt level is around INR340 crores. And so net debt is approximately INR600-odd crores. So, in the year-end, we are expecting this debt to be close to almost to 0, negligible. And so we'll be continuing with the liquidity of around INR300 crores to INR400 crores by the year-end.

Moderator: The next question is from the line of Khush Nahar from Electrum Portfolio Managers.

Khush Nahar: Sir, 2, 3 questions from my side. First, what was the percentage of domestic sourcing for our Indian operations this quarter?

Yogesh Malhotra: So overall, 44% of the total scrap that we processed in India is from domestic sources only. 56% is imported.

Khush Nahar: And sir, what would be our utilization for the aluminium plants right now?

Yogesh Malhotra: So capacity utilization for aluminium is still at 46% for this 9 months and approximately 48% for this quarter.

Khush Nahar: And we see that increasing because the hedging will start, if I understand correctly, from Q1 FY '26 because of the delay?

Yogesh Malhotra: Yes. Still we -- because we don't have the hedging materials in place at this moment, so we are still struggling for volumes in India. So as soon as we have that in 1 or 2 quarters, the hedging mechanism in place, so we'll scale up this more capacity than aluminium along with more capacity utilization also. But we are expecting that in Q1, we will have that hedging mechanism in India. So hopefully, by Q1, the volumes will -- you can see some increase in volumes.

Khush Nahar: And sir, my last question, so just can you elaborate more what gives us the confidence of growing at 35% in terms of profitability CAGR for the next 3 to 4 years? What would be the growth drivers for these?

Yogesh Malhotra: Yes. So basically, currently, we are into 3 product categories majorly, that is lead, aluminium and plastic. So, lead is actually the largest, it has the largest share of around 85%. And there is this new -- it is getting some benefits because of EPR and reverse charge mechanism. Where earlier, we were not having any access to the local domestic scrap, which we have now started getting.

And we can see an increase -- if you see the last 3 years also, we have seen increase in availability of domestic scrap. We see that going forward, it will only improve because of reverse charge mechanism also. Because of GST, we were not getting that scrap. So, let me just explain once more.

I mean, we are getting more scrap in India because of this shift from unorganized to organized because of battery waste management tool and the reverse charge mechanism. These policies have given us more scrap in the past 2 years, and we expect similar increase going forward also. But apart from led, we are also aggressively increasing our capacity, both in aluminium and plastic.

Incidentally, plastic also comes under EPR regulation, and we see a huge opportunity in plastic also. We are also expanding overseas. In all of our locations, we are increasing our capacities. And we are also going to increase capacities in some new geographies. We're going to go into some new geographies also. In addition, we are also planning to go into new verticals of rubber and lithium-ion battery recycling.

So, all in all, we believe that all these new opportunities coming from regulations, and we're going into new verticals, we would be easily growing at around 25%. And because of this growth and going into new verticals, there will be economies of scale, there will be a reduction in working capital cycle because we would be sourcing more scrap in India.

And we -- as our focus would be -- has already been on value-added content, so all of this will ensure that the profitability is higher than the growth in revenues. So, we are very confident that going forward, 25% growth in volume terms and 30% to 35% growth in profitability is not at all a problem. And if you look at the past 3, 4 years also, you would see a similar result where we have grown at around 22% in volumes, but on profitability terms, we've grown at a much higher rate.

Khush Nahar: So just one last question. So apart from these 3 overseas recently acquired businesses, are we in talks with advanced stages for any other company in terms of acquisition? And what would be the size of these companies?

Yogesh Malhotra: So, we are aggressively looking at opportunities to grow faster, both in India and overseas. In the segments that we are, we cannot disclose the exact companies that we are targeting right now. But we are scouting for these new opportunities, both in India in lead, aluminium and plastic and overseas also. But I mean, as we mentioned that we are expecting around INR900 crores -- INR800 crores to INR900 crores in merger and acquisitions in the next 3 years. So, you can expect us to go in and do more mergers and acquisitions in the future.

Moderator: The next question is from the line of Anurag Mantry from Oxbo Capital.

Anurag Mantry: Just one thing on the lead volume growth. I mean, if I look at it on a Q-on-Q basis, it seems to be largely in that 3% to 4% kind of range in the last couple of quarters. So, we see -- I think we've been doing that 40%, 44% kind of number basically every quarter. So, from here, how do we -- you see an inflection in growth like what factors do you think are required for us to see that?

Is it basically this reverse charge mechanism regulation coming through in the GST council? Or is it like any new partnerships, et cetera, et cetera? Like what needs to change for the growth rate to be materially higher?

Yogesh Malhotra: So, whenever we talk about the overall plan of around 25% plus growth rate, the target in lead is around 18% to 20%, and it's higher in aluminium and plastic. We are expecting 40% growth rate in aluminium and around 70% growth rate in plastic going forward. So, I think we are in line with that number. But generally, you would not see that growth coming in on a quarter-to-quarter basis because capacity increase do not happen in a straight line matter.

So as and when there will be a capacity increase, you will see certain increase and then you will see a period where there will be a little stagnation. But overall, you can expect around 18% to 20% growth rate in the lead in the next 3 to 4 years and 40% in aluminium and 60% to 70% in plastic. But if you see the growth rate of lead in last 9 months, it is approximately 25%. So, we are aligned to the whatever reason we have that for lead growth, we are aligned to that.

Anurag Mantry: I mean the reason I was also asking is because I think in the 9 months of last year, you also had that -- like in the last quarter, the December quarter of last year, you also had the Red Sea issue, due to this also got depressed as such but fair point. I guess capacity increases I think...

Yogesh Malhotra: If you look at from Q2 also, there is a 4% increase, which translates to around 20% -- 18% to 20% increase on a yearly basis on an annual basis. From Q2 to Q3.

Moderator: The next question is from the line of Siddharth Mehrotra from Kotak Insurance Equities.

Siddharth Mehrotra: Congratulations on a good set of numbers. Just a small bookkeeping question. Our capacity in the previous quarter was around 291,000 tons. Could you sort of just clarify what is our current capacity as on today?

Yogesh Malhotra: Yes, current capacity, including the rubber division, which we use -- part of that we use for internal consumption, so the total capacity, including rubber, is 308,000 tons.

Siddharth Mehrotra: Okay. So, of the total capacity addition, 291,000 to 308,000, I guess, sort of 4,000 tons were added in your Ghana recycling plant, which is aluminium, the balance is rubber capacity additions for internal use. Is that correct?

Yogesh Malhotra: Yes, yes. So, rubber is 12,000 tons, which is for internal consumption at this moment.

Siddharth Mehrotra: Just a small question on the sort of ramp-up we are projecting for plastics. So basically, what needs to sort of change in terms of the policy support for us to sort of achieve this 70% type of growth, which seems fairly aggressive?

Yogesh Malhotra: Basically, I mean -- there are 2, 3 things. One, of course, is the EPR regulation coming into place, which has already started. The second thing is for our RCM also to be applicable on plastic scrap, which is not currently there because there is, again, GST issues when you go and buy plastic scrap from the market.

So apart from that, I think the current capacity we have is very small. And even without this RCM on plastic and only with the EPR regulations in place, we would be able to grow at around 16%, 17%. But if RCM comes into place, then the growth can be much higher. But we have to increase our capacities in plastics

We are also looking, as we mentioned earlier also, we are looking at PET recycling opportunity also in India, that would include 70% growth improves that capacity increase in PET cycling. And we see, on the ground, that there is definite opportunity as far as plastic recycling is concerned because of this EPR regulation. Where more and more companies are now looking for recycled plastic for their packaging material.

But the issue in plastic is that it is much more complicated than recycling metals because current -- earlier, nobody was using recycled materials. So, developing those products is taking a little longer time. But once you stabilize those products, we then definitely -- the growth will, I mean, go exponentially high in plastic.

So currently, we are working with some of these OEMs, but largely because with -- product development takes a longer time, you are seeing a stagnation in growth in plastic. But once those products get developed, then definitely, you will see some surge in the growth rate.

Siddharth Mehrotra: Just one small sort of follow-up on the reverse charge mechanism you sort of alluded to earlier. So, sir, what is the current status of the reverse charge mechanism guidelines which had come in earlier? And how do we sort of expect any additions or modifications to them so as to benefit us in terms of policy?

Naveen Sharma: See, as of now, the reverse charge mechanism is applicable on 6 or 7 commodities or the supplies which are made to the government or any agri products taken from the agri producers, wherein the tax has to be paid by the receiver and in the same process, metal scrap has already been added after 54th GST Council meeting.

So now metal scrap, Chapter number 70 to 81, will also conduct, come under RCM. In that case, what happens when you buy scrap from unregistered person, you pay the tax first, deposit the tax within the same month, and then you claim the refund. If it is not there, if it is not mandatory, in that case, you buy that scrap from an unregistered person, but you need now to deposit the tax.

You can, when you process and sell, that time, you can use other input tax credit, ITC, not the one which you have to mandatorily pay. Once RCM is made mandatory, then first, you have to pay tax, whatever ITC is available, still you have to pay that extra ITC. You cannot use old input tax credit, while selling the goods.

So, this is a difference. So, what happens in current situation, when the trader buy scrap from unregistered person and when they sell to recycler or next stage, they use ITC, which is available fraudulently in the market. So that prohibit us to buy from such traders. This is the difference.

Yogesh Malhotra: And as Naveen Ji mentioned, that it is already there in certain metals, but lead acid battery, because it comes in a different chapter, it was left out, but they are considering again in the next council meeting, they would incorporate.

Naveen Sharma: So, it is being said that battery scrap will surely come, and there are chances that plastic scrap, which comes under Chapter 39, tire scrap Chapter 40, paper scrap, Chapter 47, they will also be part of this.

Yogesh Malhotra: So, the major hurdle was in convincing the government that there should be an RCM in scrap. But now that major hurdle is past us, we've already convinced the government, and there is RCM on certain matters. So now extending it to other commodities would not be such a difficult task.

Siddharth Mehrotra: So basically, it would sort of benefit us only when it comes solely through on the metal scrap side, which you procure. Right now, it's only on metals. Is that sort of understanding correct?

Yogesh Malhotra: No, it is a metal scrap. Unfortunately, they missed the battery scrap because it does not come under the same chapter as other metal scrap comes. It is in a different chapter. Therefore, they missed the battery scrap. But once the -- now they have realized this problem and they are putting it back, and it will -- you will have to wait till the...

Naveen Sharma: Actually, lead scrap chapter is included, but battery scrap chapter is missed because major lead scrap is from batteries. So, battery scrap chapter comes under the machine chapter, electrical, electronic goods. So that's how it got missed.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers Limited.

Bharat Shah: Over time, we made a lot of progress in a number of areas. We have expanded our manufacturing footprint and processing footprint, both in India, internationally, handling the complex supply chain management issues. We have expanded verticals and gone into new areas and adding more areas.

Even the regulatory trust overall is in support of the industry, given the fact that anything which is going to eliminate or reduce pollution is clearly beneficial activity. And unorganized to organized per se also affords a large opportunity. So everything overall looks to be kind of very conducive. But if we have to think of something which has to go wrong, if something were to go wrong, what could that possibly be?

Yogesh Malhotra: Sir, in the past also, things have gone wrong, and we try to then work on those issues and then try to protect ourselves from those things. But some of the issues as we have global operations and we sell overseas markets also, then shipping costs can be one area where we have struggled in past because of Red Sea issue last year.

And something similar if comes up, then there can be these issues where you will have implications in terms of access to certain markets, and then you'll have to kind of suffer some temporary shortfalls in terms of revenues, because you'll have to then divert those materials into some other geography, so that has happened in the past.

But apart from that, if you talk about, we are hedged in metals, especially lead, and we are looking at opportunities to hedge in aluminium because there is this cyclic metals generally. If you don't hedge then, it is very difficult because the transit time is higher.

Then there are issues in geopolitical also in certain areas, because we are operating in many countries. Last year, we've seen some -- in last year, we've seen some problems in Sri Lanka. Currently also, I mean, if you look at -- there is certain unrest in Mozambique.

So in these geographies, there can be certain issues that can temporarily hamper your production in those geographies. But that is why we have kept a target internally that we will not increase capacities beyond 15% in any of the locations that we are in.

So whenever there is a chance -- there is an option where we have to grow beyond 15% in any geography, we try to find a different geography to increase that capacity rather than increasing it in the same geography.

So there are various issues that we look into when we talk about problems. Fortunately, for us, there is no currency risk because we are in Africa. So there is a huge currency risk also, but we don't have that currency risk because we deal only in dollars. We ship all our materials out of Africa, while we are not using anything in that country.

So sir, there are many risks coming. There is a risk of government banning import of battery scrap into India also. That was earlier a major issue for us, but not anymore now because we have started getting domestic scrap also in India. If you look at it, around 40% of that scrap -- 44% of the scrap that we process this year was domestic. And we can easily increase it to a higher number

We only have restricted it because overseas scrap is more profitable currently. But even if they ban domestic import, even then, we can be very sustainable in India. And our profitability in overseas sector would increase because the prices of battery scrap would go down overseas because India is the largest importer of battery scrap currently. So there are many things that can go wrong, and we try to find solutions to all those things.

Bharat Shah: So many of these issues, geographic disturbances, the freight cost escalation or disruption, these are relatively more shorter-term issues. Structurally, anything that you're thinking again...?

Yogesh Malhotra: Structurally, it's -- so one thing that we started focusing on diversification was because I mean there is this issue that can comes from disruption. Suppose something goes wrong or new technology comes in and battery -- lead acid battery totally goes out of favor, so that can be one problem. And therefore, we have also now started planning to set up a lithium-ion battery recycling unit in Mundra.

So that can be one that can have -- and also, we have also set up a target to reduce this -- our overall revenue that is coming from lead to around 70% in the next three years by focusing more on other commodities like aluminium and plastic. So that is also one of the issues that we see can happen in the future. So we have thoughtfully decided to diversify into other materials or commodities or verticals also.

Bharat Shah: Therefore, it will be safer to presume you have indicated 30% of the business to come from new verticals or non-lead verticals. That percentage, probably, presumably, will further grow over time.

Yogesh Malhotra: Yes, sir. Definitely, this is assuming that we don't go into new verticals other than the current verticals of aluminium, plastic and lead whereas we are also focusing on other verticals of lithium-ion battery, steel, rubber and paper in future. So definitely, it will come down. And also, this is based on the assumption that there is this EPR that is there on lead acid battery, where now we would be growing faster in lead because of more scrap availability in the domestic region.

If that -- so other verticals are going -- although other verticals are growing at 40% or 50% on a consolidated basis, even then you can -- you would only be going up to 30% because lead is also growing. But once that stagnation in lead comes then the other verticals will grow much faster. And we would also go into new verticals of lithium-ion battery recycling and paper and steel. So definitely, in the next five years, six years, it can come down to as much as around 50% to 55%.

Bharat Shah: And one last question. When you refer to profit growth of about 35% compounded compared to the volume growth of 25% compounded, that profit you are referring to is operating profit, core business operating profit. So profit before tax or profit after tax? What is the definition of that operating profit compounded?

Yogesh Malhotra: When we talk about -- we're talking about both PAT and EBITDA numbers.

Management: Just in the same ratio?

Yogesh Malhotra: So around 35% EBITDA increase in EBITDA margins and 35% increase in PAT margins also.

Bharat Shah: Sure, because there is not much of a financial leverage in any case in the business, and relative level of depreciation...

Yogesh Malhotra: There will be a slight increase in the increase in PAT margins because once the domestic scrap availability increase, then the overall working capital cycle would reduce to some extent. And therefore, you would see more increase. So around -- EBITDA would grow at around 33%, 34%, whereas PAT will grow around 35%.

Bharat Shah: Sure. And which means return on capital employed may actually grow higher if the working capital comes down?

Yogesh Malhotra: Yes, sir. So there would probably be a small dip initially, but the return on invested capital would always be higher than 25%. And then eventually, it will go up to 27%, 28% in the next 3, 3.5 years.

Moderator: The next question is from the line of Parikshit Kabra from Pkeday Advisors LLP.

Parikshit Kabra: So earlier also, someone raised the question, I just wanted to jump -- double down on that question. Is that last year, was a soft quarter for us because of the Red Sea issues, et cetera, et cetera. So this quarter, growing at 33% on that base, is that something that we think is -- like are we going to be able to sustain 33% growth going forward? Or do you think this is a one-off spike and we'll come back to about 14% to 20% growth going forward?

And you mentioned that the growth will come step wise as the capacity comes. So when is the next big capacity going live? When should we expect that next big step? one quarter? two quarters? three quarters? When would that be?

Yogesh Malhotra: So when we talk about -- generally, we talk about a three-year period where we say that the overall increase in volume would be around 25% on an average. So we continue to give the same guidance. So 33%, definitely, there is some aberration because as you mentioned, there were some -- last quarter was not, last year, Q3 was not very good.

So you can expect a 25% growth rate on a year-on-year basis for the next 3 years. So there could be quarters where there will be -- I mean, we would not grow at a 25% or grow at around -- only at around 20%, 15% also. But other quarters, we would grow at around 35%, 40%. So that would continue to happen in the future also.

And the next capacity increase you're talking about, we are going to increase some capacity in Mundra very shortly. We have also acquired a rubber recycling unit in Romania, where we are expecting to take it over in first quarter of -- sorry, last quarter of this year or first quarter of next year. So that, again, is going to give you some capacity increase.

We are -- as we mentioned that we are also looking at some other opportunities and merger and acquisitions. That will also happen, hopefully, in H1 next year. And then, of course, there are certain brownfield expansions that we have -- we will be continuously doing in all of our locations, including India and overseas.

Parikshit Kabra: And there is a foreign currency translation reserve line item in the P&L. Could you just explain what that was?

Yogesh Malhotra: Yes. So basically, because we are into various countries, so there is always some currency plus or minus every quarter. But overall, if you see, we are fully hedged on a back-to-back basis because whatever scrap we source, it is all in dollar terms. And when we sell the goods, it is also on the dollar terms.

So eventually, if we see we are not exposed to any currency risk, and we are -- so it is only the translation which happens on a quarter-to-quarter basis that is reflecting in the P&L, otherwise -- and that we also consider in the operational profits because it's a part of the operational margin. So otherwise, we are not exposed to any risk or we are not having any risk of currency fluctuations in any country.

Parikshit Kabra: So that additional INR15 crores that is coming in the comprehensive profits, that is just an accounting entry. It is not an actual profit of INR15 crores?

Yogesh Malhotra: Yes, yes. Correct.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: Sir, can you talk about the Mundra capacity and lithium battery expansion plan? How is the unit metrics going ahead? And how scalable in the next three, four years?

Yogesh Malhotra: So Mundra capacity, as Sunilji mentioned earlier also, currently, it's around 72,000 tons. We are going to take it to around 100,000 tons in lead. As far as lithium-ion battery capacity is concerned, actually, in the initial phase, it's only a pilot project because currently, we are not considering any revenues coming from lithium-ion better in the next three to four years.

So it's only to understand the technology better to tie up with companies to do their scrap. So it's only a pilot project currently. We are not considering anything. But later on, once scrap start coming into the Indian markets from EVs, we want to be ready by that time. So you can expect growth coming forward when -- after these three- to four-year period, but not in the three to four period.

Sumant Kumar: Yes. But when you talk about the lithium scrap availability in global market, so can we import and recycle it in India or in the developed, let's say, so in the Africa market, we can have a plant there and recycle it?

Yogesh Malhotra: Africa market would not be possible because in Africa, they would not be buying EVs right now. But definitely, we are looking at opportunities where we can import scrap into India, recycle it. But I mean, currently, we are not considering any revenues from this. But definitely, we're looking at opportunities where if that is a possibility, we would go into that also.

Sumant Kumar: So in the future, because apart from all the vehicle lithium, we have also a solar system also where we use of lithium battery. So the overall population of lithium battery is also going to increase. So considering that, so can you also talk about how the profit margin of the lithium battery you have already worked on the prototype?

So what is the margin difference from the INR20 -- INR18, INR20 lead battery EBITDA per kg currently we have. So what is the margin difference or similar kind of margin will be there?

Yogesh Malhotra: No, no. So definitely, there would be higher margins in lithium-ion battery, but that is only a speculative thing because there is going to be huge entry barriers because the capex is higher, you have to have tie-ups because these batteries would not be available to smaller players.

So they -- on a theoretical basis, there would be higher margins, but currently because the scrap is not available and whatever little scrap is there, it is very difficult to ascertain the profitability of lithium-ion battery. But definitely, once the scrap is available, it is going to be much more profitable than lead acid batteries is what our expectations.

Sumant Kumar: And last, the technology side, our learning curve and whatever, are we doing some tie up, and how is understanding of the business currently?

Yogesh Malhotra: So both. We have our in-house division also that is working on the technology. We are also ready to tie up with some of the existing companies there. Generally, once we set up that plant, we'll have tie-up -- we are planning to have tie-ups, as I mentioned, to source material. And the only way you can source material probably would be also with a technology transfer, so both of these things will work hand-in-hand. But at the same time, we are also looking at our own internal technology.

And even if we have tie up with anybody for technology, there have to be some work done because currently, there are very few people who are doing end-to-end recycling in lithium-ion battery. So the technology is still under progress. So you have to have some internal R&D that can work on that. And we have our own R&D division that is working for lithium-ion battery technology also.

Moderator: The next question is from the line of Amit Lahoti from Emkay Global Financial Services.

Amit Lahoti: I wanted to follow up on your comment on debt going down to zero. So did we mean gross debt here or net debt?

Yogesh Malhotra: So it is going to be gross debt becoming zero by March end as we have taken this QIP money and one of the objective was to repay the debt in a shorter term. So initially, we are planning to make the debt zero. But later on, as we mentioned, as we go for some M&A opportunities, which we are exploring currently, we will be taking some debt again in the next year. So that will be the -- taking the debt and going for some capacity expansion and M&A opportunities.

Amit Lahoti: Okay, so you will still do the repayment of the existing debt and then you will take on a new debt next year, if that is the right understanding?

Yogesh Malhotra: As and when required, yes.

Amit Lahoti: And then the last question is on aluminium margin guidance of INR14 per kg. But in the last two quarters, it was INR18 to INR21. So what were the factors that contributed to higher margins? And what could reverse when we get to sustainable margin of INR14 per kg?

Yogesh Malhotra: So basically, aluminium, you will see these fluctuations till the time there is a hedging mechanism in place. In certain quarters, you will see higher margins as this quarter. And other times, you will see lower margins also, because there is a transit time and the LME changes during these time period. So in some -- if you look at our last quarter, the margins were only INR9 per kg, last year, same quarter, because the LME went down and we incurred some losses on the metal prices at that time.

If you talk about this quarter, we have incurred some additional profits coming because of LME going up. So on a sustainable basis, INR14 to INR15 is the margin that you can expect going forward. And you will see a linear -- you will see a sustainable INR14 to INR15 margin only once the hedging mechanism is in place. Until that time, you will see these fluctuations happening.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing comments.

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

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