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06/06/2023

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| To<br>BSE Limited<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street,<br>Mumbai - 400 001.<br><br><b><u>Scrip code : 509152</u></b> | To<br>National Stock Exchange of India Limited<br>Exchange Plaza, Bandra Kurla Complex,<br>Bandra (E),<br>Mumbai - 400 051.<br><br><b><u>Symbol : GRPLTD – Series: EQ</u></b> |
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Dear Sir / Madam,

**Subject: Earnings Call Transcript**

Please find attached herewith earnings call transcript held with analyst/ institutional investors on 31<sup>st</sup> May, 2023 at 3:00 p.m. to discuss Company's operational and financial performance for the quarter and year ended 31<sup>st</sup> March, 2023.

Kindly take the same on record.

Thanking you,

For **GRP Ltd.**

**Jyoti Sancheti**  
Company Secretary & Compliance Officer

Encl : a/a

**GRP Ltd.**

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# GRP Limited Q4 and FY23 Earnings Conference Call

May 31, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 31st May 2023 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 FY23 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchtone phone. Please note that this conference is being recorded.

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

**Harsh Gandhi:** Thank you so much. Good afternoon, ladies and gentlemen, and thank you for joining us on GRP Limited's conference call to discuss earnings of quarter 4 as well as fiscal year 2023. Along with me here today, I have our company CFO, Ms. Shilpa Mehta; and SGA, our Investor Relations Advisors to assist on the call. We have already uploaded our investor presentation on the stock exchanges and the company website, and I hope each of you have had the opportunity to go through the same.

Fiscal year '23 has been a fairly busy year for all of us at GRP Limited, having undergone several structural changes and undertaken various new initiatives during the year and I'm outlining all of those as under.

At the beginning of the year, GRP sold its entire shareholding in Marangoni GRP Private Limited, which was a joint venture company. This sale resulted in a gain of INR 5.7 crores for GRP. The decision to sell the investment in the joint venture, as indicated in the past, is on account of a strategic shift in GRP's portfolio and priorities as we want to continue maintaining leadership position as a material supplier.

During the year, we also incorporated a wholly owned subsidiary named GRP Circular Solutions Limited with an objective to expand focus on recycling plastic waste. The motivation for a separate company for plastic recycling hinges on the Government of India's plans under the Extended Producer Responsibility and the numerous opportunities that have arisen out of that regulation for development and partnerships in the field.

Within GRP Circular Solutions Limited, the first set of products that GRP has launched are Repurposed Polyolefins. This business aims to provide sustainable and circular material solutions for the rigid packaging industry. GRP or GCSL, in this case, will convert end-of-life polyolefin rigid packaging material into raw materials with a performance which will be relatively close to virgin raw materials.

During the fiscal year FY23, 6,000 tonne capacity was added in this business under the Repurposed Polyolefins. And I'm pleased to announce that while we installed the capacity, we

also were able to gain approval of several large customers for this. GRP or GCSL has become the only approved supplier or partner to a premier global petrochemical brand, namely Mobil, for use of the material in commercial pails made with 50% post-consumer recycled polypropylene. The application of these materials that GCSL has developed will range from paint pails to lubricant pails to automotive battery covers and packaging pallets. GCSL continues to engage with several brand owners across each of these sectors for product approval, and we are fairly confident to be able to gain more prominence in this business during this year.

In line with maintaining the focus on end-of-life tyre and plastic recycling, GRP also announced the divestment of its 100% stake in its wholly owned subsidiary, Grip Polymers Limited.

Deepening our commitment during the year to renewable energy and operational efficiency, GRP made additional investments in windmills during the year. With acquiring 3 new windmills, our total wind energy capacity across all locations stands at about 4.35 megawatt. And this move is aimed at increasing our sustainable energy sources while achieving cost reduction in a highly power-intensive industry.

The implementation of this acquisition is expected to have a positive impact on GRP's energy costs starting from the second quarter of FY24, and we should be able to demonstrate those savings in the energy costs thereafter. This investment aligns with GRP's long-term sustainability goals, while providing an opportunity to optimize operational expenses and enhance cost efficiencies. This investment in the wind energy was in addition to GRP having commissioned a 500-kilowatt solar energy plant at its premises in Solapur. With that investment, which was made during the early part of the fiscal year, the connected load of solar energy across different GRP locations stands at about 1.6 megawatt.

Combination of the windmill and solar energy investments, today, GRP's total renewable energy sources are at about 6 megawatts, and it contributes to about 60% of the connected load of the GRP operations, which is at about 10 megawatts. In terms of number of units, all these renewable energy units contribute to roughly 27% of the units consumed at all the operating facilities. We maintain our commitment to renewable energy as a source of cleaning the environment as well as focusing on operational efficiencies. And during the current year, we have further plans to add between 2.5 to 2.75 megawatt of renewable energy in the form of wind and solar sources.

Apart from the above, GRP has made a conscious decision to consolidate its operations across the Western states of India, which is namely Maharashtra and Gujarat. And with that as an objective, we had sold the land and buildings, wherein erstwhile reclaim rubber facility existed in Perundurai in the State of Tamil Nadu. To cement our commitment towards the Western region, GRP commissioned a semi processing plant for manufacturing crumb rubber at the company's land -- the company's facility in Dahej in Gujarat. This site for the time being will augment capacities in Ankleshwar and Panoli but will have a long-term focus on other recycled products manufacturing. So, with this, while Tamil Nadu has been divested off, GRP has added Dahej as another location for manufacturing capability going forward.

During the last quarter of the financial year, an unfortunate incident was the fire at our facility in Solapur. This is the facility where the expansion or the diversification efforts of your company

were based, which is in the plants where the Non-Reclaim Rubber businesses were housed. While we at GRP have accorded highest priority to fire safety and have systems for effective combat against such incidents, this unfortunate incident did take place and has been an eye opener for us. Fortunately, there were no casualties or injuries and the fixed assets and the inventory at the location were adequately covered by insurance. GRP has lodged the insurance claim totalling INR 16.45 crores for the damage caused on account of the fire. The insurance company has made an on-account payment of INR 2.5 crores at the moment, and we hope to receive the entire claim during the current financial year.

We've already started and made efforts to upgrade the existing infrastructure for improved prevention, detection, and mitigation of fire across all the other locations at GRP as well. In the meantime, to restore normalcy in the business operations following the fire incident, GRP has already taken several steps to put several of the equipment up in regular production. A lot of these were through repairs. A lot of -- some of them were also replacement of equipment that were completely damaged. We were able to shift the equipment to a newly constructed building.

And apart from the production that will be done on the same site, we have also entered into contract manufacturing of certain products and SKUs and initiated customer supplies from the outsourcing facility. We've been able to restore all fire-fighting equipment at the Solapur plant for safety purposes and planning for construction and repair of the damaged structures is ongoing and will be completed within the next 3 to 4 months.

Now let me provide you a quick snapshot on the operational side. The volume growth in the Reclaim Rubber business, which continues to be the largest business for the company, was at about 5%. This was at an increased or an improved pace in the first 3 quarters of the year, but there was a degrowth in the last quarter of the year. And that slowdown is on account of a slowdown in exports to the European Union and North America, which affected the overall volume growth. Despite this, the domestic sales have maintained the market share. And while there has been an overall rubber consumption increase of about 4%, your company has been able to grow its domestic share by a factor which is higher than 4%.

The Engineering Plastics business experienced a high-volume growth of about 30% until the third quarter. However, margins were negatively impacted for the 12-month period due to the fire incident. There has been a 9% increase in power tariffs and changes in the product mix have resulted in increased energy costs. So, while we have made investments to add renewable energy sources, we are expecting those to help reduce power costs in the current year and going forward. We've taken conscious efforts at reducing the working capital cycle and we've been able to achieve a 7-day reduction in working capital cycle compared to the previous year through improved efforts and working capital management. And that is obviously leading to lower utilization of external borrowings as well as a tighter control over the rest of the working capital.

There has been a significant reduction in international freight costs starting Q4 of the financial year FY23. And we are hoping that most of those benefits will be retained by the company in the current year. And we are expecting the freight cost to be at those levels for most part of the current fiscal year. There was a decline in quarter-on-quarter revenue in both the Reclaim and Non-Reclaim businesses in the quarter 4. And the drop in revenue, as has been explained, is due

to an unfavourable market condition internationally as well as the disruptions caused by the fire incident. The weak sentiment going through in European Union and North America are likely to be maintained or are likely to continue for the next 2 quarters. And while we have adequate visibility of orders for the next few quarters, there is definitely a volume degrowth in the international markets compared to the calendar year 2022.

In FY23, the revenue growth also had a factor of the selling price increase, which your company has been able to push through to customers and also a favourable currency during the year. In the Non-Reclaim Rubber business, for the year, there has been a higher volume sale in the Engineering Plastics business, but the Composite business degrew due to challenges that our customer faced. The Polymer Composite business is based on and dependent on a single customer.

And increased freight cost for most part of calendar year 2022, starting from the time post-COVID, had led to our customer going through a significant difficult time. While a lot of that is now behind us, we are hoping to start supplies and a new agreement has been put in place, whereby starting this month, which is May of 2023, business has resumed with the customer with a changed ownership structure and revised capital structure.

EBITDA margins for Reclaim Rubber expanded by 40 basis points on a year-on-year basis, again, based on the improved currency and lower logistics costs. In the Non-Reclaim Rubber business, it declined due to the volume reduction in Polymer Composite business, which has always been a very, very profitable business and the impact of fire in the Q4 of the year. We continue to remain optimistic about our Non-Reclaim Rubber business despite its relatively small base and despite the challenges that we have faced in the last financial year. The increased capacity that has been created and the positive business prospects on account of customer approvals are encouraging, and we remain confident of this business growing at a significantly higher rate than the traditional Reclaim Rubber business.

We have started to leverage the synergies from the Reclaim Rubber business into the Non-Reclaim Rubber business by way of improved collection efficiencies as well as a technology differentiation that we've been able to create in the Non-Reclaim Rubber business. We continue to remain positive and confident.

And in this year -- in this financial year, we are also hoping for a significant boost in both margins as well as revenue on account of the full-scale implementation of the extended producer responsibility in both the tyre as well as the plastic recycling industries. With this backdrop, let me hand over the floor to Shilpa to take you through the financial highlights for the quarter as well as the year gone by.

**Shilpa N. Mehta:**

Good afternoon, everyone. Let me take you through the consolidated financial highlights for quarter 4 of FY23 and for the financial year FY23. We are starting with quarter 4. So revenue from operations in Q4 FY23 was at INR 955 million as compared to INR 1,112 million in Q4 FY22. So, it was down by 14% on a year-on-year basis. Revenue degrowth was on account of reduction in volume by 9% and due to the slowdown in European Union and North America,

which resulted in lower export revenues for Reclaim Rubber and also due to impact of fire on non-Reclaim business.

Gross profit for Q4 FY23 is INR 483 million as compared to the INR 625 million in corresponding Q4 FY22, which is down by 23% on year-on-year basis. EBITDA for Q4 FY23 is INR 58 million. versus INR 80 million in Q4 FY22 and that was down by 27%. EBITDA margin for Q4 FY23 is at 6.1%, which was at 7.2% in Q4 of previous year. Profit after-tax for Q4 is at INR 28 million, which was INR 23 million in last year Q4. So, it was up by 19% on year-on-year basis.

Now let us go to FY23. So FY23 to FY22 comparison, revenue from operations in FY23 was at INR 4,510 million as compared to INR 3,884 million in FY22, which is up by 16%. This revenue growth of 16% is backed by increased volumes, higher realization, and favourable currency. Gross profit for FY23 stood at INR 2,417 million as compared to INR 2,064 million in FY22, which is up by 17%. EBITDA for FY23 is at INR 248 million as compared to INR 232 million in FY22, which again grew by 7% and this growth in EBITDA is led by growth in revenue coupled with reduction in freight costs. EBITDA margin is at 5.5% as compared to 6% in FY22.

Profit after-tax is at INR 139 million in FY23 compared to INR 58 million in FY22, which is up by 142% on year-on-year basis. This PAT growth was from improved volume growth and one-time gains on sale of assets, investments in the JV company and subsidiary. On the debt side, I'm pleased to share that we were able to reduce our gross debt, which includes both long-term and short-term by INR 113 million from INR 997 million to INR 883 million in FY23. And our debt-to-equity ratio is 0.59 FY23, which was at 0.73 in FY22. With this, I now open the floor for question and answers.

**Moderator:** The first question is from the line of Vivek Ganguly from Nine Rivers Capital.

**Vivek Ganguly:** I had one question on the EPR targets. I was trying to understand the space a little better. Referring to -- hello, can you hear me?

**Harsh Gandhi:** Yes, you're audible, but I didn't catch the first part of your question regarding...

**Vivek Ganguly:** No, no. So, I've not yet completed the question. So, referring to Slide 17 where you had charted out the EPR targets, so if you can explain this a little better in the sense if a company is manufacturing using -- uses, let's say, 100 kilos of rubber, so is that 35% of that has to be reclaim rubber? Is that what it means? And how does this play out? I'm referring to Slide #17.

**Harsh Gandhi:** Yes, I'm seeing that. So, I think there are 2 parts to the EPR story. One is the obligations of the tyre manufacturer and what they need to do. So if you look at that particular chart and talking about 35% is the -- I, think what is happening -- what this means is that for the manufacturers or importers of new tires, whatever is the quantity of tires that they have produced 2 years before, which is basically, if you look at the bottom, it says that it will start after 2 years.

And shall be 100% of the tyre manufacturers or imported in the years Y minus 2, which means in FY23, whatever was their production or import of FY21, 35% of that needs to be bought back by way of credits in the year FY23. So as a tyre producer, if in FY21 they had produced 100

tonnes of tires, they are required to purchase 35 tonnes of credit in the year FY23. That's what this chart means. And similarly, against, their production of FY22, they need to purchase credit for that in FY24 to the extent of 70% of the production of the year FY22 and so on.

**Vivek Ganguly:**

So, this is applicable to India, or this is applicable on a global scenario?

**Harsh Gandhi:**

So, this is only what is sold or manufactured, while sales, manufactured, if you look at the definition within the EPR, it is actually sales of tires in India. And that's the reason for the tyre companies it will be net domestic sales. And for the tyre importers as well, this will be the total tires sold in India and the percentage of that by way of credits that they need to purchase 2 years later.

**Vivek Ganguly:**

So how does the credit purchase work out in the sense, let's say, if reclaim rubber is available only to the extent of, let's say, 5%. So, the remaining 30%, they will have to buy credits. And where do they buy the credits from, in what form?

**Harsh Gandhi:**

So, buying credits is independent of the production that they have done. So, if the country as a whole consumes about 2 million tonnes of tires, as an example, 35% of that will need to be bought in terms of credits from recyclers 2 years later. And the expectation therefore is that as the regulation tightens and the producers or the brand owners are obligated to buy these credits, there will be obviously a growth in the recycling activity in the country.

Now the recycling activity has already been defined by way of the end products that are produced, reclaim rubber and then similarly crumb rubber and then several other types of end-of-life recycling are eligible to be sold for credit. So, reclaim rubber, whatever production of reclaim rubber that we as an industry or the country produces, that much of credits will be available to the industry to sell to the tyre company and the tyre companies will be obligated to buy those credits from different recyclers.

**Vivek Ganguly:**

So, would you'll be, like say, if you'll -- and please, I'm new to the space, I'm trying to understand this. So, if, let's say, 30% is the obligation, but the rubber that is reclaimed or reprocessed, recycled is only X percentage. So, if you sell that to, let's say, a tire, that will be considered as a credit in the -- which is used in fulfilling their obligation?

**Harsh Gandhi:**

No. So, the consumption of reclaim rubber or crumb rubber does not earn any benefit for the tyre companies. They have to buy credits from recyclers independent of what they use within the tyre manufacturing processes.

**Vivek Ganguly:**

So how does that work? Where do -- because if they have to buy something, some asset, whether it is a real asset, or a virtual asset has to be generated. So, what is that asset that will get generated?

**Harsh Gandhi:**

Every tonne of reclaim or every tonne of recycled rubber that is produced, and again, there are multiple types of recycled rubbers as defined under the EPR policy, every tonne of that product will generate a certain value of credit. And that will be regulated through the Central Pollution Control Board through a portal that has been created and at the moment is under beta testing. And hopefully, in the next few weeks, that should kind of go operational, as a result of which

credits will be generated for the recyclers and will be traded across an exchange to be sold to the tyre manufacturers.

**Vivek Ganguly:**

So just to clarify. So, if you generate 1 tonne of reclaim rubber, so maybe you will get an equivalent of 1 unit of credit, which then you can go out and sell, put it out on an exchange, which they have to buy. So that -- does that incentivize them to buy more of reclaim rubber or more of the credit?

**Harsh Gandhi:**

So, I think at the moment, the regulation is at its nascent stage, and I'd be happy to have an offline conversation to kind of talk more about it. But at the moment, it's in its nascent stage. We do expect that the regulation, as it is written, may undergo changes because there is a steering committee that has been formed.

And the role of the steering committee, which comprises of stakeholders from across different parts of the business, there's an expectation that there will be modifications to some of the policy guidelines that are in there and that the steering committee is empowered to make. So, in what form does it finally get sanctioned and approved and implemented, that kind of remains to be seen. But some of what you've asked for are questions that the steering committee is also deliberating.

**Moderator:**

The next question is from the line of Rohit from ithought PMS.

**Rohit:**

So, I have a few questions. One was, sir, in terms of our reclaim business. So do you think that this year...

**Moderator:**

Rohit, we are not able to hear you clearly. Your voice is sounding very muffled.

**Rohit:**

So Harsh, my question was in terms of our Reclaim Rubber business. So, you alluded to a few things in your opening remarks. Freight costs this year, I mean, now have come down significantly, especially in the H2. So, going into FY24, how do you see the margins in the Reclaim Rubber business specifically adjusted for the slowdown that you're seeing in the export markets? If you can just give an outlook on that.

**Harsh Gandhi:**

So again, I mean -- so freight has reduced I think different -- depending on the different trade lanes, the impact or the extent of the reduction varies. But to put it in context, the freight cost reduction has been anywhere between 30% to 50% on several trade routes. Now the impact on margins will depend obviously on the different customers and the volumes that are kind of going out to the different customers.

So tough for me to give you an exact number on what that rupees per kg or rupee crore would be. But I would say that, I mean, at this moment, from a high of freight costs, which was in excess of about INR50 crores for the year that we have seen in the past, we are seeing that freight costs have by and large reduced by, as I said, anywhere between 30% to 50%. So that's the likely overall impact on the cost of freight.

Against that, how much will get passed on to customers versus how much will be retained by the customer is a case-to-case basis. I mean, there are several customers where the freight was a

direct pass-through. And in those cases, the freight -- our pricing is moderated or adjusted to reflect the revised freight costs. In some cases where the risk of the freight based on the Incoterms was for GRP. Those are the ones where we will continue to retain the margin that will get accrued on account of the freight cost reduction. So, it's a mixed bag. I'm unable to give you an exact number, but I can definitely say that on a net basis, it will definitely be margin positive for the company.

**Rohit:**

So, no, I was not actually asking for specific numbers, but just broadly, because you alluded to a couple of things. One, obviously, freight costs have come down. At the same time, demand is a bit subdued in export markets and also power costs have also gone up. So, putting all in total, I mean, in terms of the segmental performance that we see on the reclaim rubber side, last 2 quarters have seen some margin improvement where we've touched close to 9% and 10%. So, do you think there are -- I mean, from here on, the margins will continue to go up given everything put together? That's what I wanted to understand.

**Harsh Gandhi:**

So, we are fairly optimistic that the margins will certainly be better in the next year. I mean, it will continue to get better for the next 2 or 3 quarters because the impact on account of freight will certainly be net positive. As far as power costs are concerned, again, as you've seen that there has been about a 9% to 10% increase in unit cost, but that we are also more than offsetting by way of the investments that we have made in the renewable energy.

One additional factor, which I've not talked about, but this is going to impact this year is that there has been a one-time 25% increase in the minimum wages in the State of Gujarat. While most of our workforce was earning slightly more than minimum wage, there will be a one-time adjustment on account of this minimum wage increase in the State of Gujarat. But putting all of these 3 put together as well, we are still expecting that the margins on the whole for the Reclaim Rubber business will be definitely positive net-net.

In terms of percentage or basis point improvement, my expectation is, as you've said, it has gone up already to closer to about 8%-odd. And we are fairly optimistic and hopeful that it should get into double-

**Rohit:**

Now moving on to the non-reclaim side of the business, I remember this year, we had also expanded capacity and we were quite optimistic at the beginning of the year to utilize that expanded capacity based on customer sort of soft commitments. However, obviously, I understand about the Composite business had an issue and also the demand overall has also become subdued. So just generally wanted to understand how do you see that business, because you consistently maintained that that business is much more profitable, however, PAT is yet to be seen from an overall level due to the low offtake? So, could you sort of explain that also?

**Harsh Gandhi:**

So, our Non-Reclaim business is, as I've said before, just to kind of do a little recap, we have 2 businesses within that currently and which is the Engineering Plastics business and the Composite business. Engineering Plastics business continues to grow. In fact, as we expanded capacity or doubled capacity during the year, we were close to getting to about 70% utilization of that capacity based on the orders in hand as of February of this year. However, on account of the fire, I would say, we've been set back because a lot of the capacity that was added, some of it kind of had been lost to the fire and we are in the process of restoring that.

As far as business itself or the order situation there itself is concerned, we will have an overall capacity based on all the expansion, et cetera, at about 7,000 tonnes on an annual basis. I would say that we were at about 70% to 75% of that capacity by way of orders by February. So as and when we are able to restore that capacity, we are fairly confident that by the end of the year we should get to about 80%, 85% of that utilization once the equipment are all restored and the building is up and operational.

As far as the Composite business is concerned, as I said, we had a volume degrowth which was close to 15% from the previous year. But from March of this year, because of the renewed contracts, we have restarted that operation. Again, we won't be able to go back to peak capacity because there also we have lost about 1/3 of the capacity to the fire. And while we restore that, the business will slowly kind of inch up. We are hoping that that business also by the end of the year will get back to about 70% of what its capability is.

So, net-net, both these businesses, the order situation as well as the customer outlook is looking fairly positive. It's a question of when we are able to get the capacities up and running. But otherwise, we are not seeing either of these businesses affected by the downturn in any way because these both are serving a very different niche end application and we are fairly confident of getting back to that 70%, 75% capacity utilization.

The other non-reclaim business is the polypropylene or the plastic business that we have set-up. There, again, we've been set back by about 3 years on account of -- 3 months, I'm sorry, 3 to 4 months on account of the fire. And another change that has happened there is that the regulation on the plastic packaging under EPR has been pushed back by one year.

And in light of that, we are hoping that we will get back to about 40% to 50% utilization before the end of the year. The approvals are kind of slowly, slowly trickling in and coming through. Our supply chain for sourcing waste plastic is in place and have spread to an extent that we are fairly confident of getting too close to 90% of the capacity that we have created, we have the sources in place as well. So, it's a question of when and not whether.

So, this is a brief outlook on each of the non-RR businesses. But I would say that by the time the buildings are rebuilt, and the plant is completely put to use and operational, I would say, it would be closer to September before the new building and the new -- and the capacities are all commissioned in -- back to its level pre-February 15.

**Rohit:** Just one follow-up on the plastics business. So, despite -- so in the plastics business, there are - - if my understanding is right, there is a 2 kind of revenue line items, right? One is the credits and that would also be there in the reclaim rubber bought. But just to be focusing on the plastics part for a bit, you'll also sell the repurposed polyolefins and also you will sell the credits. So, do you expect both these to contribute in FY24 or more the refocused part with the customer that we've got approval with to begin with in FY24?

**Harsh Gandhi:** So, the EPR revenue impact in the plastic, as I said, the mandate has been pushed back by a year, but a lot of voluntary purchase of credits is already ongoing. So yes, there will be an EPR income generated from the plastic recycling businesses. And that includes both the Composite business as well as the Repurposed Polyolefin business.

So that will be net positive as far as the P&L is concerned. Of course, it will be split between GRP and GCSL, which is where the Repurposed Polyolefin business is housed. As far as tires is concerned, we are confident that it will start generating a positive EPR income in this fiscal itself, because that -- we are not expecting that to be deferred for any reason.

**Rohit:** And one of the -- one company's conference calls, it was shared that the plastic credits, depending on the product, the pricing rate has been INR 2 to INR 20 a kilo. I mean, can you talk a bit about what kind of realizations are you guys looking at for your product? And how do you see that? Any sense that you can share?

**Harsh Gandhi:** I think the pricing that people are talking about is a little speculative because currently it is voluntary. We've seen prices range anywhere from INR 1 a kilo to as what you mentioned. I don't think the markets have stabilized or matured where one can predict what's the likely unit revenue that one can generate for credit.

So, it's very early days, if I may, to kind of be able to put that out. I mean, we've already started selling some credits. And as I said, the prices range depending on the brand owners as well as the stability that we are able to provide the credits with. I mean, too early. I think once the market is better, I would say, organized and the mandates are clearly in place, that's when the true discovery of the price per credit will happen.

**Moderator:** The next question is from the line of Umang Shah from Indiabridge Capital.

**Umang Shah:** As it was in the previous year, the realization that we received, especially in the export markets, have been much higher as compared to previous years in case of reclaim rubber and yet there's no increase in the operating margins or the gross margins. So, any reason for the same?

**Harsh Gandhi:** I'm sorry, export realization has improved, I didn't get you. I'm sorry, I didn't follow the question at all. Your voice and line is not really very clear.

- Umang Shah:** What I was saying was -- can you hear me?
- Harsh Gandhi:** I'm sorry, but I'm unable to hear you clearly at all. Your voice is breaking. I'm only hearing a few words and not the entire question.
- Moderator:** Sir, he'll be re-joining the queue. We'll move on to the next question coming from the line of Ajay Surya from Niveshaay.
- Ajay Surya:** So, my question is like, if I look at the past before pyrolysis started to take off, we had operating margins in the range of like 13%, 15% and even 18% sometimes. But post-2012 the margins never reached double-digits and remained around 5%, 10% levels. But now with the EPR policy coming in, which will reduce the pyrolysis activity, can we see our margins go back to those levels on like coming next 1, 2 years post the EPR implementation?
- Harsh Gandhi:** I'd divide this into 2 parts. One is 10 years is a very, very long time for an industry to continue to have or exhibit the same kind of performances. So, I think what has happened 10, 11 years ago, I mean, I think economic memory is generally a lot more short-term than that. So, I wouldn't necessarily want to comment on that as to what the performance was and what the margins were 10 or 11 years ago.
- As far as the margin improvement on account of EPR is concerned, which your question is, yes, it will be definitely positive for the company, as I mentioned already before. But because I'm unable to predict what will be the price of the credit or the revenue that one will generate for the credit, it is very difficult to quantify what it will mean in terms of margin percentage or operating margin percentage as far as reclaim rubber is concerned.
- If I again was to sort of make a general statement on how the Reclaim Rubber business itself is growing and how the margins have been on a quarter-on-quarter basis, I mean, clearly, there is an improvement that we have seen quarter-after-quarter. I mean, except, as I said, I mean, there's been a little bit of a dip in sales in Q4. But other than that, the contribution of margins have certainly started to show an improvement. And we are fairly confident that if the demand holds, these margins will continue getting better.
- Ajay Surya:** Sir, my next question is regarding the non-reclaim part. So, if we look at like nylon is replacing the metal in automotive, what is the trend towards recycled nylon? Like, are we seeing 20%, 30% kind of recycled nylon used in the industry or how much recycling content is used? Can you throw some light on that?
- Harsh Gandhi:** I think nylon, you're right, by and large, is replacing different kind of materials itself. And if you look at the engineering plastic industry in India, the growth has been faster than the rest of the plastic industry. That's clearly indicating that nylon apart from other engineering plastics are continuing to replace other kind of polymers or even in some cases other kind of materials. As you've given the right example that nylon replacing, in some applications, metal that was being used.
- Within that space or within the stream of engineering plastics, what is the share of recycled nylon, again, that is dependent on the end application. I can only say that, for example, very

recently, Kia and Hyundai have gone out on record to say that the plastic components used in the automotive can incorporate up to 30% recycled content in there. Now this is a very big sweeping statement made by a large brand owner who has a global footprint. What it means and when all of those will get reflected in the compound formulation changes is a process which the OEs and Tier 1s will start working with these brand owners over a period of time.

Is it helping us? Yes, we have been able to get a few auto company approvals for our nylon -- compounded nylon. And it is starting to replace some amount of virgin nylon in several applications. What is the percentage of replacement, if I was to say, it is ranging again from as little as 5% to in some cases it has gone up to about 15% to 20% replacement of the virgin nylon. Now in automotive, which is the largest consumer of the engineering plastics, it's the largest impact, but it will probably be a slow-moving impact.

Where the impact we are seeing more pronounced is in the electrical and in the furniture sector where the percentage of recycled nylon is already in high-double-digits, in some cases high-teens, in some cases even in the 20% range and so on and so forth. So, I do believe that the non-automotive applications will switch more towards recycled plastic materials than the pace at which the automotive manufacturers will switch.

So clearly, that is a positive for us in the industry. But I want to also caution you that while nylon is replacing certain types of metals, you have to be cognizant that in the long run, certain type of polyolefin materials when compounded is also replacing some amount of engineering plastics. So it's going to be a cycle where everybody will need to be ahead of the curve and make sure that they are able to produce a cost-efficient material with the performance properties of the next material that is in the hierarchy. I hope that answers the question, but that's in a nutshell what is happening.

Another major change that is happening in the industry, which all of us are seeing is that a lot of consolidation has taken place, especially in the engineering plastic industry. If you look at India alone, we had more than 15, 20 engineering plastic compounders in the country until 5 years ago. Today, that number is in the single digits. And this is because a lot of capacity has been consolidated through either M&A activity or international players coming and setting up operations in the country as a result of which several domestic companies have kind of become redundant.

Now as this is happening, most of the international or the multinational compounders who are integrated across the value chain are focused more on the higher end applications. And that has actually left a little bit of a gap or a void in the general-purpose recycled engineering plastics space. And that is actually a lot of it is in the electrical and the furniture and this space. And that's a positive that we are seeing for our company because we are focused on the recycled materials and are able to offer products for those end applications which we've been able to get approval for.

So, net-net, it's a positive. But I would say, substitution in the automotive industry is slow, but it's the largest volume. Substitution in electrical and furniture is high and fast, but it's a smaller volume. And the consolidation in the industry is also leaving behind some space for

compounders like us to kind of take market share in the general-purpose recycled engineering plastic space. I hope that answers the question.

**Ajay Surya:** So, my final question is regarding -- like you said, there are lot of M&A activities in this engineered plastic compounders. So can we see that and even reclaim rubber like because credits will have to be purchased like our companies and unorganized industry, we have seen reclaim rubber means a little bit of unorganized industry. So, can we see them being targeted for tyre companies?

**Harsh Gandhi:** Are you asking whether tyre companies will be looking at reclaim rubber producers to be acquired? Is that what your question is, if I got it correctly?

**Ajay Surya:** Yes, that is what it is.

**Harsh Gandhi:** I think that's a question you need to ask the tyre companies. I'm not sure whether I can answer that with any level of certainty.

**Moderator:** We'll move on to the next question that is from the line of Akash Mehta from Caprize Investments.

**Akash Mehta:** I have two different questions. First one, I think you mentioned in the speech regarding the semi processing plant for manufacture of crumb rubber. So, if you can just provide some more details on the same? And what is the demand that we expect for crumb rubber as such?

**Harsh Gandhi:** Sure. So currently, the plant that has been set-up in Dahej is to meet the internal needs of the GRP reclaim rubber facilities in Ankleshwar and Panoli, but this is a facility that has been operationalized for the time being. Dahej is a very strategic location because it is very close to the tyre companies there. I mean, there are 2 large tyre companies operating within the vicinity of a few hundred meters from where our existing factory is.

We started with producing, as I said, crumb rubber to feed the reclaim rubber unit. But we do believe that the location provides a strategic advantage to do a lot more and it could be a lot of downstream possibilities. It could be -- with the crumb rubber itself, there are many applications in the rubber industry as well as in the non-rubber industry. There are also opportunities to diversify into -- or from a technology point of view into alternate technologies for reclaim rubber.

And there are several things on the table. I don't have an answer on what we will do there within a 3-year horizon. We are working on a lot of things. And we will continue to see how we can put that asset to much better use than what it is being done today. For the time being, it's only serving the needs of the Ankleshwar and Panoli reclaim rubber units.

**Akash Mehta:** So, the internal consumption. And the second, I had a question on the order book. If you could provide me the details of your orders in hand for the Non-Reclaim and Reclaim Rubber segment? And some insights on the order book whether it is from new customers or from the existing one?

**Harsh Gandhi:**

As far as the order book in reclaim rubber is concerned, we've had Q4, as I said already, has been a weak quarter. Even this quarter, which is Q1 of this fiscal -- first part of the quarter has been a little tepid in terms of the demand. But we are starting to see some increased activity coming back again mostly in the domestic industry and some amount in the non-traditional market. So, we're starting to see a revival of demand in Latin America and some parts of Asia. Europe and North America continued to remain more or less the same as what they have been in Q4 of last year.

Now if you look at the presentation that has been put up on the website, and I think this is Slide #16, there is already an indication of what the global tyre markets look like. And I think that should give you a fair sense of what is happening world-over in terms of the tyre production and what it therefore means for consumption of different materials. I mean, in India, we've had a smallish growth in the rubber consumption or in the offtake. Internationally, I think it's only been 0.8%, while in India it has been about 4% to 4.2%.

So, I mean, with that as a backdrop, I would say, order book is not looking extremely encouraging where we have excess orders overcapacity. I think we're trying to increase share of wallet with our customers and trying to ensure that our market share stays ahead of competitors at this stage. And that's really what's happening.

As far as the non-reclaim rubber is concerned, I already talked about what is the outlook for the Engineering Plastics business where we are fairly confident of getting back to the levels, but there is a capacity issue for recycling of pails. The composites, again, as I said, there is an order book, there is a revised contract. It's the capacity which is again a challenge in terms of being able to fulfil what the entire requirement of the customer is. I hope that provides you a perspective of all the businesses!

**Moderator:**

The next question is from the line of Rohit Potti from Marshmallow Capital.

**Rohit Potti:**

So, most of the questions have been answered. I'm just curious to hear, I think a couple of calls back you mentioned that we are looking to go up the value curve in reclaim rubber and we're coming out with high performance products, which would have lesser competition which would add to the margins and ideally could be introduced in the current financial year. So just wanted an update on that, please?

**Harsh Gandhi:**

Yes, advances with the new technology are at an advanced stage, I mean, we are at an advanced stage of getting approvals for some of these new products that we are developing. I think before the end of the year, we will have new lines of capacity with this new technology in place. Currently, we are at the approval process with a few customers, specifically the tyre companies. And we're also evaluating 2 different technologies for which pilots have been set-up at our plants at the moment.

And we are fairly confident that in all likelihood, both these technologies we will be implementing on a commercial scale by the end of the year. I can't give more details than that, but yes, I mean, this is, as I've mentioned in the past, cleaner processes and upgraded product in

terms of properties compared to what we've been selling so far. Its high-performance materials produced using cleaner technologies.

**Rohit Potti:**

So, could you give -- I mean, I know you don't want to share more details, I understand that. So, in terms of entry barriers, so does it take longer to come up with the technology if a competitor has to do that? And is the approval process for these materials longer from the customer's point of view? I just want to know what the barrier to entry would be here?

**Harsh Gandhi:**

I think as far as the customer approval process is concerned, what we are seeing is given the level of interest that the tyre industry has in using a larger percentage of the high performance reclaim rubber. We are seeing that the approval times are likely to be shorter than what our traditional time used to be. I used to always say that process for approval used to be between 6 to 24 months. I'm seeing based on the interest of the tyre industry that this time strain will be compressed a lot more, and therefore, faster approvals are definitely likely to be seen and witnessed.

As far as barriers to entry are concerned, I would say, globally, there are 3 or 4 different technologies that are being tried and tested in different parts of the world. So, while we are claiming that we are looking at these new technologies for high performance materials, I think several technology providers as well as competitors are also testing and evaluating alternate technologies for commissioning as well.

I mean, is it a question of either or, I don't think so. I think it's a question of this and that. And I think the tyre industry is welcoming all these different technologies. They are evaluating different materials. So, I personally feel that each of the different players, be the technology provider or a recycling company, if they are able to deliver on the promise of a better performance material and doing it in a cleaner way.

I think the stress I want to put is this because a lot of tyre companies are asking for high performance materials, but they want to make sure that the processes are cleaner with less carbon footprint than the current set of processes. So as long as people are able to deliver, I am fairly confident the tyre industry will be able to absorb a lot more capacity in the coming years.

If you just look at the aspirations that each of them have and the information of -- or rather what they have put out in the public domain in terms of targets of use of this recycled material, I think they will need multiple technologies to be approved for them to get to those numbers. So, I will be very surprised if they say, I like this technology versus that. I think they will say this technology for this product, this technology for that product. And I think they're going to be much quicker in adoption of these new products.

**Rohit Potti:**

So, one interesting which I noticed is that you didn't mention price in your whole commentary right now. So, I think in reclaim rubber, at least the legacy business, the price competitiveness as against rubber and other competitive products is an important factor. So, is that less of a factor in this higher performance technology?

**Harsh Gandhi:**

Look, we will be working with the same raw material. And because we got cleaner processes, we are not expecting that the operating cost will be significantly higher than the current

technologies in use, because while overall operating costs might go up, the cost of pollution and compliance and all of those other things are going to be lower. Similarly, energy costs might be higher, but manpower costs will be lower.

So, net-net, we believe that the overall operating cost with these newer technologies will be comparable to the current cost of technology operations. And therefore, the delta that will be available on the product performance will actually be margin accretive for the entire community.

**Rohit Potti:**

And going back to sort of the broader strategy over the next 3 to 5 years. So, over the last 2 or 3 years, we've added at least 2 new very promising lines, the Engineering Plastics we are scaling up and the Repurposed Polyolefins that you referred to. So, are you going to double down on these -- the high technology reclaim rubber and these 2 non-reclaim businesses or are you adding more products? How are you thinking about that over the longer term?

**Harsh Gandhi:**

I think -- I mean, if you look at -- or reflect on what I have mentioned in terms of divesting from non-strategic investments, including land, including subsidiary, et cetera, et cetera, we've kind of shored up enough cash and also the working capital efficiency that we've put in. I think the idea was to shore up the cash to pretty much to be able to invest across this entire spectrum of technologies in the tyre recycling space and in the plastic recycling space.

The investment in the Engineering Plastic came naturally to us because of the linkage of the raw material. And at the moment, our expansion or the growth in that business will be linked to the extent of nylon or material that we are able to more or less generate from our own reclaim rubber processes. So, to that extent, the Engineering Plastic will kind of go hand in hand in terms of growth with the Reclaim Rubber expansion plan. As far as the polyolefin expansion is concerned, I think that will get more dependent based on product approvals from brand owners and our ability to kind of scale up the supply chain or the collection efforts.

Just another quick reminder, I mean, again, you'll go through the financials in any case, but just something for you to watch out for is the asset turns in the Reclaim Rubber have always been low, but with the new technology will move up. But the asset turns in the plastic recycling business are already much higher than what we see in the Reclaim Rubber business. So, I mean, from that perspective, the ability to scale sooner with limited capital in the plastic recycling will be more effective.

**Rohit Potti:**

Sir, last question from my end is, so as things stand now, I mean, given the growth drivers which are retained Engineering Plastics and the Repurposed Polyolefins. Could you -- I mean, I know you touched upon the growth, but growth margins and returns on the employed capital. So, could you rank them in terms of -- as things stand now, it will be helpful, sir?

**Harsh Gandhi:**

I didn't follow the question completely. I mean, you spoke about growth, you spoke about the ROCE, and you spoke about margins. Are you asking me which one is most important to rank it in the order of priority?

**Rohit Potti:**

No, no. How do these -- I mean, how do these 3 segments stand in these 3 parameters. So, growth you've conveyed that Repurposed Polyolefins and probably Engineering Plastics are much faster

growing. But in terms of margins and returns on the capital employed, how do these 3 segments rank is what I was curious to know.

**Harsh Gandhi:**

So, I mean, again, interesting question. When we do the capital allocation, one can't have a myopic view. And given that the polymer industry as well as, as a result of the commodity industry and the pricing in there is so volatile. I mean, gone are the days when we could make 5-year plans with very little variability from those plants. I think today, even sticking to a 1-year or a 2-year plan is becoming extremely hard.

Given that backdrop, I would say, for the Reclaim Rubber business, in the long run, the ROCE will improve as we double down our efforts on different types of end products and different technologies that we will adopt. So, I think there the rate is against -- rate for improving margins and ROCE are based on the pace at which we are able to get into these new technologies.

As far as nylon is concerned, we continue to remain competitive, and the margins are high because of the back-end integration into the supply chain that is coming from the tyre recycling business. So, I think there, I would say, the margins and the ROCE will probably be the highest, but there the ability to scale is limited because we will continue to depend on our own raw material.

As far as Repurposed Polyolefin space is concerned, again, it's a little too early to say anything because there's very few organized competitors in this industry as of now. But that will change come 1 April 2024, because once the mandate is in place, you will really start seeing a lot more manufacturers becoming more aggressive, more active. And as a result, whoever is able to assume full position in terms of most brand owners as customers and product which is able to be incorporated at 30% and 50%, that is really what will dictate the future margins and ROCE.

So, I think as far as Repurposed Polyolefin is concerned, I think it's really too early for us to tell you where we stand in the pecking order. When it comes to nylon, I can confidently say that, I mean, these margins and ROCE will always remain high given our backward integration. And as far as RR is concerned, our ability to commercialize this new technology will dictate how the margins and ROCE improve over the course of the next 3 to 5 years.

**Moderator:**

The next question is from the line of Kanika Kothari from Kothari Securities.

**Kanika Kothari:**

Sir, just wanted some -- I wanted to know if you could give any long-term guidance on revenue margins. Maybe what can be the sustainable EBITDA margin for Reclaim and Non-Reclaim Rubber business?

**Harsh Gandhi:**

I mean, like in the past, I've never been able to give a guidance on either revenue or margins. I mean, as a policy, we've not really done it. So unfortunately, apologies, Kanika, but I wouldn't be able to provide a perspective. Yes, I would say, we've had a 17%-odd growth in revenue this year. I mean, at least for the next 1 or 2 years, we are hoping based on the capacity that we have created, that we will have a double-digit growth over the course of the next 2 years on a sustained basis.

On the margin front, again, I mean, we don't comment on where it will go, but I've already given you adequate information over the call-in terms of steps we are taking to improve the operating margins from where we are currently. So, I think that should suffice for now. I mean, we don't formally give out guidance on numbers, etcetera, as a policy. But as I said, I've already told you what we are doing to improve the margins. I don't think I can comment beyond that. I hope you understand.

**Kanika Kothari:**

And lastly, just wanted to know your thoughts on bonus issue and/or a split?

**Harsh Gandhi:**

I mean, I think at the Board level, we continue to deliberate on all such capital restructuring proposals. I mean, this -- if I may, I mean, the question that you asked in some ways I take back is a recommendation or a suggestion which we will certainly discuss at the next Board meeting. And then if the Board does feel that our capital structure allows us to look at either of a structuring to issue bonuses, we will consider it.

At this stage, I don't have any commitment, comment or view on the same. As far as split is concerned, if the objective is to sort of improve liquidity in the market, it's also something that we have been considering and thinking about and we shall look at it and implement it at an appropriate time.

**Moderator:**

The next question is from the line of Kartik Bhat an Individual Investor.

**Kartik Bhat:**

So, my question was around the Engineering Plastics division. Some of it was answered I think earlier, but I was reading up on the presentation that it has applications in consumer, automotive, electrical and electronics and so on. So, what is our differentiator as such that gives us the edge versus other competition in this sector? That is one. And do we have any number in mind saying that how much will the likely contribution would be from the non-Reclaim business? Reclaim versus Non-Reclaim pie, maybe 3 to 4 years down the line?

**Harsh Gandhi:**

As I replied to Kanika, I mean, I'm not in a position to give you numbers, but a long-term vision which has been always aspirational in nature and has been sort of provided in the past as well is that we want at some point that the Non-Reclaim Rubber businesses should become as large as the Reclaim business in time to come. I mean, I don't want to set a timeline to that, but that's the internal aspiration that we have.

As far as your question on competitive intensity and the niche or the advantage that we have in the Engineering Plastics space, as I said, I mean, we continue to -- I mean, the Engineering Plastics business is based on reprocessed nylon and glass-filled or the compounded nylon. And the nylon in this majority of this is coming from our Reclaim Rubber business, which is basically from end-of-life tyres. We also use textile waste; we also use some amount of fishnet waste. And the combination of this is what is providing us the raw material to serve these different industries.

As far as the automotive is concerned, I mean, there are several applications which somebody asked in the past, which are metal components that are moving to plastics and within that nylon. And nylon as a percentage within the automotive is kind of moving up. When it comes to electrical and electronics, I mean, this is all lot to do with the switch gears. As an end consumer,

industrial is actually conveying in the material handling systems and consumer is things like furniture and luggage and so on, which uses again a lot of the nylon.

I mean, our competitive advantage is the fact that we have our own source of raw materials. A lot of the other recycling companies don't have access to in-house raw materials. They are relying on collectors who are collecting end-of-life waste or post-industrial waste. And they are buying those at market prices and being able to blend it and they are compounding. In our case, because it's in-house, that's the leverage or the advantage that we have against our competitors. I hope that answers both parts of the question.

**Moderator:** Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Harsh Gandhi for his closing comments.

**Harsh Gandhi:** Thank you all. As I always say that for me these investor calls are more learning from all of you guys because the question that you ask as always are always insightful, gives us a good sense of direction and it helps us to go back to the drawing board to look for more answers for your questions. So, with that, I'd like to thank each of you for the time having taken to attend the call for preparing yourselves for asking these insightful questions.

And as I said, we will go back to the drawing board, work on some of these. And we are hoping that this year with all the changes that we've made in the last year, it will start reflecting on much improved performance. And I guess the government regulation and the EPR implementation should help your company grow more rapidly than we have in the last 1 decade.

So without referencing the gentleman who asked me about how we were 10 years ago versus now, I guess this is in some ways a new dimension for the entire industry, a lot of interest across different stakeholder communities, most importantly, the customers, and we continue to remain committed to serve them, provide them with new products, new technologies, and hopefully, therefore, better performance for all of our shareholder partners. Thank you so much for your time and appreciate the same.

**Moderator:** Thank you members of the management team. Ladies and gentlemen, on behalf of GRP Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.