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GRP
IMPACT POSITIVE

03/02/2025

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

Scrip code : 509152

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

Symbol : GRPLTD – Series: EQ

Dear Sir / Madam,

Subject: Earnings Call Transcript

Please find enclosed herewith transcript of earnings call with analyst/ institutional investors held on 28th January, 2025 at 2:45 p.m. to discuss operational and financial performance of the Company for Q3FY25.

Kindly take the same on your records.

Thanking you,

For **GRP Limited**

Jyoti Sancheti
Digitally signed by Jyoti Sancheti
Date: 2025.02.03 22:41:01 +05'30'

Jyoti Sancheti
Company Secretary & Compliance Officer

Encl.:As stated above

"GRP Limited

Q3 FY '25 Earnings Conference Call"

January 28, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 28th January 2025 will prevail.

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

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '25 Earnings Conference Call of GRP Limited. 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, uncertainties that are difficult to predict.

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

I now hand the conference over to Mr. Harsh Gandhi, the Managing Director. Thank you, and over to you, sir.

Harsh Gandhi: Ladies and gentlemen, thank you for joining us on GRP Limited's earnings call for discussing the results of quarter 3 and the 9 months of FY '25. Along with me today, I have our company's CFO, Ms. Shilpa Mehta; and SGA, our Investor Relations advisors, on the call.

We have uploaded our investor presentation on the stock exchanges and the website, and I hope you have all had the opportunity to go through the same. In today's call, I'll walk you through the key highs and lows that have influenced this quarter and the year's results, followed by an update on our ongoing expansion plans and also the external developments that are shaping up as we take steps to drive sustained growth moving forward.

So firstly, I'd like to share that the company has achieved a 20% growth in income, both for quarter 3 as well as 9 months of FY '25. This growth is primarily driven by an increase in volumes across both Reclaim as well as the non-Reclaim businesses. On a stand-alone basis, volumes have risen by about 12% for the 9-month period with a 9% increase in the Reclaim Rubber volumes.

This growth was achieved despite subdued global demand for tyres. This is additionally reflected in the slower production growth of tyre companies in the country which grew marginally in single digits on a year-on-year basis, but have declined slightly when it comes to a quarter-on-quarter performance.

In terms of the domestic Reclaim demand, we are seeing increased adoption of Reclaim Rubber, both in the tyre as well as in the non-tyre segments. The consumption of the Reclaim Rubber in the country has gone up by about 10% during the first half of FY '25 against an overall rubber consumption growth of 3%.

While natural rubber prices remained high compared to the previous year, they moderated slightly from their peak in August and September. However, limited new plantations are likely to keep natural rubber prices elevated for the forthcoming quarters.

As a business, while our realizations were stable, elevated raw material prices for some grades of reclaim that we are producing during the quarter have impacted the overall gross margins.

And I would like to remind that some of those are aberrations that were relevant only for the current quarter or the quarter in question.

In September 2024, there was a major development by way of an imposition of an antidumping duty on virgin butyl rubber. Imports of this was fairly high and therefore, significantly affected local prices in the country.

This led to, in some cases, an increase in adoption of butyl reclaim in the domestic market and also led to an increase, therefore, in the prices of butyl tube waste, which is one of the key raw materials that GRP uses as part of its synthetic rubber portfolio.

Since our pricing for customers is fixed on a quarterly basis and in some cases, even annual basis, some of the higher costs were not able to be passed on to the customers as a result of which we have seen a significant reduction in the gross margins as far as GRP is concerned.

However, looking ahead, a strategic optimization of the product mix as well as the reversion and the pricing for customers, which is now effective January 1st, is expected to help offset the rise in the raw material costs. And our gross margin will stabilize and return to the normal levels that we've seen in the past.

The non-Reclaim business saw a 24% (factually corrected) increase in volume, although this was somewhat constrained by a dip during the festive season of Diwali, mostly to account for year-end inventories. Our strategic decision to build a growth in this business has led to relying a little bit on outsourced materials. And this was discussed in the previous calls that we've been able to successfully produce recycled polyamide compounds from recycling ocean waste, which is end of life fishnet as well as post-industrial textile waste.

Now while this material has allowed us to kind of get to and target new segments and customers, it has also led to increasing RM costs because these are not in-house materials but are outsourced materials. And as a result, the overall gross margins of the non-Reclaim business have been affected and therefore, also of the company.

While these factors have constrained our EBITDA margins, we are pleased to share that we executed transaction for EPR credits during the quarter, recording an income of INR 121 million for the year-to-date FY '25.

As of December 2024, the stock of EPR credits now that there is a floor price and now that there is more visibility and transparency on the price mechanism, those credits calculated at the minimum support price adjusted for transaction costs is valued at approximately INR 180 million.

We shall plan to execute sales of these credits at the appropriate time over the course of the next months. But this is the first time we are putting this out because there are a lot of questions around the EPR revenue.

This performance has been further supported by a lot of operational efficiencies that we have been working on and have now been achieved through a combination of automation and energy savings. Automation initiatives have enabled us to optimize workforce utilization and reduce manpower costs while maintaining productivity levels. And as a result, our employee costs have come down from about 12.5% to about 11.2% (factually corrected) during the quarter on a year-on-year basis.

At the same time, our focus on energy efficiency, particularly through the use of renewable power and alternative fuels, has delivered significant benefits with savings of, as I have seen, INR 0.5 crores from renewable power compared to the grid power cost and a cumulative savings of closer to INR 2.5 crores from switchover of fuel from furnace to biofuel sources during the year. These measures helped mitigate the impact of rising power tariffs in most states but have significantly also helped the company reduce the GHG emissions through the processes itself.

As alluded to in our previous call, we remain committed to enhancing these initiatives. Our investments in advanced technologies and renewable energy sources are key to improving margins in our existing businesses. In addition, we are actively working on integrating and commercializing new businesses and opportunities that align with our broader vision for sustainable growth.

Before delving into the status of our announced capex plan, I would like to highlight some key advancements in the carbon black industry, showcasing the rapid progress within the recovered carbon black sector. Both tyre manufacturers and carbon black producers are increasingly turning to RCB as a sustainable alternative in quest for their own targets to go into double digit usage of recycled materials.

For instance, towards this initiative, Epsilon Carbon, a leader in the carbon black industry recently launched its recovered carbon black range, following the footsteps of some of the larger companies like Birla Carbon that introduced a sustainable carbonaceous material for the Indian markets, which is going to use TPO derived from pyrolysis of end-of-life tyres.

Along similar lines, even Philips Carbon Black has earlier this month, announced an introduction of a sustainable grade, which is circular reinforcing carbon manufactured using tyre pyrolysis oil considering the future demand. These developments highlight the growing emphasis on sustainability and the potential of recovered carbon black in driving circularity in the tyre industry. They reinforce our strategic decision to expand our horizons beyond Reclaim Rubber and actively explore opportunities within the broader end-of-life tyre recycling ecosystem.

As far as our announced capex plan of INR 250 crores is concerned, the documentation for the line of credit from the French DFI Proparco has been completed and the proceeds are expected to be received in the current quarter. Furthermore, I'm pleased to announce that our shareholders have also approved the raising of an additional INR 150 crores through the issuance of equity shares via a qualified institutional placement. So we do have all the approvals in place to be able to execute on our projects to expand the entire tyre recycling ecosystem.

So far, we have incurred capex of approximately INR 33 crores for this project, and we remain on track to commence operations for the first line of crumb rubber and the continuous pyrolysis line by Q4 of this financial year.

As far as our subsidiary is concerned, our repurpose polyolefins business is steadily gaining more approvals from major brands, and we are seeing a consistent improvement in offtake in orders. This momentum driven by the increased adoption of recycled materials is expected to gradually contribute to an improvement in overall margins.

Moreover, as market dynamics continue to shift towards sustainability and the regulation for mandating the use of recycled plastics comes into effect from April 1, our strategic initiatives will allow us to capture the growth opportunities across both the core as well as the emerging business segments.

With this, let me now hand over the call to Shilpa, she'll take you through the financial highlights. Shilpa, over to you.

Shilpa Mehta: Good afternoon, everyone. Let me take you through the consolidated financial highlights for Q3 and 9 months of FY25. First, we start with Q3 of FY25. Total income in Q3FY25 was INR 1,327 million as compared to INR 1,102 million in Q3 of FY 24, reflecting a 20% growth. Gross profit for Q3 of FY '25 was at INR 704 million as compared to INR 612 million in Q3 of previous year, which is a growth of 15%. Gross margin for the quarter were 53.1%, a decline of 246 bps on year-on-year basis.

EBITDA for Q3 of FY '25 was INR 130 million compared to INR109 million in Q3 of FY '24, which is a 20% increase on a year-on-year basis. And EBITDA margins for Q3FY'25 were 9.8% versus 9.9% of previous year Q3, which is a drop of 7 bps on a year-on-year basis. And profit after tax for Q3 of FY25 is at INR 44 million compared to INR 43 million of the previous year Q3, which is a rise of 2% over previous years.

Now we'll look at the 9 months of FY25. Total income in these 9 months stood at INR 3,912 million as compared to INR 3,249 million of previous year 9 months and this is a growth of 20%. And gross profit for the same period of 9 months of current year is at INR 2,044 million as compared to INR 1,747 million of 9 months of FY24, which is up by 17% on a year-on-year basis.

And gross margin stood at, the percentage wise, 52.3% in current year of YTD, which is a decline of 153 bps on a year-on-year basis. EBITDA for YTD December of current year stood at INR 363 million as compared to INR 294 million of previous YTD and EBITDA margin stood at 9.3% in current 9 months ended period versus 9.1% of 9 months of FY24, which is the growth of 22 bps. Profit after tax for 9 months ended in December24 stood at INR 113 million as compared to INR 110 million in 9 months of previous year, which is a 3% growth on a year-on-year basis.

Coming to debt side, our gross debt, which is long-term as well as short-term debt, stood at INR 1,250 million as of 31st December 2024. And our debt equity ratio is 0.70 as on that date. The revenue from subsidies GRP Circular Solutions Limited and GSPL amounted to INR 210 million with an incurred loss of INR 43 million.

With this, now I hand over for questions and answers.

Moderator: The first question is from the line of Dikshi Jain

Dikshi Jain: So, first question was regarding the EPR calculation. You mentioned that INR 18 crores of EPR is pending currently for the entire backlog of credits that we have, right?

Harsh Gandhi: As recorded, as far as December is concerned, there is always a backlog in generating the credits. But by and large, that is the stock of credits that was available on the portal at the time.

Dikshi Jain: Okay. And INR 12 crores has been recorded in this quarter or this includes the EPR that was recorded previously in the first quarter as well?

Harsh Gandhi: It includes everything sold so far in the year, up to December 2025.

Dikshi Jain: Okay. few questions regarding the future products that we have that we are going to manufacture. Is the Reclaim Rubber - in future, tyre pyrolysis or what are the margins that we are expecting to get from that?

Harsh Gandhi: So I mean, look, a lot depends on the prices of raw materials. Why don't you ask me all the questions and let me then respond to all of them rather than doing one after the other, because there's others in the queue, and there's a likelihood that some of the questions that you will ask may have been asked or would be asked by others. So if you can just go through all your questions, and I'll be happy to answer them all.

Dikshi Jain: Okay. So I wanted the margin profile for all the upcoming products that will be manufactured in the next 3 to 4 years?

Harsh Gandhi: Okay. Is that it?

Dikshi Jain: Yes.

Harsh Gandhi: Sure. So, we've been saying this across multiple calls, I mean we continue to have EBITDA margins, which are just short of 10%, but that's on a consolidated basis. And standalone for the Reclaim Rubber business, we are in very, very low double-digit EBITDA margin business.

As far as the pyrolysis is concerned, while we have individual business margins laid out, and the Crumb Rubber will generate a margin depending on the source of raw material we use, in the extent of low double digits. But overall, as a business, GE as a business will generate in the region of about 12% to 14% EBITDA margins over the revenue.

Dikshi Jain: This will be including in EPR?

Harsh Gandhi: So the thing with pyrolysis is it is dependent on the raw material that is used. Currently, there is a delta in the prices of local material versus the imported material and that delta is more or less equal to the EPR credit. So depending on if we were to use that as a benchmark as far as today's prices are concerned, yes, it would be inclusive or exclusive of EPR because if we find imported material available at a lower cost, we would certainly look to import. And if domestic material, including the EPR is at similar prices, we will take the advantage of that.

Dikshi Jain: so we don't expect a major uptick in the margin going forward 11% to 12% of margins in the next 2 to 3 years is what I can assume?

Harsh Gandhi: No. So that's why I said on a standalone basis, the numbers would be in that low teens, but when you start looking at consolidated and we've been mentioning that once we do get into this business, there is a lot of synergies between the 2 businesses, and that will allow for the overall margin profile of the business to move towards mid-teens and even a little higher towards the high-teen EBITDA numbers for a consolidated level. And that is because of the efficiencies and synergies we would have in raw material sourcing as well as in energy consumption. I mean, it could dramatically reduce the energy consumption for our reclaim plants, etcetera, etcetera.

So some of those synergies, if we add into the overall margin profile of the company, the EBITDA numbers would be mid- to high-teen EBITDA for the rubber recycling business. As far as the plastic recycling is concerned, as I said, a large part of the expectation as far as margins are concerned, will be dependent also on the pace at which is the regulation comes in, which is the mandate on using circular materials.

And as that clarity emerges, we'll be able to give you a much clearer picture on the margins. But at the moment, it seems that it will be a high fixed asset turn business with a lower EBITDA margin, but generate an ROCE, which will be better than the current ROCE of the business. So that's in a nutshell how the plastic and the rubber businesses will behave over the next few years.

Dikshi Jain: Okay. One last question, sorry, the revenue from subsidiaries that has caused the margins to dip this quarter. Can you elaborate a little on that, please? When do we see a turnaround in the numbers from those?

Harsh Gandhi: Yes. So our subsidiary company is operating the repurpose polyolefin or the business on plastic recycling, which is focused mostly on packaging and automotive solutions. As I mentioned several times before, this is based on a regulation on circularity that is going to come in from April 1, 2025. At the moment, we are operating that plant at our suboptimal capacity, and that's the reason that we are carrying the losses there.

As we expect that the demand will shoot up post March, April of this year once the regulation kicks in, the utilizations will improve, and therefore, the business will not continue to bleed or make losses. And that's why I mentioned that as that business starts building scale, we will get a much higher fixed asset turns, may have a lower EBITDA margin but will have a high ROCE.

There, the positives are that we have the approvals of leading brands across paints, lubricants as well as household or FMCG products. And we are now also focused and targeting on certain white goods manufacturers, the likes of washing machine and refrigerator manufacturers as well as certain automotive OEMs as we get success and as the utilization rates improve, we are expecting the business to turn around significantly.

Moderator: The next question is from the line of Tanish Mehta from ithought.

Tanish Mehta: So my first question was, what is the current utilization of Reclaim Rubber? And also, if you could give some comments on the higher-grade RR and like have we started to supply and what is in the contribution in this quarter and also in the 9 months FY '25 period?

Harsh Gandhi: I'm so sorry, your line was not very clear. Could you repeat that question, please?

Tanish Mehta: Yes, yes, sure. So the first question was, what is the current utilization of the Reclaim Rubber segment?

Harsh Gandhi: Yes. So, the Reclaim Rubber is currently, as far as Q3 is concerned, utilization rates were upwards of 87%

Tanish Mehta: Okay. And also, if you could just give some comments on the higher grade RR that they are planning to supply, so have we started the supply? And also what is the net contribution in this quarter and the 9-month period of FY '25?

Harsh Gandhi: Thank you for the question. Yes. So our volumes from the new line of the new technology of reclaim are growing month-after-month. However, we still don't have any significant tyre company approvals for that at the moment. So therefore, while we have started supplying from there, the utilization levels are currently sub 50%, but we are expecting approvals to come through either within this or the next quarter, which will allow us to improve dramatically the utilization levels there. But whatever sales we've started realizing in the non-tyre segment as well, we're seeing quite a lot of promise from that product range.

Tanish Mehta: So also, as we increase the share of this higher grade RR, we will see the margins improve, right?

Harsh Gandhi: Yes, absolutely.

Tanish Mehta: So my second question was for the Crumb Rubber and continuous pyrolysis segment. Who are the major customers going to be? And how do we see the ramp-up in capacity?

Harsh Gandhi: Yes, thank you for that. Again, so with the tyre pyrolysis, I think one reason that I was highlighting the fact that the interest of tyre pyrolysis is moving away from just being used as a source of fuel to becoming a source of raw material for the petrochemical value chain. With carbon black producers now actively sourcing TPO to produce their own grades of recovered carbon black, it allows us a new avenue for sale, which was maybe 6 to 8 months ago, was non-existent. We are in conversations with several of the virgin carbon black producers to see how we can embed as part of their supply chain. But until we have a plant and until we are able to provide sampling, etcetera, we will not know how our product compares with their expectations. But the current thinking is to be working directly with the petchem and the carbon black value chain and not looking at the oil for sale to the fuel industry.

As far as char is concerned, carbon char, we are putting up our facility for recovered carbon black maybe 6 months post the commissioning of the pyrolysis line. So that will take a little longer before that stability comes in with both the capacity utilization as well as the margins. Until such time that the material will be sold as carbon char, it will not be a very high margin product, but it will definitely be above cost. And therein, we are having conversations, again, also with the carbon black producers to see whether that material could be used by them directly.

We have also started working with certain non-tyre companies, which will possibly use in the rubber goods manufacturing and also targeting the inks and the pigment industry to see whether that can be used by them for making pigments, etcetera. So we are targeting several sectors, but our preference and from a priority point of view, it would be the entire petchem and carbon black value chain.

Tanish Mehta: Okay. So also in your presentation, you mentioned that we had a sale of INR 121 million towards EPR credit for year-to-date FY '25. So which quarter was this in? If you could just clarify?

Harsh Gandhi: So, some parts of that INR 121 million was recorded in Q1 and some amount of it's in Q3. We did not sell anything in Q2 and we indicated at that time that there was ambiguity with regard to the pricing. Now that there is a set base in ceiling price that is there at the moment, we have, therefore, did sell some parts of the credits in Q3, and we will continue to engage with our customers in the tyre industry to sell credit based on their requirements and so on.

Just want to kind of highlight at this stage that while credits are there on the portal does not mean that it can be sold and transferred at any time. Tyre industry has a certain buying pattern and there are certain transaction costs depending on who it is sold to or through. And as a result, it is still, as I said, it is an estimation of what we believe is the value that we could realize. It may go through its ups and downs a little bit and also the timing of the sale cannot be predicted at this moment.

Tanish Mehta: Okay. Just one last question. In the 9-month period, we've done sales of INR 390 crores and an EBITDA of 9%. So if we exclude this EPR sales, the margins will drop to 6%. And this is despite the fact that we did a great job at reducing our employee costs. So if you could just share your views on that. And also, when do you see the margin expansion for the EPR to move up to double digits?

Harsh Gandhi: Yes. So, as I mentioned, including in my opening comments that this quarter was an aberration as far as one particular product category, butyl reclaim or synthetic rubber reclaim is concerned, where our gross margins were significantly lower than what we've seen as historical averages. And that was on account of a combination of the antidumping as well as the shortfall in the country. We had to rely on some amount of imports and that's partly led to also the reduction in the margins. I would say that this was a one quarter aberration, but we will, as I mentioned before, we will returnto the level of profitability that we've had in the previous quarters prior to this.

Tanish Mehta: Right. Okay. So if possible, could I ask one more question? Or should I join back in the queue?

Harsh Gandhi: I'm sorry, I cannot hear you. Your voice is not clear.

Tanish Mehta: I was just saying could I ask just one more question? Or should I join back in the queue?

Harsh Gandhi: Could you come back into the queue just for the benefit of the other investors. Thank you so much.

Tanish Mehta: Sure, I'll do that. Thank you sir.

Moderator: The next question is from the line of Meet Katrodiya from Niveshaay.

Meet Katrodiya: In Q4 FY '24, we observed that heavy EPR income recognition, right? So can we expect this similar in Q4 FY '25?

Harsh Gandhi: As I said, I mean, I cannot predict the buying behavior of the tyre companies. Last year, they did buy a lot at the end of the year because there were some tyre companies that had made provisions and some amount of the provisions had to be offset against actual purchases while some tyre companies did not take the view.

I think every tyre company and customer is different, their behavior on buying is different, and therefore, it's very difficult to predict. Yes, we continue to make efforts to sell our inventory of credits. But as I said, it's a demand-supply story. And I guess, from their point of view, it's also a cash flow situation. So they will buy in spurts. And as and when they are ready to buy, we would be ready to sell as well.

Moderator: The next question is from the line of Gargi Singh from Value Investment

Gargi Singh: Sir, my first question was that you mentioned in the opening remarks that there are contractual agreements with customers. And hence, in this quarter, we could not see surpassing on of raw material costs. So with regards to that, this was a similar situation in the last quarter as well. So with regards to that, when you see next conversation with the major part of our customers? And by when do you expect this passing on of raw material costs? So that there is an improvement in gross profits in the core business ex of EPR?

Harsh Gandhi: So 2 parts. One is in Q3, it was not entirely to do with the pass-through, it was also to do with the fact that our product mix was very different and we've sold more of particular grades and less of particular grade. And also in Q2, there was a sudden spurt in freight costs. So that was one of the reasons why the offset was not possible immediately in that quarter.

But to answer your question directly, I mean, most of our negotiations with customers happened in December for the calendar year beginning 2025, so in a lot of cases, most of the prices have already been adjusted starting this month or this quarter. And therefore, we don't see this to kind of continue to dent our margin going forward.

Gargi Singh: Understood. Sir, second question, I think you mentioned in the opening remarks that a lot of the carbon black players as Birla Carbon, Epsilon and PCBL. So they have spoken about using TPO as a raw material for making RCB. So do we have approvals from -- because next quarter, this -- our first line is coming, next quarter I mean fourth quarter, so do we have approvals from any of the carbon black producers with regards to supplying either TPO or RCB? Or any other tyre manufacturers there? So any approvals are there as of now?

Harsh Gandhi: Yes. So we've been working actively with them through the pilot facility that we have in place, and we do have approvals from one carbon black producer that has approved our carbon black, which is made from the pilot facility. However, the formal approvals will come through only once we have commercial scale plants and operations. The same is the case with the TPO. Our TPO has been approved or used by one petchem company as well as a carbon black producer. But again, it's not a formal approval. It's based on pilot.

And I mean, once we have the plant operating at capacity commercially, is when the formal approval will come through. So yes, there will be a lag of few weeks, for sure. It's definitely not months. And in any case, we will take some time to stabilize our process and operations. So while we will start operating in Q4 of this year, stabilization of the line, given that it's a typical chemical plant will take a few weeks as well.

So that's in a nutshell how you can look at it. Therefore, I mean, to pre-empt the question, I would say not much revenue recognition would happen in this quarter, whatever it would be, yes, would be commercially recognized. However, formal approval will come through only when the plant stabilizes.

Gargi Singh: And sir, how much debt is expected to come on books in 4Q?

Harsh Gandhi: I mean our term loan or the ECB from Proparco is linked to phases of investments that we will be making. So it's multiple tranches where we can draw the money based on the spend on the capacity that we do. As a result, it won't be a significant debt coming on in one quarter or at one go. I mean, we've spent to about INR 33 crores, as I have indicated so far. So against what has been spent, we will be drawing part of the tranche to offer those investments.

And therefore, it will only help offset what we've spent by way of this debt. So yes, I mean, in a nutshell, I can't give a clear answer because the total investment that will go in would probably be still sub INR 50 crores. And against that, we have a certain covenant and therefore, the debt we will draw down will be a portion of that in overall investment.

Moderator: The next question is from the line of Madhur Chaturvedi from MAIQ Capital.

Madhur Chaturvedi: If it's easier for you, I can just give you my list of questions in advance. It's more to understand the sort of business processes.

Harsh Gandhi: And if you can limit it to just a couple of questions so that we can allow others in the queue as well too.

Madhur Chaturvedi: Sure. Sure.

Harsh Gandhi: And more than happy to answer any other questions that you may have, which are more direct, if there's anything structurally about the business, more than happy to take those offline as well through our Investor Relations. But yes, please go ahead and list out your questions.

Madhur Chaturvedi: So what do we expect the power requirement for proposed 120,00 ton TPO plant? And how much of that are we expecting to cater from a sort of capital project? And second, I just wanted to understand if any challenges associated with sourcing the raw material for a TPO plant. Those are the 2 major things there if you could just walk us through a little bit or just give some more clarity on how the cost would work in this new project?

Harsh Gandhi: Sure. So I'll take the second question first. As far as raw material sourcing is concerned, at the moment, GRP relies predominantly on domestically-sourced raw material, which is the tyre waste. And we import only some part of our requirements of synthetic rubbers and some amount of tyre from import sources. When it comes to the entire pyrolysis business, we will continue to rely on our existing supply chain to be able to source other kind of materials which we are not using for reclaim.

So these would be things like passenger tyres and/or truck and bus radial tyres, etcetera, which our supply chain already has access to. So we believe that sourcing raw materials, if we wanted to from India, we will not have a challenge in being able to source that level of raw material that is required for the first 2 phases of the business that we are expecting to be.

However, we will buy from India, only the prices allow us. And as I said, if it's net of EPR beneficial compared to importing such tyre materials, we will buy from India. Otherwise, we will maintain flexibility to be able to import such materials as well. So that's the question as far as raw material sourcing is concerned.

As far as energy requirements are concerned, the process of pyrolysis by and large, does not require much energy of its own because the gases that are generated, which is closer to 15-odd percent of the input of tyres, large part of that is used for the heating of the reactors. And therefore, whatever requirements on energy will be there, will be mostly for crumb rubbers and for the recovered carbon black facility. And that is not significant.

In fact, it will be much lower than what we use as far as reclaim rubber is concerned. But yes, it is a sizable requirement. But given the overall context, energy costs as a percentage of sales when it comes to reclaim rubber is in double digits, this will be in mid-single digits, if I may. So that's the question on energy requirements.

However, there is also after using a lot of the gas that is used to fire the reactor, there is also surplus gas available in the tyre pyrolysis process. And the expectation is that, that gas, which will generate from the pyrolysis process will be used for our reclaim rubber facility thereby reducing our energy requirements in the reclaim rubber facility. So that's the net balance that I was talking about, very difficult to quantify the numbers over the call, it's fairly technical, but will allow us to reduce our energy costs as well by a decent percentage points for sure.

Madhur Chaturvedi: Got it. On a power point, the gas output of the TPO process will not only be enough to sort of service the TPO plant, but we can also use some of it for other projects for the RR projects or anything else?

Harsh Gandhi: Absolutely. That's one of the reasons that we are setting it up also as an integrated facility in the same location right next to the current reclaim rubber facilities.

Madhur Chaturvedi: Got it. Thank you. I'll connect with you offline regarding some other questions and give other people an opportunity to interact with you.

Moderator: The next question is from the line of Prateeksha from Kotak Institutional Equity.

Prateeksha: My first question is, I quickly wanted to know at what price the EPR credits are currently trading at?

Harsh Gandhi: Yes. So, the business at the base price is set at INR 2.52, and the ceiling is set at INR 8.4 a kg. Currently, most of the credits that are being bought are of the year where the requirement was 70%. So therefore, they're trading closer to the floor prices at the moment.

Prateeksha: Understood. Understood. Also, I just wanted to understand on the pricing of RCB versus virgin carbon black. How is it? And what's the commercial update of RCB as of now?

Harsh Gandhi: So I mean, I think while these carbon black producers have launched the Recovered Carbon Black in the market, all 3 Epsilon, Birla and Phillips. Actually, there's very little information available about the prices at which this will be sold. Internationally, if you look at prices of carbon black are closer to give or take by about which are $1,100 to $1,200 a tonne. And against that carbon black or recovered carbon black that is selling in some of these markets is selling at prices which is between $800 -- $700 to $800 a tonne.

So that's the current price of recovered carbon black in the international markets. As I said, in India, while these brands have launched the materials, there's very little information about the price at which they have been launched. But I would expect that it should be at a similar discount to the virgin price. I mean, it will be surprising if Birla prices material in different markets differently. So I would imagine with all of these being global companies or having a global customer base, they will have a similar pricing strategy. It's my belief, but I can't comment on their behalf.

Prateeksha: Understood. Got it. Just one last question on the plastic waste management regulations. Are you hearing anything or is there any further update on the implementation of these regulations? I'm more concerned about the flexible plastics as of now. So if you can throw some light on that?

Harsh Gandhi: Yes, you're right, I think there are concerns around flexible packaging and the circularity mandate around it. As far as rigid is concerned from what we understand and gather, brand owners and material manufacturers are more than supportive. In fact, several paint brand owners have made it mandatory right away to start using up to 30% in their non-white grades. And in the whites, they are kind of inching slowly, slowly towards the 30%.

But more of the lube manufacturers also have already moved even though the regulation is not there. So I think it's -- but it's a select group of brand owners that have moved so far. I believe the others are waiting for the regulation to kick in before they start this. As far as flexibles are concerned, since we do not operate in that space, it will be very difficult for me to comment on or to make any speculative comments.

Moderator: The next question is from the line of Karan Gupta from InvestSavvy Portfolio Manager.

Karan Gupta: So my first question is regarding the reclaim rubber. So what are the grades in reclaim rubber? And what are the grades available in the international market? Is that the margin what we are making is at par or we are making the below margin than the global products? The second is related to the TPO. Have you analyzed that you will see the TPO is the raw material for the carbon black, right? Or RCB?

Harsh Gandhi: Yes. It could be one of the raw materials. Yes.

Karan Gupta: One of the raw materials. So what percentage of TPO is the raw material for the RCB? These are my 2 questions.

Harsh Gandhi: As far as the first question is concerned, reclaim rubber is broadly across 2 major categories: natural rubber based and synthetic rubber based. Within natural rubber, there are variety of SKUs based on the strength and the elasticity of the rubber that you require as well as the surface finish, which is determined by the type of end application. So within natural rubber, there is a range of grades based on these 2 parameters. On synthetic rubber reclaims, there are products based on butyl, EPDM, nitrile, these are the 3 type of polymers which can be substituted by synthetic rubber based reclaims.

So that's in a nutshell what the product portfolio is. As far as GRP is concerned, we have the widest portfolio compared to both domestic as well as international competitors of ours. As far as margins are concerned, I can't comment, but we do believe that with most of our tyre company customers, we have the largest share of wallet and we are definitely not the lowest cost provider of material to them. I can't comment on margins because I wouldn't know the financial profile of a lot of our competitors. But yes, pricing-wise, we are certainly not the lowest priced material supplier of reclaim rubber. So that's the response as far as the product portfolio and the margins are concerned.

As far as TPO is concerned, every carbon black producer will take a different stand or formulation on percentage of TPO that they can blend to produce recovered carbon black. It is not a question that I actually have a response to or I am privy to, because within the recovered carbon black also, there are multiple grades of recovered carbon black that have been produced, depending on the series, whether it is targeted towards the tyre or the non-tyre; and within the tyre, critical or non-critical applications. The grade of carbon black that they will produce will be different.

And I suspect, therefore, that the percentage of TPO that they can blend along with the other virgin raw materials would depend on the properties of recovered carbon black that they are targeting. But I would say that's a question that they are probably better equipped to answer than we are.

Some carbon black producers apart from using TPO to produce carbon black, have also started using the carbon char to blend in the carbon black manufacturing process. And in there, as I mentioned earlier, that our material has been approved by one of the large carbon black producers, there the percentage blend could vary from 10% to 25% of recovered carbon char to produce a recovered carbon black grade in their facility. So that's the extent that we are aware of. With TPO, we are not fully familiar with the percentage blending.

One last point, and I'll kind of add is, the TPO is also used by certain polymer manufacturers as a source to replace even part of their naphtha requirements. So there, it will actually follow through in the petrochemical value chain to produce products like caprolactam, which will eventually produce nylon etcetera. So there the percentage blend that some of the international companies are willing to blend is up to a maximum of 20%.

What is the level at which they are successful? I wouldn't know that. But they have made public announcements to indicate that certain refineries have been repurposed to be able to take up to 20% of TPO for replacement of naphtha. So that's in a nutshell, if I was to give you a sense of the industry, that's where it is.

Karan Gupta: Okay. Okay. And the follow-up on this question. So you're going to also start the RCB capacity. So how are you going to make the RCB? I mean, you're using TPO as a raw material or you're using char as a raw material? Major percentage of raw material?

Harsh Gandhi: Yes. So we will produce RCB from char as the raw material because that is what our process will be. Carbon black producers have, again, a wide variety of range of carbon blacks that they produce, as I mentioned, based on the end properties as well as applications that they're targeting. We will not have the same kind of processes that a carbon black producer would have. So we will use the char from our process to produce the RCB. And therefore, there will be a limitation on use compared to if it was produced by a carbon black producer.

Karan Gupta: Okay. Okay. And one follow-up on the reclaim rubber. So I'm just concerned about the margins where -- because these manufacturing of reclaim rubber is the complex process and what process we use? Thermal, chemical or what kind of process we use for grade the bonds or what's the technical term for that?

Harsh Gandhi: Yes. So thank you for asking. Actually, we have, as a company, as I mentioned before, we have the highest or widest range of reclaim rubber that we are manufacturing in our portfolio. And that is also thanks to the fact that we have also all different type of technologies that we are using. So we have a combination of a technology that is 100% thermal technology, there's one technology, which is a combination of chemical and mechanical and then there is also a technology that is 100% mechanical. So we do have across our different factories, technologies that are either 100% mechanical, 100% thermal or combination of thermo-mechanical along with chemical.

Karan Gupta: These margins, 6%, 7% margin is the standard margin globally? Or I mean what -- I'm not understanding because this is a very complex process than crumb rubber, then your maybe TPO. So 7% is the standard margin in this product?

Harsh Gandhi: Well, I think it's a function of demand-supply and price of rubbers at a particular time. So I think one needs to look at historical averages to figure this out. But yes, I mean, our numbers are what they are and because there is, at some point an overcapacity, there could be margins that are eroded on account of that. By and large most recycling products which are B2B will have similarly low margins.

I mean this is broadly how the industry has been for the last few years. We are seeing, as I've been saying for the last many quarters, and we are on that breakaway point, a combination of the EPR as well as the increasing adoption. So this will change. It is certainly changing. And as I mentioned, this particular quarter is an aberration, it is not the norm.

Karan Gupta: Okay. Okay. So a major portion of our reclaim rubber will go to the manufacturer that we can assume or the major -- what percentage we can assume that will go to the manufacturer or the open market and the international market, where they're using for maybe conveyor belts or mats or maybe for other things?

Harsh Gandhi: Yes, we do have a combination of sales to both tyre and non-tyre manufacturers. And within non-tyre, the type of applications range from conveyor belts to auto components to mats and sheets and so on so forth as well.

Karan Gupta: It's all about, I think, the quality and the grade of the reclaim rubber, because if it's high grade, you are making high grade, then it will majorly go to the manufacturer then they are using for retreading of the tyres. So in that segment, I think margin will be higher? If you can just comment?

Harsh Gandhi: I think again, it's a function. I mean within -- for example, within tyre industry as well, we have some very high-margin customers and some very low-margin customers. And same is the case with all the other products. So I think it's a function of proximity of the plant, a function of the relationship that you have with the customers as well as a lot of other factors. I mean I can't comment on specific numbers in that sense.

Moderator: The next question is from the line of Tanish Mehta from ithought.

Tanish Mehta: So can you just explain the Slide 35 in which you mentioned the EPR in plastic packaging?

Harsh Gandhi: Slide 35, just a second. I don't have that slide handy right now, but it's just explaining the way the EPR is written and in plastics, basically, -- I mean, EPR or circularity is mandated in the end application itself. So which means that in the flexible packaging, there is a certain percentage of material to be used as recycled material in the manufacturing of the plastic packaging film. And that percentages are specified for year 1, 2 and 3. So that's broadly how it goes.

I mean for rigid packaging, for example, I can confirm that from April 1, 2025, the regulation will mandate the 30% of the paint pail or the lubricant can will require to have recycled material in it and then that percentage goes to 50 and then subsequently to 70. So that's what the table is actually showing. And the same is for flexibles and then there is another category, which is a multilayer plastics.

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

Harsh Gandhi: Thank you again for the kind of questions that you have asked. As I keep saying, every quarterly meet is useful for us to know how the investors are thinking about our company and our industry. I'm honestly humbled by the level of interest that you all have shown in the industry as well as our company.

I'd again like to reiterate that this quarter was an aberration in terms of the gross margins of the business. So we are on track with several of our long-range plans. I mean this is as good a time as any -- the recently concluded mobility show, our Prime Minister, Honorable Shri Narendra Modi, has emphasized the need for electrification and circularity.

There are several mandates and several initiatives being taken right from the PMO office and the NITI Aayog to drive increasingly more circularity across multiple sectors. And we are continuing to remain confident of the long-term potential that this business has. We are, as I said, going through also a phase that we are adopting new technologies, and we are investing in new businesses. So we will have this period of stabilization that we will go through, but we continue to remain focused on the long term, and we are extremely motivated.

Thank you so much again for the participation and look forward to connecting with some of you offline depending on the set of questions that you may have. And with this, I'd like to conclude the call for today.

Moderator: Thank you, ladies and gentlemen. On behalf of GRP Limited, that concludes the conference. You may now disconnect your lines.