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12/08/2024

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

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

Scrip code : 509152

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 7th August, 2024 at 3:00 p.m. to discuss operational and financial performance of the Company for Q1FY25.

Kindly take the same on your records.

Thanking you,

For **GRP Limited**

JYOTI
SANCHETI

Digitally signed by
JYOTI SANCHETI
Date: 2024.08.12
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Jyoti Sancheti
Company Secretary & Compliance Officer

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**“GRP Limited
Q1 FY'25 Earnings Conference Call”
August 07, 2024**

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**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 GRP Limited Q1 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all the participants' 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 your touchtone phone. Please note that this conference is being recorded.

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

Harsh Gandhi:

Thank you so much, and a very good afternoon, ladies and gentlemen. Thank you for joining us on the GRP Limited's Q1 FY 2025 Earnings Conference Call. Along with me today, I have our company's CFO, Shilpa Mehta; and SGA, our Investor Relations Advisors on the call. We have uploaded our investor presentation on the stock exchanges and on the website, and I hope each of you have had the opportunity to go through the same. The past few months have been particularly an exciting period for all of us at GRP. As we celebrated 50 years, we are looking at this as an opportunity to look ahead and look ahead to the strategic opportunities and promising prospects that await our company in the years to come.

In light of the recent industry developments, we are actively exploring various potential adjacencies to capitalize on our existing strengths. These developments are based on brand owners' interests, government interest as well as the consumer push. We're pleased to announce that the Board has approved several of our capex plans and details of which I shall share during the course of the call. However, before getting into it, I'd like to provide an overview of the quarter and an update on the key focus areas outlined in the previous calls, along with the progress that has been made on each of those fronts.

As you've seen from the financial statements, our performance on an operational basis for the quarter ending June 2024 was reasonably robust. Our revenues rose from INR 999 million to INR 1.267 billion, reflecting a growth of 27% compared to the same quarter last year. Our EBITDA for the quarter saw a significant improvement, increasing to INR132 million, an 88% rise compared to the same period last year. And our PAT for the quarter marked a growth of about 122%.

Let me take you through what's happening in the industry around us, and then as a result of it, what are the changes that are taking place in the company. Starting with the Reclaim Rubber business. I'd like to highlight that the global tyre market has experienced a 3% growth in the passenger car and light truck segments during the half year of calendar year 2024. While demand

in the truck tyre segment, excluding China, grew by about 2%, with most of the downturn coming through in the European market.

A slight slowdown in export markets on the whole, we have achieved, as GRP, a 13% year-on-year growth in our export volume (Correction: revenue) of Reclaim Rubber. This growth could have been even higher had it not been for constraints arising from the Red Sea crisis and the resultant unstable container availability. On the domestic front, rubber consumption has increased by about 5% in Q4 of FY '24, which is the last reported number. But that same momentum continues in the Q1 of FY '25, allowing our Reclaim Rubber segment to post a 43% year-on-year growth, driven by higher volumes and EPR income.

Overall, our Reclaim Rubber revenues grew by about 24% year-over-year to INR 111.2 crores or INR 1.112 billion, accounting for 91% of our total stand-alone revenue. Year-over-year, virgin natural rubber prices have risen due to a demand-supply imbalance, while synthetic rubber prices also remain elevated, driven by high crude oil prices and shipping costs, resulting from the political tensions in the Middle East.

Amidst these challenges, our realizations have marginally declined by about 2% to 2.5% due to the reduced share of exports and that, in turn, has been caused by the prolonged crisis in the Red Sea. We are also seeing that there is a marginal increase in freight costs and all of it we are unable to pass through to our customers, and that has also resulted in a partial reduction in the margin on the export business of the Reclaim Rubber.

However, I must admit, demand remained fairly robust. We are sweating our assets and capacity utilizations remain much higher than before. And we are confident of maintaining a healthy double-digit EBITDA margin supported by the savings in energy costs that have been planned and also the addition of the EPR income. In our efforts to transition to a renewable energy sources to get to about 50% of our stated target, our energy cost savings through a combination of wind mills, biofuels, etcetera, have amounted to about INR 1.65 crores or INR 16.5 million in the current quarter.

The biofuel system, which became fully operational towards the end of Q1 and expected to generate additional savings over the next quarters, in addition to the reduction in the CO2 emissions going forward. As our customers focus increasingly on reducing their emissions from Scope 1, 2 and 3, our energy substitution towards renewable sources will go a long way in establishing our credibility in the industry. We recorded an EPR income of INR 6 crores during the quarter, reflecting our proactive engagement in this regulation. The CPCB is in the process of finalizing the mechanism to set up the environment compensation. And as a result, the price range of the EPR units of EPR credits will get finalized, hopefully, in the current month. And that will allow us to give -- to be able to predict better the potential revenues on account of the EPR income -- EPR credit sale.

As announced earlier, our new technology based on lower CO2 emissions and improved product quality are under evaluation with several customers. And we expect the added capacity to be formally commercialized in the current quarter and expect commercial volumes to begin from Q3 of this year and achieve close to 50% utilization towards the end of the year. The company

has consistently maintained the working capital cycle of 75 days, and we will continue to. In light of all the challenges in the non-tyre sectors and even in some of the other markets around the world, we continue to maintain and ensure that the same cash flow discipline continues in the organization.

As far as the Non-Reclaim businesses are concerned, we have been diligently focusing on this segment, achieving significant market traction. This focus, combined with the low base from the previous year following a fire incident, has led to a 25% year-on-year growth in the overall revenues, which now represent 9% of our stand-alone revenues. This, however, does not include revenues from our subsidiary company, GRP Circular Solutions Limited, which produces the repurposed polyolefins. Our volumes in the Non-Reclaim Rubber segment have increased in line with the auto industry growth and that has been about 10%.

But as far as the Engineering Plastics is concerned, there has been a significant addition of business using alternate raw material sources, such as textile and fishnet waste, and I spoke about the possibility of using the ocean plastics for our advantage; happy to say that we have been able to commence sales from that sector.

However, since these are bought out materials and raw materials, our margins from these type of engineering plastics will be lower than the margins from the core raw material, which comes from the tyre recycling facility. The Non-Reclaim Rubber segment is showing promising potential and delivering healthy margins. As this business continues to scale, we anticipate further improvements in the EBITDA margin due to economies of scale.

As guided in our previous earnings call, GRP is making significant strides in response to the emerging clarity in the EPR regulation and the result in incentives for the various tyre recycling technologies. As a result, we have acquired land adjoining our existing facility in Solapur to set up a crumb rubber plant and venture into downstream recycling over the coming years.

These downstream activities will focus on manufacturing of crumb rubber as well as possible areas along the lines of energy through the use of pyrolysis and recovered carbon black. The Board to support the above initiatives has announced and approved a capital expenditure of up to INR 250 crores. This investment will be executed in two phases over the period of the next three years, of which INR 150 crores will be deployed until December 2025 and the remaining amount to be utilized thereafter based on the success of the first phase of the projects.

As I indicated before, the focus areas of the capex will be on deployment of new technology to produce reclaim rubber with lower CO2 emissions, expansion of capabilities in crumb rubber and other categories identified under tyre EPR, and also the expansion of the plastic recycling business. The total funding requirement for these projects as of now, we believe, will be met through a combination of internal accruals and debt, and at whatever time, we deem appropriate as far as the debt is concerned. The planned expansion for these projects will be carried out at the current sites of the company. We have sites in Solapur and Dahej and these would be the likely locations for the next round of expansion.

This strategic investment underscores our commitment to the sustainable growth story and also positioning GRP for continued success in the evolving recycling ecosystem. By deploying these new technologies and expanding our capability, we are ensuring that we remain at the forefront of innovation and sustainability. With this background and highlights of the operations out of the way, let me hand over the call to Shilpa to take you through the financial highlights for the quarter. Thank you.

Shilpa Mehta:

Thank you. Good afternoon, everyone. Let me take you through the consolidated financial highlights for Q1 of FY '25. Total income in Q1 FY '25 was at INR 1,267 million as compared to INR 999 million in Q1 of FY '24. So there is an improvement of 27% on year-on-year basis. We recorded an EPR income of INR 6 crores during the quarter. Gross profit for Q1 FY '25 was INR 670 million as compared to INR 520 million (Correct figure is INR 528 Million; it was misspelled as INR 520 Million) in Q1 FY '24. So that is an increase of 27% on year-on-year basis.

EBITDA for Q1 FY '25 stood at INR 132 million as compared to INR 70 million in Q1 of FY '24, which is an increase of 88% on year-on-year basis. This was driven by the gain from EPR and a reduction in energy costs. EBITDA margins for Q1 FY '25 is at 10.46% as compared to 7.05% of -Q1FY '24. There is an increase of 341 basis points on year-on-year basis. PAT for Q1 FY '25 is INR 44 million as compared to INR 20 million in Q1 of FY '24.

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

Moderator:

The first question is from the line of Divya Agrawal from Ficom Family Office. Please go ahead.

Divy Agrawal:

Okay. So sir, my first question is on the crumb rubber capacity that we are setting up. So I mean, micronized rubber product, MRP is another downstream product of crumb rubber, so I just wanted to know your thoughts on that, and maybe do we have any plans of further going down to producing MRP?

Harsh Gandhi:

Thank you for the question. MRP is one form or type of crumb rubber. As part of our expansion in to crumb rubber, we will look at different sizes. Micronized is essentially defined as a certain size of crumb rubber. So yes, as part of the entire investment in crumb rubber, we will be looking at different size of materials to offer to different end applications. As far as the total capacity is concerned. In Phase 1, the total capacity of crumb rubber that we will set up will be to the extent of about 40,000 tons to 50,000 tons.

Divy Agrawal:

40,000 to 50,000 in first phase or both the phase including?

Harsh Gandhi:

This would be the first phase.

Divy Agrawal:

Okay. And sir, second -- my second question is, so pardon my knowledge of limited tyre recycling. So I just wanted to know if this MRP could be used along with the reclaim rubber or this could be like different thing?

Harsh Gandhi:

The MRP -- so as I mentioned before, MRP is a terminology used for micronized, micronized is eventually everything that is ground below certain size. There are various applications for different sizes of crumb rubbers, ranging from tyres to non-tyre applications to even certain kind

of moulded other rubber products. So as I said, I mean, depending on the customer preferences and the opportunity, we will invest in different sizes of crumb rubber to be able to grow in.

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

Rohit: Sir, my first question on the new projects. So we mentioned -- I mean, INR 250 crores, we mentioned that we are looking to fund it internally or through debt. So just wanted to understand if you could share what is -- I mean, how do you measure the maximum amount of debt that you are willing to take? Is it on a debt equity, is it on debt to EBITDA? If you could help us understand that would be helpful.

So I want to also understand with this debt-to-EBITDA that you're looking at include the working capital or short-term debt or it will be only long-term debt?

Harsh Gandhi: Sure. So I think some of this fine combing of the debt equity and some of the finer numbers are in the works and hopefully, we'll be able to provide clarity on this in the subsequent call. But as of today, we have reasonable confidence on the company's ability to generate internal cash supported by margin improvement, volume growth as well as the EPR income.

And that allows us to be able to leverage to the extent that the balance sheet can handle. As I mentioned, therefore, that the first phase of investment would be about INR150 crores. We also have approval of the shareholders to raise rights issue of up to INR 40 crores. So if you look at a combination of the rights issue that is approved by the shareholders, debt and internal accruals. The first phase of the investment will be funded through a combination of these 3 sources.

As far as the second phase is concerned, or hopefully, by the time the investment in the first phase starts to accrue additional cash flow, we will take a call at that stage appropriately about the level of infusion of debt or any other means as may be required. And your second question was what is the comfortable debt-to-EBITDA or debt-to-equity ratio? I mean as an organization on a long-term or rather at, what do you call it, from a debt-to-equity perspective, currently, our debt EBITDA is trending at closer to about 1.6 or thereabouts.

And our debt equity on a total -- including the short-term debt is at about 0.7%. So we're fairly confident that given the predictability of the cash flows and the current nature of both debt equity as well as debt EBITDA, we believe that we have the ability to raise additional debt. I hope that answers your question.

Rohit: No. Yes, so that is very helpful. But is there a maximum debt-to-EBITDA, I mean as -- on a prudent basis, we do want to go beyond, is it 2, 3, something like that? Is there some number that can be shared?

Harsh Gandhi: I mean these are obviously conversations that we are having at the Board level. I think we are very clear that we will not exceed debt-to-EBITDA of more than 2.5. I mean that is something that we would be fairly comfortable up to that level. Anything beyond that, we may not be comfortable taking on.

Rohit: That is helpful. And one more on this expansion. So INR150 crores in December 2025 on Phase 1. So I believe the 40,000 ton to 50,000 ton capacity expansion that we are planning in the part -- as part of the first phase is coming by Q3 of this year. So any thoughts on the capex for that particular facility and the ramp-up period there?

Harsh Gandhi: Yes, so 150 includes the capex that is already being spent on the plant to produce the crumb rubber by Q3 of this year. So this investment is part of that overall INR 150 crores investment that has been outlaid.

Rohit: No. So what I was asking is, I mean, of 150, how much would be used for that and what will be the ramp-up period? And is this particular expansion for the new rubber technology that you have designed and you're hopefully commercializing by 3Q as well?

Harsh Gandhi: No. So the investment made in the new technology of reclaim rubber was made already in the previous fiscal year. And as I mentioned, that commissioning is likely to be completed now because of the approvals and the stabilization of the equipment that is going on. So that investment is not part of this.

As far as this investment is concerned with the Q3 focus there, as I said, I mean, it's part of the overall investment. I won't be able to provide you a breakup of exactly how much I'm going to spend by Q3 and how much in subsequent quarters. But so far, all the investments that have been made into the project, including the land acquisition part of the civil works as well as the equipment advances and so on and so forth, have all been met from internal accruals.

Rohit: Understood. And on EPR, you mentioned in the AGM that it's around INR 2 to INR 4 that we got so far for the credit. So I understand the pricing is still -- will be decided by CPCB over time, but would it be possible to give an indication of how much credits that did we generate on '22 and '23 and how much have we sold already? Is it possible to share that?

Harsh Gandhi: I think the number of credits, as I keep saying, is something which still has a possibility of changing. Of course, our FY '22-'23, most of the credits -- a large part of the credits have been sold and Shilpa has already mentioned what we accrued as revenue from those.

As far as the '23-'24 is concerned, we have not started selling our credits, given the fact that the CPCB is going to set the floor price in the coming months on the price of the credit. The number of credit is, as I said, continues to remain dynamic because the policy is still undergoing changes. So I maintain the same stand.

I won't be able to comment on the number of credits, we'll be in a position to comment on the revenue realized because we are not doing an accrual-based accounting, it will be a realized based accounting because the prices are volatile. And until there is stability, there is no reason for us to provide any additional information on this.

Rohit: And the last question, reclaim rubber specifically it looks like there is -- I mean, the last couple of quarters, there's a huge spurt in demand. Is there any particular reason that we're seeing such as spurt in demand because I don't see a tyre manufacturer seeing that demand, but we are seeing a lot of interest. It is very nice to see.

Harsh Gandhi:

So I mean our -- the additional volume that we are selling is going mostly to the tyre industry. So I'm not sure when we say that the tyre industry is not talking about the demand. But yes, I mean, we are seeing increased offtake in supply to the tyre industry as far as the material is concerned.

The other reason for the likely spurt in the demand is also could be attributed to the high prices of natural rubber and synthetic rubber. Over the last few quarters, there has been an increasing trend as far as both these polymers are concerned. This has generally been a trend that when prices do go up, additional targets are taken by tyre and non-tyre manufacturers, specifically the non-tyre manufacturers to offset their costs.

And we are possibly seeing the demand spurt on account of this as well. So it's a combination of, a, the efforts that the entire company is taking and incorporating more sustainable materials in the formulations; and b, the short-term spurt in the price of the virgin rubber that is leading to additional demand.

Moderator:

Thank you. The next question will be from the line of Rohit from itthought PMS. Please go ahead.

Rohit:

So Harsh, very encouraging to see the kind of aggression that we as a company are now taking. So I have a few questions. So first up, in this quarter and even in the last quarter, if I were to remove the EPR business and just look at the base business profitability, it seems that there has been a reduction in the margins, and this is despite the getting good volumes. So if you can just maybe talk a bit about that? We were seeing good recovery in the couple of -- in the first 2 quarters of FY '24. But last 2 quarters, you've seen this one in the Q4, if you exclude the EPR income, if you can just share a bit on that?

Harsh Gandhi:

Yes. So as I mentioned, I think I indicated that there's been a reduction of 2% to 2.5% in the realization rates because of the freight component on the export. But look, exports continue to be a higher realization market. But because of our inability to supply to a lot of the markets, there has been a reduction in the export volumes.

So I mean at a company level, we were trending at always greater than 50%, 55% of exports, which is kind of now moving a little lower on account of some of these headwinds on the export front. That has resulted in overall margin reduction as far as the Reclaim Rubber business is concerned.

As far as the non-Reclaim Rubber is concerned, as I indicated that our volume growth is also coming through on account of the bought-out sources of raw materials, which include ocean plastic and textile waste. And as a result of that, there's some sort of normalization of margins that is happening even in that business.

So combination of this, yes, operationally, there has been a little dip, I believe it's going to be a little temporary because freight rates -- I mean, if they do normalize to the levels that we've seen in the previous quarter, then the margin accreditation will be much better.

However, in the subsequent quarters, as I said, the impact on account of energy savings is going to be fairly significant. We've already started to see that benefit come through on account of wind and on account of biofuel. So those will start adding to the bottom line going forward.

Rohit: Okay. Got it. In terms of costs, were there any one-offs this quarter or not so much?

Harsh Gandhi: There were certain one-offs on account of employee costs. I mean, there have been -- as part of the company completing 50 years, there were onetime costs in rewarding several employees across the organization and costs associated with that were partly one-off.

Rohit: Would it be possible to quantify it broadly, just to get a sense?

Harsh Gandhi: Shilpa, would you want to quickly give a broad sense of that number? But -- yes, I mean, if I recall correctly, it's about INR1.2 crores to INR1.3 crores.

Rohit: Got it. Okay. The other question that I have was, Harsh, in terms of this EPR now. So you said broadly FY '23 is done broadly, you may still have some bit. Now this year, we sell for FY '24 and FY '25 as well, is that understanding, correct?

Harsh Gandhi: Yes. Correct.

Rohit: So probably, every quarter, we will have some income from EPR, right?

Harsh Gandhi: That's fair to assume, yes.

Rohit: Got it. And in terms of this capex. Now for this INR 150 crores that you're doing, let's say, in the next 18 months, would you need any debt, or this will be more back ended for the next phase? How are you thinking about it?

Harsh Gandhi: No, we would need. As I said, I mean, there is the internal accruals, there is the accrual of the rights issue of up to INR 40 crores, and then the remaining would-be debt. It could be -- but yes, you're right. I mean it should probably -- I mean, we're using that as last resort in the sense that we would probably secure the facility, but avail for it only as we see deem fit

Rohit: Right. So you have mentioned 3 uses for the -- I mean, three projects for this capex. So one is the plastic recycling business, the other is a crumb rubber, and then there is new technology, which you -- so this is different from what you already have? Or I mean, because you mentioned we have already commercialized and now it's stabilized and new technology to produce reclaim rubber, I'm assuming that, that could be under approval process, etcetera. So this new project that you're talking about, this is similar, I mean, expanding the same thing or is it different?

Harsh Gandhi: No. So I mean, it will be crumb rubber and downstream offshoots from crumb rubber. As that has been indicated, there is been anything to do with EPR, there are multiple dimensions and multiple categories that have been approved under EPR. And so therefore, as part of that, crumb rubber is a basic necessity to launch into any of these other downstream products. And that's why we're taking the first step of investing in the crumb rubber facility and then subsequent downstream are likely to get invested in as well.

So I mean, one of the things that I did mention is possibly looking at carbon black or recovered carbon black as a category because of the close synergies it offers with the tyre companies and availability of a lot of char is there because there are a lot of pyrolysis there in the country. So there are several such opportunities we are evaluating and testing technologies before we take a final plunge in the same.

As far as the reclaim rubber new technologies are concerned, as I mentioned, we have commercialized -- or will be commercializing it in Q2. Hopefully, some of the approvals will come through by end of the year, and that will necessitate addition of capacity in that space, reason being very simply, majority of the tyre companies will approve technologies and they know that there is material security. And for that, we will need to demonstrate setting up additional lines as well.

As far as the plastic recycling is concerned, since the regulation on the PWM or the Plastic Waste Management is going to come through by April 2025, and since we are starting to approach a fair bit of utilization of capacity, we're fairly confident that possibly another round of expansion might be required, hopefully, in the second to the third quarter of next calendar year. So some of these put together, we have calibrated the total volume and put it out for the benefit of the shareholders to know.

Rohit: Sure. So I -- in all this, so let's just talk about crumb rubber right now. So how fast will the ramp-up be or how quick will you be able to start the -- I mean commercializing this?

Harsh Gandhi: These are not products that require a long lead time for approval, crumb rubber in itself. Of course, if we start targeting the tyre companies from day 1, it will take a long lead time. But some of the other non-tyre applications are much shorter lead times. So we are hoping to commercialize it in Q3 of this fiscal. And the ramp-up should be quick. I mean, , I can't put a number at this stage. But yes, our expectation is that we will reach a reasonable amount of utilization in a very short span of time.

Rohit: So just 1 last question, Harsh, before I join back in the queue. Any rough pointers in terms of how do you look at, let's say, asset turns or economies on this INR 150 crores kind of capex? I mean, how are you looking at it? So I mean anything that you can share?

Harsh Gandhi: I mean, look, our current reclaim business, as you are aware, already it is a low -- I mean a low asset turn business. Some of the newer businesses we've invested in, which is the EP as well as the plastic, those are relatively higher asset turn businesses. with crumb rubber, again, it's -- from an asset turns perspective, would be a little better than or lower than -- I mean closer to the reclaim, if I may, but lower, therefore, than the, what do you call it, plastic businesses.

However, if you look at the new technologies like RCB, etcetera, I mean, there's the much higher asset turns, it could be closer to 4, 4.5, or even 5x asset turn -- a fixed asset turns. So I mean the overall 150 is expected to generate an overall asset turn of between, I would say, 2.5 to 3 at the minimum on a full -- or annualized basis at the minimum.

- Rohit:** Got it. I mean, this is very helpful. I mean just to put it in context, we were just -- our market cap was what probably lower than what the capital that you're doing, so this is very heartening to see the kind of aggression. So all the very best to you and your team.
- Harsh Gandhi:** Thank you, Rohit.
- Moderator:** Thank you. The next question is from the line of Dikshi Jain from Invest PMS. Please go ahead.
- Dikshi Jain:** I think part of the question was asked earlier on the EPR credits. Again, if we look at the Q-o-Q, year-on-year, quarter-versus-quarter results, so clearly, Q1 '24 did not have EPR credits and Q1 '25 does. Now if we just look at that piece, we see a dip of -- like PBT is actually dipped if we'll take the INR 6 crores out.
- Now I heard that there is a cost because of freight, etcetera, which has come in, but going forward, how do you see your core business moving as the other is while I agree that the rest of the EPRs will come in later, what was the range of the price that was realized in this quarter for EPRs?
- Harsh Gandhi:** The price realized for the EPR in Q1 was the same as what was realized in Q4 of last year. So there's no change in the price. We remain committed to be wanting to of setting our EPR as a fair price, which we believe is reasonable for the industry. If the brand owners want to support the recycling industry, it's important that there is a certain level of price that is paid because that is the only thing that will help recycling sector in the long run. So that's first part of your question. As far as the earlier question on the margins are concerned...
- Dikshi Jain:** Excuse me, if I can -- in the AGM -- see, last quarter, last quarter the range which was specified was around INR 2 to INR 3...
- Harsh Gandhi:** INR 2 to INR 4.
- Dikshi Jain:** INR 2 to INR 4. Okay. Because of the AGM, it was INR 2 to INR 4.5, which was mentioned and earlier for the last quarter -- so this quarter also, it's been INR 2 to INR 4.5 only?
- Harsh Gandhi:** Yes.
- Dikshi Jain:** Because what we are hearing from the industry was that the floor price is likely to be closer to INR 4.5 to INR 5.5 rather than INR 2, especially since there seems to be a shortage of credits available from creditable suppliers.
- Harsh Gandhi:** Yes, I think everybody, brand owners have their own set of expectations, recyclers have their set of expectations. I can't comment on whose expectations are what. That's why all the more reason that I say that we are unable to provide future outlook on the EPR because very clearly, we can only -- we are trying to maximize the revenue without it becoming a deterrent for the tyre industry, which are our customers. So we have to play the balancing act very well. And therefore, we are reporting numbers based on what we are generating as revenue rather than talking about what the expectations could be. So I maintain that we are still generating our prices between this range that has been specified in the previous forums.

- Dikshi Jain:** Okay. And what about the profitability generally, like how do we see that -- let's take EPR for instance?
- Harsh Gandhi:** Yes. As I mentioned, the impact of this rate and the impact of the lower exports has resulted in a lower gross profit margin for the core business. And in the previous quarters of the last year, the margin trend is closer to about 50% or 52% at the gross margin level, which is currently down to about 45%, 46%. That is a key contributor. And that is, as I mentioned, because of the reasons that I've already indicated. So yes, I mean this is where it is. I mean the margins are low because of the freight because of the lower exports.
- Dikshi Jain:** And do you see that improving in the current quarter...?
- Harsh Gandhi:** As our utilizations are improving, we are seeing that our overall economy of scale advantage is starting to flow in. As I said, investments that we are making and the operating cost reduction starting to yield benefits. So yes, we do see changes in the EBITDA level margins likely to come back. As far as the gross margins are concerned, I mean, as I said, that will determine -- that, to a great extent, determine on what is happening in the export market in the international markets as far as oil is concerned, and also as far as the ocean freights are concerned. So this is not something that we have as much control over and only trends that we observe is what we can offer comment on.
- Dikshi Jain:** Okay. And also there's a large rise in tax probably when you have new capacity, etcetera, you get tax benefits. But do you see that the taxation has gone -- if you look at Q-o-Q there, it's gone up pretty significantly in the last quarter. So any reason for that? Or this tax percentage earlier used to be much lower?
- Harsh Gandhi:** Shilpa, you want to comment on that, please?
- Dikshi Jain:** Yes, tax was at 40%...
- Shilpa Mehta:** No, so overall period if you see that deferred tax benefit, it gets converted into current tax liability. So -- because when the...
- Dikshi Jain:** Sorry, can you repeat that, we couldn't make that out? Can you repeat that?
- Harsh Gandhi:** Actually your voice is not very clear. I'm sorry, but if you can actually come closer to the line or if you are on a speaker or if you can get off the speaker because we are not able to hear you clearly. There's a lot of echo when you are speaking.
- Dikshi Jain:** Okay. What I'm saying is, we see 40% -- so can you just repeat what you said because we couldn't understand what you said on the tax?
- Shilpa Mehta:** There will be times when there will be deferred tax benefit or asset or deferred tax liability. So it depends on the difference between the IT or income tax depreciation and book depreciation. Over the period, it gets converted into current tax liabilities. That is one of the reasons. And another one is some of the contingent tax liability got converted into provision for one of

assessment years due to the income tax hearing. So both due to partial reasons, this tax liability, what you are looking at looks high compared to the previous period.

Dikshi Jain: So it will be around 23%, 24% going forward like it has been earlier?

Shilpa Mehta: Yes. It is our -- the rate that new tax regime which we are following that will continue.

Moderator: The next question is from the line of Ajaykumar Surya from Niveshaay.

AjayKumar Surya: Sir, congratulation on the numbers. Sir, my question is on the EPR policy. So sir, if I look at the EPR tyre policy, sir, it doesn't encourage any tyre producers to use recycled material unlike the plastic recycling, where there are EPR targets to use maybe like 30%, 40% recycled material, whereas in tyre only EPR targets have to be met.

And like the tyre companies now already set process of making tyres with some proportion of using reclaim rubber. So sir, how do we see the volume of reclaim rubber increasing at the industry level? So like maybe currently only 3%, 4% of rubber reclaim is being used. So how can this percentage increase going forward?

And sir, because from what I understand is tyre companies also consider the EPR as a cost. And it is not encouraging unlike the EPR policies, which have been made for the plastic where they have to compulsorily use 30%, 40% of the recycled material. So just wanted your thoughts on this.

Harsh Gandhi: I'll answer it in three pieces. First part, as you talked about is whether the tyre companies are currently at a low usage? And what is the outlook there. It's very clear that since they are all our customers, we are having conversations, the conversations are about helping them use more reclaim, in their formulation without compromising tyre performance or tyre safety. So within the limits of those two outcomes, we are working closely with them to increase this percentage.

And with several tyre companies, there are long-term targets and midterm targets of increasing this percentage of recycled/reclaimed material in the tyre formulation. So that's to answer your question on, what's the likely future outlook. The second part of the conversation you had was whether the EPR in last few quarters the EPR in tyre. Yes, EPR and tyre is differently structured than EPR and plastic because tyre has a much more larger impact on lives and safety and performance. Unlike plastic materials in the packaging where the impact on life by use of materials is not very high.

So that's one of the reasons why the government is calibrated and is not enforcing circularity for the brand owners, but are only encouraging circularity by ensuring that the obligation of recycling is met to responsible recycling types or categories. The third question you talked about is -- a third comment you made is, whether tyre companies are considering this as a cost. I'd like to clarify, to be honest that I don't think tyre companies are looking at this as a cost because they have, in turn, imposed an increase or EPR cost on a sale of a new tyre.

So they have already passed on, I believe a few rupees per kg to the end consumer, which is you and I on the sale or on the purchase of EPR credit. So I have to be honest, for the tyre company,

which is likely to be a pass-through. If this claim that this is a cost? I kind of beg to defer with all due respect because they are charging the same from the customer as well. That will be the third part of my answer.

Ajaykumar Surya:

Sir, my next question is regarding -- sir, if you can just help me explain the application, the trend between reclaim rubber and crumb rubber, and how does they complement each other? And sir, another part on this, sir, are we doing the whole tyre reclaim or the new tyre or EPDM reclaim? And then also throw some light on like what are we -- what is accepted in the industry and how they are different grades and what are the realization difference among the same so that...

Harsh Gandhi:

To be honest, in the interest of time and for the benefit of the rest of the several of those and analysts who are on the call, I would encourage you to go through our corporate presentation, where a lot of these details already put up and it's also available on the website.

The differences between what is whole tyre and butyl reclaim, etcetera, is also available and the percentage and the type of materials that we produce is also available. I mean, I'm just doing this in the interest of time, given that there may be several more questions.

Ajaykumar Surya:

Yes. Sure. Sure, sir. And sir, last question is on recover carbon black. So sir, because there are around -- I mean, recover carbon black is made through the pyrolysis process. And sir, will let me -- will we be going through contagious process or through the batch process? Because sir, in the country or one of the CPC reports which I was reading. There are around 700 to 800 players in the pyrolysis, who are doing pyrolysis, but only a few of them make it through the continuous process. So are we going to do the continuous process. And regarding that, are we going to do any technology tie-up or what kind of technology are we going to use? So just wanted to know about this.

Harsh Gandhi:

So I want to firstly clarify that like you've asked the question on reclaim rubber. As far as pyrolysis is concerned, it is a process to recover oil, char and gas from a tyre. It is only -- and that is not the same as producing RCB, the recovered carbon black. Recovered carbon black is the waste through taking the char that is generated from the pyrolysis through a process which is a technology-led process to produce recovered carbon black because that has to go back and find usage in the tyre sector and all the other industries where carbon black is used.

So I would only urge you to not mistake pyrolysis as the only process required for carbon black. There's a significant technology required to upgrade char to make recovered carbon black. So that's one part of the question. As far as your second question on what GRP is planning to do? We will ensure that the technology that we deploy will be, environmental friendly. It will -- in most -- in all likelihood be a continuous process and will be an environmentally friendly process. That's all I can say at this stage.

Ajaykumar Surya:

And sir, just a add-on on this. Sir, with regards to the carbon black versus the recovered carbon black. Sir, how is the acceptability in the industry?

Harsh Gandhi:

It's fairly early days as far as the industry is concerned. A lot of work is going on where brand owners are taking the lead on establishing standards for the recovered carbon black. So it's a nascent stage of the industry. And hopefully, over the course of the next few years, there will be

greater clarity and a set of standards, which will be then used by the tyre companies, and all of us as manufacturers that tried to be in that sector will ensure that the products meet those requirements and certifications are set by the tyre companies.

Moderator: The next question is from the line of Midhun James from MJ Investment. Please go ahead.

Midhun James: Okay. My question was, you have mentioned in your presentation as well as in your AR, annual report, that you are developing a new technology for reclaim rubber with lower carbon dioxide emission and so on and so forth. So is it the reason why your exports have got impacted a little bit, because there is some demand from the export market for the new sustainable technologies. Can you just throw some colour on it, please?

Harsh Gandhi: No, the two are absolutely unrelated. The new technology is still in the re-evaluation and approval and that's got nothing to do with the drop in exports.

Midhun James: Okay. And can you give some colour on what does this new technology? I think it may not be that specific, but I think what it does and why are you looking for this new technology? And...

Harsh Gandhi: Sorry, I can't hear you clearly. I'm sorry, I'm unable to hear you clearly.

Midhun James: Just a moment. Is it better now?

Harsh Gandhi: Marginally, yes. Go ahead.

Midhun James: So I was asking, can you give us some colour on what was this new technology? It may not be that specific, but what is the competitive advantage that it will give us in terms of the technology?

Harsh Gandhi: I didn't get the second part of the question, but I'm assuming it's a question on the type of technology. I can only say, as I've mentioned in the past as well, this is a technology which will possibly do away with the use of chemicals and it will be in a process, which will be less labour dependent. And therefore, a combination of all of this will result in lower CO2 emissions.

But -- and that's because there won't be any chemicals, therefore, there won't be any emissions in the process. So that's in a nutshell what the process entails, it should also allow us to produce a superior quality or a superior type of reclaim rubber and that is what the next expectation is that, therefore, it will -- help improve the margins overall on the product.

Midhun James: Okay. Okay. And my second question was, since we have a bulk of exports on our reclaim rubber products, is there an opportunity for EPR products from the companies in -- I mean, the companies abroad because they are also into EPR, may not be in this avatar, but something else do we have an opportunity there?

Harsh Gandhi: No, the EPR regulation in India states that any tyre that is, waste of India and is recycled in India will be eligible to generate the EPR credit. So yes, GRP will generate EPR credits on volume of reclaim rubber it sells in the international market also. So that -- the two are not correlated. As far as your question on whether we will get any benefit of a like which is equivalent to EPR and overseas country? Answer is no. We have not heard of and there is no EPR equivalent regulation, which will be an advantage for us outside of India.

Moderator: As there are no further questions, I would like to hand the conference over to Mr. Harsh Gandhi for closing comments.

Harsh Gandhi: Yes. Thank you again, once again for all the participants who have joined the call, asked the detailed questions. As we continue to say, I mean, we are extremely bullish about the business. We are making these investments as a view on the future. And we encourage questions from your side as well as guidance from you based on your understanding of the sector and the industry. With that, I'd like to close the call, and thank you all again for participating.

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