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14/11/2022

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 a copy of earnings call transcript held with analyst/ institutional investors on **8th November, 2022 at 2:30 p.m.** to discuss Company's operational and financial performance for the quarter and half year ended **30th September, 2022.**

Kindly take the same on record.

Thanking you,
For **GRP Ltd.**

JYOTI  Digitally signed by
JYOTI SANCHETI
Date: 2022.11.14
18:09:01 +05'30'

Jyoti Sancheti
Company Secretary

Encl : a/a

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“GRP Limited Q2 & H1FY23 Earnings Conference Call”

November 08, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 08th November 2022 will prevail.



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



GRP Limited
November 08, 2022

Moderator: Ladies and gentlemen, good day and welcome to GRP Limited Q2 and H1 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in 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, Joint Managing Director, GRP Limited, for his opening remarks.

Harsh Gandhi: Thank you Rutuja. Good afternoon ladies and gentlemen. Thank you for joining us today on GRP's earnings conference call. Along with me today, I have the company's CFO, Ms. Shilpa Mehta; and SG&A, our Investor Relations Advisors on the call. I hope each of you is well and everyone around you is well also.

The Board meeting to declare the results for the quarter was held on November 4 and the results presentation has been uploaded to the stock exchanges, as well as on the website. I hope each of you has had the opportunity to review the same and we'd be happy to take questions later. Before starting with the update for the last six months, just a quick recap on the company's business and verticals for some of you that may be attending this for the first time.

GRP, as most of you know, operates four business verticals that are mostly focused on helping brand owners fulfill their circularity obligations. We're spread across the Rubber and Plastic sector and cater to customers in the Automotive industry, within which tyres is the predominant focus. Industrial end applications, infrastructure applications, which are mostly to do with mining and other industry applications. Furniture and Electrical segments through our Plastic business, and Agricultural end applications as well.

More information on each of the verticals is available on the website and through the investor presentations. But if there are any specific questions on each of or any of the businesses, I'd be happy to answer them through the course of the call.

With that, let me provide you a quick snapshot of the key highlights that have transpired over the last six months, or rather, in H1 of this financial year. To begin with and in-line with our vision to remain a sustainable materials company, we have exited our joint venture in the tyre retreading sector and sold our share of the JV to our erstwhile partners. Accordingly, GRP has gained INR 5.7 crores on sale of that investment. This was indicated in previous conversations



GRP Limited
November 08, 2022

that this we saw as no longer as being strategic to the long-term intent of the organization. We have been able to successfully exit the joint venture and also make a profit for our shareholders.

In-line with our endeavor to increase the share of renewable energy as well, this is an area that we have been constantly saying is a focus. We have commissioned a 500-kW solar plant in our location in Solapur and we continue to, at this stage, also assess opportunities to invest in additional renewable sources to increase the share of wallet of renewables in our overall energy consumption. We're doing that through a combination of either of investments in wind and solar or alternatively buying from third-party sources, which are also renewable IPPs.

Another milestone during the year under review was incorporation of a wholly-owned subsidiary of the company. GRP Circular Solutions Limited was incorporated in July and the objective of this wholly-owned subsidiary would be to venture into the field of plastic recycling. Now this is a huge opportunity, as we have been saying from time and again, coming up as a result of the government's focus on ensuring that there is responsible end-of-life consumption of waste packaging. There is a mandate for brand owners to ensure that there is circularity of end-of-life plastic waste going back to packaging. So this gives us renewed optimism to continue to invest in this business and therefore, the wholly-owned subsidiary has been set up.

Another development that's taking place, which all of us are in some ways aware of is the conflict in Russia and Ukraine. And the tariff barriers in certain geographies as a result of that conflict have resulted in a shift in tyre manufacturing across the world. The embargoes on Russian and Chinese tyre imports led to a spurt in demand for European and Indian tyre production for first half of the calendar year and the demand as well as consumption for rubbers, kind of increased in these geographies.

However, the high energy costs and prices in Europe and other parts of the world that we are all witnessing has led to a recessionary impact and as a result, a tapering off of demand towards the end of the half year, and that's resulted with lower volumes for us when you look at a quarter-on-quarter basis.

On the other side, the positive is that the international freight rates have started to soften gradually and while it has not really been margin accretive for the first half of the year, we do expect to be positive for margins in the coming months. As far as your company's operations are concerned, power tariff and fuel costs have risen in the period by close to 10% and 15%, respectively and given the energy dependence of our processes, that has kind of affected financials to some extent, as you see from the numbers.

Of course, the entire industry has been affected on account of the RBI raise in interest rates and that has also had an impact on consumption in several geographies and depending on how that plays out, we will know more of its impact in the coming months as the situation unfolds.



GRP Limited
November 08, 2022

Despite some of these challenges, we've been able to maintain a healthy order book, grown the Non-Reclaim Rubber business and have clocked one of the highest ever half yearly revenues. The revenue growth has come on the back of growth in volume for the company as a whole. A lot of our business increased selling prices and of course, a favorable currency because we are export dependent.

The Reclaim Rubber business' revenue growth was mostly on account of an increase in selling prices and a favorable currency, while margin expansion was mainly on account of reduced costs. The reduced material costs were partly an offset or an account of slowdown in the pyrolysis sector during the monsoon, but that has helped us with margin expansion.

On the demand side, the domestic demand for Reclaim Rubber continues to remain resilient, while there remains to be a lot of volatility in the export markets on account of recession that we are seeing in certain parts of the world. We do believe that going forward, there will be further pressure on demand in tyre manufacturing, while overall numbers of tyre production continue to kind of be inching upwards, they have just about crossed the '19 levels, which is the pre-COVID levels. So hopefully, the trajectory continues to remain up from here on forward.

During the first half of the financial year, we were also able to boost our Non-Reclaim Rubber revenue, which now contributes to greater than 10% of the overall business. Revenue from Non-Reclaim Rubber business, again, is from three different businesses, but it grew mostly on account of higher volume sales in the Engineering Plastics business. While there is a significant volatility for the other two businesses, which is the Custom Die Forms and the Rubber Composites and there, our dependence on a single customer and single market led to some volatility in volumes.

Margins in this business dip, mostly on account of fall in the polymer prices, that's virgin polymer prices, specifically nylon, leading to price adjustments and because the export market is dependent for CDF and Polymer Composites, there again on account of the volatility in demand, the prices had to be adjusted.

Our focus in increasing the share of Non-Reclaim Rubber business continues, and we are gaining traction as a formidable in the plastic industry and being recognized as a circular materials producer. Our continued investment in this business, including by way of setting up of the wholly-owned subsidiary, is expected to bring improved returns on capital employed in the time to come.

We remain confident that the Non-Reclaim Rubber business going forward will continue to grow consistently and keep growing such that the share of those businesses and the overall revenue can kind of inch closer to a 25% target, which was put out a couple of years ago. We remain confident of building scale in these businesses on the back of the leadership that we have, both in the rubber and now in the engineering plastics business. But also more importantly, on account



GRP Limited
November 08, 2022

of the push of regulation by the government through the introduction of policies such as EPR and the resulting demand growth that is expected in the Plastic Packaging sector.

With this preamble, I'd like to ask Ms. Shilpa to take us through the financial highlights for the half year as well as for the quarter ended September '22.

Shilpa Mehta:

Good afternoon, everyone. Let me take you through the consolidated financial highlights for Q2 and half year ended September '22. Revenue from operations in Q2FY23 stood at INR 1,170 million as compared to INR 1,007 million of Q2FY22, so an increase of 16% from previous years. We are happy to announce that we have achieved one of the highest ever half yearly revenues from operations in H1 of FY '23, which stood at INR 2,412 million compared to INR 1,838 million in half year ended of FY '22, so growth of 31% over previous years.

Gross profit of Q2 in FY 23 is at INR 646 million as compared to INR 499 million in Q2 of previous year, up by 30%. And gross profit of half year ended September '22 was INR 1,297 million as compared to INR 921 million in the half year of previous year, up by 41%.

Gross profit increase during the period is majorly on account of net price increase, which is higher than input cost increase. EBITDA of Q2 stood at INR 60 million as compared to INR 54 million of the Q2 of previous year, 10% growth over the previous year and EBITDA for half year was INR 121 million as compared to INR 96 million for the previous half year, so it was up by 26%.

EBITDA growth is lower than gross margin and is on account of significant increase in energy cost from the grid. EBITDA margin percentagewise in Q2 is 5.1% as compared to 5.4% of Q2 of previous year and for half year, it was at 5% compared to 5.2% of previous half year, contracted by 20 bp.

PAT of Q2 was INR 62 million as compared to INR 34 million of previous Q2, up by 83% on a year-on-year basis. And PAT for half year was INR 72 million as compared to INR 27 million of previous half year, up by 173%. Growth in PAT during the period was on account of INR 5.7 crores one-time gain on sale of shares in JV company, which was not considered in gross profit and EBITDA, but in PAT, it is included.

On the debt side, we were able to reduce our gross debt, which includes both long-term and short-term debt, by INR 155 million from INR 997 million in FY '22 to INR 842 million in the half year ended in September '22 and our debt equity ratio is also reduced from 0.73 to now 0.58.

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

Moderator:

[Operator Instructions]. The first question is from the line of Rohit Potti from Marshmellow Capital.



GRP Limited
November 08, 2022

Rohit Potti:

Thank you for the opportunity and congrats on a wonderful set of numbers. I'm just curious to know about the cost that you mentioned, the power cost. I mean, suddenly we've seen that when there is increased volumes and increased pricing power that tends to flow through to EBITDA, and it seems to have entirely been wiped out by power cost EBITDA. How much was the power cost increase, and how do you see this panning out over the next -- over the future of the company? I'm not just talking about the current year, but over the next three to five years?

Harsh Gandhi:

I'm happy to kind of go in a little more detail, but clearly, when you look at the energy consumption, we've been taking a lot of steps over the last several years in reducing the consumption or units per ton of reclaim manufacturing, and this is through a combination of several debottlenecking as well as productivity improvements.

And we've actually been able to reduce, if you look at compared to FY '21 to year-to-date, it's about 12% to 13% reduction in energy consumption on a per ton basis has been achieved. However, if you just look at the last one year, compared to FY 21, FY22 year-to-date, there has been close to what you call it, about a 12% increase in the tariff rate. And as far as fuel is concerned, our dependence is mostly on natural gas and furnace oil. As far as natural gas is concerned, post the conflict in Russia and Ukraine, gas prices have moved up by close to 60% to 65%. Of course, that's not our entire consumption because we use FO in a few plants as well. And the price increase on a unit basis has been about 12% to 14% as well. So, net-net, I think our consumption, and we measure it on a rupee per ton basis, has inched up and the impact that we look at on a half yearly basis has been closer to about INR 4 crores or thereabouts. As far as the future is concerned, I've already announced that we've added another 500 kilowatts of capacity in the month of April. We continue to be on the lookout for opportunities to either buy third-party power or invest in sources of energy which are available, whereby we are able to bring down our average cost.

If you notice the P&L, energy is the second largest contributor to costs. We believe that some of the increase in the fuel costs and power costs are probably on account of surcharges that have been imposed by the state electricity boards and grid and the gas cost is a result of the international geopolitical situation.

We do believe that there will be tapering off possibly starting next quarter or maybe one quarter further. But to hedge ourselves and de-risk ourselves it's very clear that we need to start looking at alternate sources of power and those are sources which should be renewable, which hopefully should provide a fairly positive ROI and therefore, we will look to invest in such opportunities.

Rohit Potti:

That's great to hear because if I understand correctly, we are moving to more automated -- I mean, we had reduced the labor intensity and that ideally should lead to increase for consumption per ton. So is there a broad percentage of revenue that you're looking at as far as energy is concerned over the next three to five years?



GRP Limited
November 08, 2022

Harsh Gandhi:

If you look at our energy consumption, as a percentage of sales is in the region of about 13% to 14%. We do believe that as we move to more automated processes, and I think I'd like to add a point to this, because I'm sure it's going to be one of the questions.

Similarly, on the manpower side also, we've seen since COVID, all the efforts have led to reduction in number of people required to produce one ton of reclaim. We've been able to again bring that down by about 11%, 12%. But all of us are familiar with the post-COVID impact of minimum wages, has led to almost an 18-19% increase in the wage costs on a rupee per man day basis or a rupee per month basis. And that way, most of the advantages on the reduction in manpower is being wiped out as well.

But if I were to look at -- our power and fuel costs together are trending at about 12-odd percent at the moment in the half year. This as a company, with some of the investments that we are making in renewable energy sources, we do believe that this will trend to below 10%, or at least that is the current expectation that we have. Does that answer your questions?

Rohit Potti:

Yes, it does. That's very helpful. And my last question is on growth in general. So how do you see growth in terms of two, three things? So number one, I believe the natural rubber prices have come down quite drastically over the last few months because of the recessionary fears, so is that affecting our pricing? That's number one on the growth.

And then second, where are we in terms of utilization in the first half in all the segments that you -- that you would like to talk about? And where do you see this going forward in the next -- in the current year and the next two, three years to come?

Harsh Gandhi:

So I'll answer the first part of the question. As far as pricing is concerned, you're right. Natural rubber prices are trending downwards, so are synthetic rubber prices. Of course, there is a pressure on us to start looking at reversal in prices. Fortunately for us, correspondingly even the freight rates are starting to drop. So for a large part of our sales which is out in the international markets, I mentioned in our previous call that the freight increases were required for us to absorb because beyond the point, it was not viable for the customers in certain geographies to consume reclaim.

The good part is that some of those subsidies in some ways that were built into the prices are kind of reducing and therefore, to that extent, I don't think the pricing will have a major impact on our ability to kind of retain the current level of pricing. As far as the demand itself is concerned, yes, there will be some pressure as the demand for rubber itself is dropping and that is happening on account of the recessionary phase that we are all looking at entering. And Europe especially, demand of tyres across all categories has started to reduce.



GRP Limited
November 08, 2022

I believe Michelin, the largest tyre company, has put out strong advisory on the impact of the hyperinflation on the likely demand in tyre and also likely impact in their own performance, and I would imagine that most other tyre companies in Europe will mirror a similar performance.

So, I can't put a number to what's the likely drop in demand, but there will certainly be a drop in demand. The good thing is the kind of customers that our company works with and the point that we have a higher share of wallet with majority of the customers, we tend to believe that the impact to us on volumes may not be as significant. However, I would say we are still being very cautious because estimates and forecast for 2023 are starting to flow in from the global tyre companies. But it will be only December by the time we have a complete sense of what's the likely volume impact in calendar year '23 compared to calendar year '22. As far as calendar year '22 is concerned, most of the tyre companies have maintained the forecast that they provided to us at the beginning of the year. So, the war notwithstanding, it has not affected demand, or rather, the volumes.

In domestic demand, there has been some sort of, I would say, semblance of consistency. But having said that, we are also starting to hear of a lot of weakness in domestic OE demand across certain major vehicle manufacturers, which you would know better than I do, and that may mean some weakness for the next two or three months. But by and large, they have been holding relatively steady.

As far as the GRG sector is concerned, which is the non-tyre sector, we have seen again the push for mining and other infrastructure investment spending that the government in India is doing. It has led to fairly robust growth in the GRG sector for the most part of this year. So far, we are not seeing any signs of demand slowdown in that category. So hopefully, some drop in tyre demand in India should probably get compensated by either demand consistency or push into the GRG segment.

Internationally, again, a little early to say. We are still in the early stages of receiving the forecast of '23. As I said, calendar year '22, we've had a net growth in the international tyre company customer that we work with.

Your next part of the question was regarding the utilization of capacity. I would say when it comes to Reclaim Rubber, we have maintained the utilization of capacity all the way up to September. In fact, it has been closer to 85- 87% plus of utilization.

We have just completed our last leg of debottlenecking and capacity addition in the Reclaim Rubber in this quarter; this is the leftover capacity from Tamil Nadu, which I had committed that we will be deploying across all the other plants over a period of time. That has been completed in this quarter, so this quarter, we have a little more surplus capacity compared to the previous quarter.



GRP Limited
November 08, 2022

As far as utilization is concerned, it may be a little lower because the volumes are likely to be the same as we've done in Q2 of this year. At the moment, we're not seeing Q3 volumes likely to be any lower than what we have done in Q2 of this fiscal. As far as the Non-Reclaim Rubber businesses are concerned, we've added new capacity in both Composite and Engineering Plastics only in Q4 of last fiscal, as has been announced. So therefore, the utilization levels for this half year are quite low.

But I can only say that as far as nylon OR Engineering Plastics is concerned, month-on-month, we are growing at least at the rate of 15% to 20% in volume. Composites, as I mentioned very briefly, there has been some volatility on account of the demand in the US itself, and that's the only one market, one customer that we have. We are, again, in the conversations to figure out what is the likely forecast for calendar year 23.

But I can confidently say that nylon or Engineering Plastics, the growth is fairly robust. In fact, there's a backlog of orders, since it is linked to availability of fiber from our reclaim plants as opposed to demand in the market. That's one area where we are very optimistic and bullish about because demand is strong, approvals with key customers are in place. And now, it's a question of us being able to deliver on the volumes. I hope that answers all your questions.

Moderator: The next question is from the line of Anjuna Shah from Shah Investments.

Anjuna Shah: So a couple of questions from my end. So I just wanted to know is first, are we planning any other new acquisition or JV partnerships?

Harsh Gandhi: We've just invested -- rather, created a wholly owned subsidiary, and there is a plan at the moment to add to capacity. We are going to use existing GRP facility in terms of the land, but we are building new buildings to build that capacity out. At the moment, there is no acquisition that we are seeking or looking at or evaluating. As far as joint ventures are concerned, that's not on the cards in short term.

Anjuna Shah: Sure. Also, can you provide some insights as what are the factors which influenced pricing of reclaim rubber? How has it moved over the year?

Harsh Gandhi: Over the year, meaning through this year?

Anjuna Shah: Yes sir, through this year.

Harsh Gandhi: Generally, the price of reclaim rubber is dependent on the price of the polymers. But increasingly, this commodity is being looked at as strategic raw material and not just for reducing costs. And as it becomes a strategic raw material, it is starting to, with a few tyre companies, starting to become agnostic to what is happening in the virgin rubber product space.



GRP Limited
November 08, 2022

So, an example of this is the fact that while virgin rubber prices have dropped in this last few months, or rather, if you look at year-to-date, we've actually been either successfully able to raise price, or been able to hold the prices that we had at the end of last year. So again, it's becoming a little more strategic for companies, and as a result, elasticity or volatility may be lower. But at the moment, it is linked in some ways to the price of virgin rubbers.

Moderator: The next question is from the line of Rohit Balakrishnan from ithubought PMS.

Rohit Balakrishnan: So I just wanted to understand a couple of things. One was -- so you mentioned that while freight costs have started to come down, but H1 has not seen any benefit. You reckon -- so you mentioned H2 will start seeing benefit. Is that correct? Did I hear that correct?

Harsh Gandhi: Yes, that's correct. So, in H1, while prices in certain lanes dropped -- two things happened in H1. In a lot of markets in Europe, because we lost a fair bit of value on the euro, the ability to get that prices were not there. On the other side, while freight started to inch lower than before, in a lot of cases, availability of cargo and lower freight cost was really not there. And I think all of that has started to kick in only from September and October of this year. So I think that the benefit will start improving in this quarter.

Rohit Balakrishnan: So I think last year, I think freight had gone up to almost 14%, 15% which was usually around 8%, 9% historically. So do you -- I mean, would you want to sort of put out, I guess, what kind of benefit could we see from freight costs...

Harsh Gandhi: Very specifically, I think when we started the year and if you look at coming in from Q4 of last year, we were as high as about 16% to 15% of revenue of freight cost. I think blended for H2 has been closer to about 15.5%, but we started the year in April at around 17%, 18%. Today, we are at already closer to 13-odd percent to sales. This is as of October, I'm talking about. But I mean, coming off a high of about 17 - 18% dropping consistently to get to an average of 15.5%. And today, we are trending at about 12.5% to 13%. Does that give you a fair bit of understanding?

Rohit Balakrishnan: And you also mentioned some bit of tepidness in terms of demand and reclaim in exports. Are you seeing any sort of benefit -- I mean, any sort of pickup in the domestic market to sort of compensate for that, or?

Harsh Gandhi: So as far as the international demand is concerned, up to December, our order book is pretty much known because with tyre companies, order cycles are known three months in advance. Generally speaking, Europe does slow down after the 15th of December on account of Christmas and some of the other holidays. I mean, the US and Europe. So, all of that is already played out in the current order book that we have. And at the moment, we are now talking about next year orders with the tyre companies, and hopefully by end November, beginning December, we will have clarity on the likely impact on international volumes for next year.



GRP Limited
November 08, 2022

As far as domestic demand is concerned, as I said, hopefully, the GRGs that make up for any slowdown as far as the tyre sector is concerned in India. Now just a quick note on this, the tyre industry in India did phenomenally well in FY '22, specifically H2 of FY '22 and beginning of Q1 of FY '23, mainly on account of exports. So, you look at the export numbers of the Indian tyre industry, there have been record numbers when it comes to FY '22. And that caused the demand rise as far as the Indian tyre companies were concerned, and their utilization levels were also fairly high.

But because export demand is kind of reducing a lot of the capacity that the domestic tyre companies were using to produce for export markets is under pressure, so while the domestic demand per se for tyres is not reduced, it's the domestic production of tyres that has reduced, but that is more to kind of cater to the export market. So I hope that part is clear.

Exports out of India was not ever a very, very large portion of the domestic tyre producers. It has become a large part in FY '22. It is kind of returning back to normal levels which we've seen in the previous years. So, from that perspective, and of course, I'm not an expert on the tyre industry here, some of you might know better, but the feedback that we have is that the exports of tyres from India going down has resulted in lower production for the tyre companies in India.

Rohit Balakrishnan:

One question in terms of employee costs. So I think last quarter, I think you -- has there been any declassification? Because last quarter, we had about INR 17 crores. In Q1, the filing that we had, I think it's been reclassified to a lower number, and I think other expenses have -- other costs have gone up. So was there any reclassification that was gone? Second was on this employee cost itself. So this is -- I mean, INR 13-odd crores is the number that to sort of look at on the new run rate basis?

Is that how one should look at it? Or do you see like inflation and those costs sort of eating into this cost as well? Because you've been saying that even in the earlier answer, you mentioned that you've been trying to reduce manpower cost as a percentage. And I think this quarter, the percentage is also pretty low on the lower -- if I compare over the last...

Harsh Gandhi:

Some amount of it is reclassification, and this is based on guidance and advice received from different auditors. But in principle, as you said, then we are looking at reducing our man-days per ton, which is a measure that we use to kind of measure our own productivity. And as I said, since FY '21 to now, we've reduced about 11%, 12% people required per ton of production. But the wage inflation has been, over a three year period, as high as 16% to 18%. So as a result, the number has not visibly come down, but I can assure you that the numbers in our plants in terms of total employees is much lower.

In fact, even with all the addition to capacity, including the Non-Reclaim Rubber businesses, our employee count today is actually the same as what it was two years ago. So that's giving a



GRP Limited
November 08, 2022

perspective on how the control on manpower deployment is there, but it's just the wage inflation is something that's not in our control. And this is mostly post-COVID readjustments and minimum wage as done by the government on multiple occasions over the last two years.

But directionally, I think we are not done yet in terms of reduction of people per ton of production. So our focus on continuing to further reduce this is ongoing and we are hopeful that there should be possibly another 8% to 12% deployment reduction over the course of the next 15 to 18 months.

Rohit Balakrishnan:

And the -- another question that I had was on this wholly owned subsidiary. Can you share a bit more in terms of -- I mean, you mentioned it will be for recycling of plastics. So what kind of plastic, because plastics is, again a huge area? So -- and what kind of investments are you looking at both in terms of capacity and also in terms of people and all those things?

Harsh Gandhi:

I can very briefly share that the whole opportunity is arising on account of the EPR regulations introduced by the government. The EPR regulations are targeted towards the packaging industry, specifically rigid packaging, pretty much polypropylene, polyethylene, which are the predominant polymers, will require -- depending on the category of packaging, anywhere, starting from FY26, 30% recycled content in original packaging.

Moving up to over a two-year period to 50% recycled content going into packaging, rigid packaging, and then subsequently scaling to as high as 60%. As far as flexible packaging is concerned, those numbers are more conservative, going from 10% to 20%. But all of this means that there's going to be a fairly significant opportunity for players to enter the space. But based on technology solutions that they can develop, because the current consumption of recycled material in some of these rigid packaging spaces is not more than 5% to 7%, and it's done mostly for cost purposes.

The government's initiative is to help technology providers upgrade the type and quality of the plastics such that it can be used up to 30% and then subsequently, 50% and 60%. As a result of this, I believe only players that are focused on technologically advanced solutions will be able to offer the material that the packaging companies can use. We've been working on it for the last 1.5 to 2 years, we've been able to develop certain partnerships and certain niche packaging end applications where our product can be used based on the norms that have been set by the government. So, our investment in the wholly owned subsidiary is to recycle polymers that will go into the rigid packaging end segment, and I would just say leave it at that for the time being. We'll make relevant announcements as and when the plant is operational and ready to produce.

We are hoping that this investment that's being done currently in building and equipment will be complete by January of 2023. And therefore, before the end of the year, we will have some production on stream, but majority of that capacity will come on stream for all of FY '24. We



GRP Limited
November 08, 2022

are investing in ensuring that we are able to organize supply chain and collection for such plastics. And hopefully, by the time the plant is up and running, we will have adequate sourcing arrangements as well to be able to meet the capacity needs.

Rohit Balakrishnan: So just one more follow-up on this was by what you're saying, it seems that we already have the product and we are sort of -- I mean, is it -- we already have customers in the pipeline that are...

Harsh Gandhi: So to answer it in a nutshell, we have a pilot facility from where we are serving some customers for homologation and evaluation, and our own test and trials. We have a fair bit of confidence based on the pilot facility, and as a result, we made the investment in the commercial unit and the commercial unit comes on stream in January. In the meantime, to ensure that the customer has approval processes as well as small commercial quantities they are able to produce, we are already producing this material in our pilot facility located in the existing factory.

Rohit Balakrishnan: And broadly, this segment of business would be margin accretive to us at an overall company level, or will it be the similar level that we are, on a normalized basis, both...

Harsh Gandhi: No. It should be higher on account of, A, this business has a much higher capital turns than the reclaim rubber business does. And the margins are, again, in double-digit EBITDA level. So I think it should be definitely a much better return on capital employed than the Reclaim Rubber business right now.

Rohit Balakrishnan: And on the Non-Reclaim Rubber business, you mentioned at the time of, I think, somewhere in the last financial year, that we will probably utilize the entire capacity of the expanded capacity in this financial year. So given what you mentioned in terms of demand as well as other things in terms of some pricing issues in some of the other segments in Non-Reclaim Rubber, do you see that as a challenge? Or do you think that you can still utilize the expanded capacity this year?

Harsh Gandhi: As I said, some of that last residual capacity from Tamil Nadu came on stream towards the later part of H1 in the current fiscal, but then there's a little bit of a tepid demand as situation has kind of come through. So I would say we may not be able to use that capacity entirely in the next six months.

But I think it's encouraging the fact that that capacity is there and until July, August, we were running backlog on orders of reclaim. So I would say that as soon as that reversal happens, the good sign is we have the added capacity that's being deployed. And once the order situation does improve, we should be able to serve those customers.

Moderator: Thank you. The next question is from the line of Ashay Jain from Jain Capital.



GRP Limited
November 08, 2022

Ashay Jain: Sir, a couple of questions. Firstly, so one of the peer has talked about superiority in micronized rubber powder over Reclaim Rubber. Can you just share your thoughts on the same, and do we have any plans to enter that segment as well?

Harsh Gandhi: A, the process to produce micronized from rubber is not very complex. I think different manufacturers focus on different end product based on their own understanding of, the customer's and perception of their own customers profile and, therefore, the preference of the customers that they have.

The customers that we work with, we are not getting adequate signals to suggest that that's an area of product that we could look at expanding into. Crumb Rubber is an intermediate product before one produce reclaim. So we have inherent capacities available, but we believe that there is a better value for the customers by using a reclaim rubber because it's chemically processed and treated as opposed to just being a mechanically-treated product or mechanically-ground product.

But again, I think there will always be a different kind of opportunities for different applications. For our practical purposes, we will take a little bit of a long-term view and not want to jump into a product category for short term. We would -- because our infrastructure is such that if we have invested in the downstream, I don't want to keep that equipment idle to run only the upstream equipment. So our current understanding and the order book, as well as the relationships with the customers are very clear that reclaim rubber is a preferred choice of material. And therefore, we will continue to focus on that.

Ashay Jain: Understood. That was helpful. Secondly, sir, any thoughts on declaring any kind of special dividend to shareholders as we have gained INR 5.7 crores across from our JV business, which was sold?

Harsh Gandhi: So the point on the dividend is to consider on a consolidated level, we have a dividend payout policy which we generally stick to and I believe at this stage, we really had no conversations on how the profits will get distributed. I will certainly take this as a suggestion and have a conversation within our Board to figure out if we could look at the same. But I would only say that a large part of these proceeds that have been received as profits from the sale of a particular business will get redeployed into the new business or the wholly owned subsidiary that is setting up. So in some ways, the shareholder money is going back into the creation of wealth for the shareholders for the future. But I do take your suggestion, or rather, take your comment as a suggestion, which I will take to our Board for deliberation.

Moderator: Thank you. The next question is from the line of Deepak Kapoor from Benchmark Capital.



GRP Limited
November 08, 2022

Deepak Kapoor: Quite a few of the questions were answered, during questioning. Just a couple of them. One is on the Composite business, you are mentioning single customers. Are we in a custom manufacturing business for them, or is there any reason there's just one customer for Composite?

Harsh Gandhi: As we mentioned in the past, it's more like a contract manufacturing arrangement. We have not invested in the business, but equipment has come through as part of the partnership that we have. And we are producing material based on just specs under the arrangement. So that's the reference to the fact that there is a single customer and a single market.

Deepak Kapoor: So we won't be looking for other customers and applying our learnings from this to set up some capacities that is that correct...

Harsh Gandhi: We are evaluating opportunities for extending this to other markets. But at this stage we are only seeding the market. I would say this is going to be a little longer-term view because this product, as I mentioned in the past, is a replacement to wood and concrete. So, it's a fairly localized decision, and cost of wood in certain developed markets is very different than the cost of wood in a market like India. And as a result, our capabilities to seed this outside of India is very limited, unless large set of resources, viz feet on the ground is put up in those markets, because this type of business requires a lot of feet on the ground.

We are in the evaluation stage, including possible discussions to do this along with our partner. But at this stage, it's a single customer, single country dependent, and contract manufacturing kind of an arrangement. So we are fairly limited in our ability to grow there.

Deepak Kapoor: Got it. Second question is, you were mentioning that fiber availability is more be constrained for you to fulfill demand on your volume side. I think in the previous con call, I'd asked you about your plans. You have been talking about how you look for alternate sources of recycled nylon and [inaudible 50:59] came up in discussion, which you said it's not virgin, as virgin as the recycled tyre, and your team is working on it. I wonder if your plan on working on alternate sources is still on the team is on it? Or what the progress on that side?

Harsh Gandhi: So in a nutshell, yes, we are working on alternate materials in addition to the tyre cords that we are using. If you ask me whether we have been able to successfully develop sources, or rather, products from alternate sources, answer is yes. We have started to use different other type of waste, engineering plastic material or polyamide material for reprocessing in our facility. And that's the reason for this month-on-month growth of 10%, 15% in volumes that we are starting to see because our capacity of tyre cord gets added only once an investment has been made and commissioned. So our next round of that commissioning is expected sometime by December of this year. So we will start seeing fresh volumes or additional volumes of nylon from the reclaim rubber stream coming through in that business from January. But the growth in business is



GRP Limited
November 08, 2022

continuing because we are adding these new sources of waste which are not captive in terms of generation.

Deepak Kapoor: Kind of a book-keeping question, the debt reduction was just are on cost, or was it, like, out of turn the production?

Harsh Gandhi: Shilpa, you want to highlight the reason for the debt reduction?

Shilpa Mehta: Yes. So debt reduction mainly depends on working capital cycle efficiency. So because of that, like, almost a 15 days production that has contributed to that debt reduction.

Deepak Kapoor: Will you be having similar debt reduction going ahead on the quarterly basis?

Shilpa Mehta: Yes, we have consistent working capital cycle improvement over, through this year, so we believe it will continue next year.

Harsh Gandhi: I think it's a lot of prudent discipline and closely working with our customers as well as our own processes for reducing inventories and extending creditors and so on. I think we've achieved quite a bit in the last six to eight months, by way of almost 15 days. If you look at in this calendar year, we've already achieved about 15 to 17 days of reduction in overall working capital. We obviously are not 100% satisfied. We still have some more room, but I'll say this is fairly positive as well.

Moderator: Thank you. The next question is from the line of Samarth from Janak Merchant Securities.

Samarth: So we have developed high-performance reclaim product, which has better strength mainly for truck tyres, and which was under validation. Any progress on that front?

Harsh Gandhi: Yes. I mean, in fact, all of this additional capacity that has been added in debottlenecking is done, which I spoke about. It's all happening in that product category. So, in fact, our volumes have increased and grown, and we continue to invest. we have mentioned also about the new technology that we are close to finalizing and investing in? I think we're also there. I mean, sometime next year, we should have some additional capacity coming through on account of alternate technology and processes. So that will start additionally helping to Reclaim Rubber business, but it will only start getting recognized towards the end of FY '24.

Moderator: Thank you. The next question is from the line Rohit Potti from Marshmellow Capital.

Rohit Potti: So, I just wanted to follow-up, I want to follow-up on the answer that you gave to Rohit, from I thought. So, you mentioned that the wholly owned subsidiary might come out with a commercial plant in January. Sir, I'm just curious to know about this technology? This technology belongs entirely to us, because you mentioned partnership? I just want to confirm that?



GRP Limited
November 08, 2022

Harsh Gandhi: Technology is entirely ours. We are working with a couple of partners to jointly develop the products. But again, it's not joint ownership of IP, it's only our dependence on them for certain materials to help us with the recycling process. So the technology is 100% GRP technology.

Rohit Potti: Understood. So, I mean, I always admired the commitment of the long term. So I'm just curious, what is the barrier to entry for this technology in particular? So is it built on the previous, on the nylon technology that we've already built? So if one had to replicate it, what would be the pain points that one would have to go through to develop something similar?

Harsh Gandhi: Actually, I don't have an answer to that question because I don't know of any others that are just out there, and I'm sure everybody is working on this. I mean, plastic recycling is a fairly large field. It's a fairly organized field, and there are really large players that are operating in this in India as well as overseas. So, I don't want to say anything which I may be, out of turn, but clearly, I'm sure everybody is working on something. And when the regulation does kick in, I'm sure you will have more answers and more information on who's got the products, which can be used to the extent of 30%. I'll just leave it at that because it's very tough for me to give an answer to something that I'm not completely aware of.

Rohit Potti: Sure, sir. So let me ask it differently. So what is the right to play or win in the particular field? I understand the demand strength is high, but demand from, alone does not necessarily lead to high sustained profits over a period of time. So what is it that gives us the confidence of sustained success in this over the next three years to five years?

Harsh Gandhi: It's a brilliant question, so two things. One is, and you're right, that demand alone will not give the spurt. I think it is to be the technology, in my view, and also effective supply chain. I think plastic collection is far more complicated than tyres or rubber only on the account of the fact that there's a variety of polymers you're dealing with, and different brand products are all made to very different specifications and qualities and types and so on. Unlike tyres, where most tyres perform within plus minus 5%, and therefore, the composition and the properties of end-of-life tyres are fairly consistent across brands. The same is not true for plastics, and therefore, I think the ability to use multiple waste streams, be able to consistently make a particular product, which is technologically superior such that it can meet the EPR norms is going to be really very challenging. So, I guess time will tell whether our technology and our supply chain strength is at par with what the stalwarts in plastic recycling have already done, or do we have a lot more to catch up. I would say the answer is going to come through only in April because that's when regulation kicks in, and there'll be a scramble for material by then.

Rohit Potti: Perfect. So, last question on this again. So is this any way related to the nylon recycling, to the nylon business that we have? So have you built this technology on that technology? And the cumulative time that you have invested, and this is more than the 1.5 years, two years that you referred to? Or is it a concrete technology that you've built it from scrap?



GRP Limited
November 08, 2022

Harsh Gandhi: So, I would say, the fact that we've been doing nylon recycling has definitely been an added advantage and definitely allowed us to compress timelines required. This technology is a combination of certain chemicals and additives and certain processes which nylon does not have as well. So, I would say, there is innovation over and above what's been developed for nylon. We can't 100% use what our technology or process for nylon recycling is for this plastic packaging recycling. But there are elements in the process which may be similar, or equipment in the process which may be similar.

Rohit Potti: And the equipment that we have, the pilot equipment that we've built and the commercial equipment, is that also sort of indigenously built thing?

Harsh Gandhi: No, we work with specific partners to source this equipment.

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

Harsh Gandhi: Thank you all for attending this and asking really deep questions. I think some of them help us, as I keep maintaining, in challenging what we believe is the right strategy for the organization. So some of your questions definitely help us in the way we think and act on the business. So I appreciate all your comments and questions today on the call. I must kind of close out saying that last year or two have been fairly positive for us. May not necessarily be translated into margin so far, but I can only say this fairly confidently, that each of businesses that we have built and invested in have reached a point where, I guess for a lack of better word, there's a lot more optimism that we have.

And the fact that the government regulation, apart from the push by the brand owners and the fact that everybody is now looking at circularity not for economic reasons but for ecological reasons, gives us a fair sense of satisfaction that what we've been working for, for several years is now coming to life or coming through. And it gives us, therefore, the motivation and confidence to continue to invest because we believe it is around the corner that the reversal in margins as well as the growth in volumes, and therefore, the ability to scale this to become a fairly formidable company, we are kind of at the cusp of. So I thank you all for the support that you have provided us over the years by way of the shareholding and the interest in our company, but I don't think we'll be waiting too long before there is a fairly strong reversal in the financial fortunes as well.

With that, I'd like to close the conference, and thank you so much again for participating, and wish you all the very best. Thank you.

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