

TINNA RUBBER AND INFRASTRUCTURE LTD

CIN NO. : L51909DL1987PLC027186

Regd. Office : Tinna House, No-6, Sultanpur, Mandi Road,
Mehrauli, New Delhi -110030 (INDIA)

Tel. : (011) 4951 8530 (70 Lines), (011) 4900 3870 (30 Lines)

E-mail : tinna.delhi@tinna.in

URL - www.tinna.in

Date: 2nd February, 2024

**To,
The Manager (Deptt. of Corporate Services)
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street , Mumbai-400001.
Scrip Code: 530475**

**To,
The Secretary,
Calcutta Stock Exchange Limited
7, Lyons Range,
Kolkata-700001**

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
Sub: Transcript of Earnings Conference held on January 31, 2024

Dear Sir,

Pursuant to Regulation 30(6) read with Part A of Schedule III of the Listing Regulations, we wish to inform that the Transcript of Earnings Conference Call for Analysts and Investors held on January 31, 2024, with respect to the financial performance of the Company for Q3 FY24, is available on the Company's website at www.tinna.in

This is for your information & record.

**Thanking you
For Tinna Rubber and Infrastructure Limited**

VAIBHAV Digitally signed
by VAIBHAV
PANDEY PANDEY

**Vaibhav Pandey
(Company Secretary)
M.No. A-53653**



Tinna Rubber and Infrastructure Ltd
Q3 9M FY24 Results Conference Call

Event Date / Time : 31/01/2024, 11:00 Hrs.

Event Duration : 65 mins 03 secs

CORPORATE PARTICIPANTS:

Mr. Gaurav Sekhri

Joint Managing Director

Mr. Subodh Kumar Sharma

Director and Chief Operating Officer

Mr. Ravindra Chhabra

Chief Financial Officer

Mr. Anurup Arora

Senior Vice President

Mr. Tushar Pendharkar

Ventura Securities Limited

Q&A PARTICIPANTS:

1. **Rahil Shah** : Crown Capital
2. **Khush Nahar** : Electrum PMS
3. **Smita Mohta** : Kredent Infoedge
4. **Ajay Surya** : Niveshaay
5. **Divyansh Gupta** : Latent Advisors LLP
6. **Kanv Garg** : Garg Advisors
7. **Nikhil Porwal** : Perpetual Capital Advisors
8. **Chandragupta Acharya** : Individual Investor
9. **Rohan D** : Individual Investor

Moderator

Ladies and gentlemen, good day and welcome to the Tinna Rubber and Infrastructure Limited Q3 and 9M FY24 Earnings Conference Call hosted by Ventura Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Tushar from Ventura Securities Limited. Thank you. And over to you Tushar.

Tushar Pendharkar

Thank you. Good day, ladies, and gentlemen, on behalf of Ventura Securities Limited, I welcome you all to Tinna Rubber and Infrastructure Limited Q3 and 9M FY24 earnings conference call. The company is today represented by Mr. Gaurav Sekhri, Joint Managing Director; Mr. Subodh Kumar Sharma, Director and Chief Operating Officer; Mr. Ravindra Chhabra, Chief Financial Officer and Mr. Anurup Arora, Senior Vice President. I would now like to hand over the call to Managing Director of the company, Mr. Gaurav Sekhri for his opening remarks. Thank you and over to you, sir.

Gaurav Sekhri

Good morning, everybody. Moderator, am I audible?

Moderator

Yes, sir.

Gaurav Sekhri

Okay. Good morning, everyone. It's a pleasure to welcome you all to our earnings conference call for the Q3 of the financial year ending 2024. It gives me great pleasure to inform you that we are very pleased with the achievement of the company during Q3 and up to Q3 of this financial year. Operationally and financially, this performance is a testament to our unique business model, strong growth strategies, and our extremely hardworking and dedicated professional team. As you may be aware, Tinna was founded in 1977 and we have been in the rubber processing business for almost five decades. We are pioneers in the recycling of end-of-life tyres (ELTs). Our infrastructure is spread across India with deep-rooted global procurement network. This is a fantastic moat in our business that we have created for us.

We work closely with our customers to provide them customized and diversified product solutions which is why we have approvals from all major tyre companies India. Capitalizing on these moats and the industry tailwinds, we have embarked upon an ambitious growth plan with our vision 2027 to achieve a 25% plus revenue CAGR to reach INR 900 crores by FY27. We are going to aim for EBITDA margins of 18% plus. Now let me give you some of the key operational highlights for the quarter under review. Our tyre crushing capacity was up by 20% YoY. Our overall volumes were up by 19% YoY and driven by robust 38% YoY growth in the infrastructure sector sales and 100% growth YoY in the consumer sector sales. And even though the sales to the industrial sector were stable, the sales of micronized rubber powder, which is our most premium product offering, witnessed a growth of 35% YoY.

It is relevant to mention here that the MRP is one of our most efficient forms of material recycling as it enables rubber from the ELTs to go back in making new tyres with the least carbon footprint as compared to all of the other forms of recycled materials. On the raw material front, although prices remain stable during the quarter, we foresee some escalation in cost due to the ongoing disturbance in the Red Sea. We are fully aware of this and to mitigate its impact, we have already taken proactive measures including adjusting sale prices to offset potential raw material cost increases as well as increasing use of materials from alternate origins where the impact of this increase in freight is comparably less.

Our most important asset is our people. I am pleased to inform you that we have introduced ESOP plan for our leadership team, and we have hired fantastic new talent as well from related industries for our new business, the elastomers business which Subodh will talk more about in his comments. Let me with that comment pass on to Subodh, our CEO to brief you on the specifics and the financial performance of the company. Over to you, Subodh.

Subodh Kumar Sharma

Thank you Gauravji and good morning, everybody. Am I loud and clear? Moderator?

Moderator

Yes, sir.

Subodh Kumar Sharma

Okay, thank you. So let me first brief you on the Q3 financial performance first and then 9M performance. The operational revenue for the Q3 of FY24 stood around INR 93 crores which grew around 24% YoY basis. EBITDA was reported around INR 16 crores which grew by approximately 88% YoY basis and the EBITDA margin stood at

16.77% with the net profit was INR 10 crores which grew around 113% YoY basis and the PAT margin reported at 10.75%. Coming to the consolidated year-to-date performance for the financial year 2024. The operational revenue was around INR 253 crores which grew by approximately 14% YoY basis, the EBITDA stood around INR 40 crores which grew by 36% YoY basis and EBITDA margin stood at 15.84%.

Net profit stood at around INR 25 crores which grew by 64% YoY and PAT margins were 9.72%. In light of this performance, the board has recommended an interim dividend of INR 3 per share. Regarding our ongoing expansion plan, the work on Thermo Plastic Elastomer plant is progressing well. As you are aware, this plant has been set up within the premises of our existing tyre recycling plant in Panipat. I'm pleased to inform you that this plant is commissioned, and we are in the trial production stage. Also, the state-of-the-art R&D lab has been set up where work has begun to develop customized compound formulations for specific application areas.

We expect to commence sales from this plant during Q1 of next financial year, which is as per schedule. Work at our new plant coming up at Varle is also progressing nicely and we expect the production to start sometime in February and the major volumes and the net sales will contribute in the next financial year. As already informed in earlier calls, we are on a schedule to commence trial production in Q4 of current financial year. We expect this plant to become fully operational from early April onwards. So, like I mentioned. Some of the other key points I wanted to highlight here. There is a drastic drop in our average day sales outstanding which has reduced from one-and-a-half months to 30 days now.

Similar way, inventory holding days also has been reduced from two-and-a-half months to nearly two months. So that also has contributed. In addition, in the previous financial year 9M, the company has where the cost of interest INR 5.71 crores over the sale of INR 222 crores whereas in the current financial year up to 9M company has grown in the sales and we have made INR 254 crores and the interest burden on the company is reduced and is only INR 5 crores which has contributed to the PAT margin of the company. In addition, some of the points I wanted to highlight here. The company has participated in the Indian Road Congress session in the month of December.

During this session, the Indian Road Congress which is a key body for setting out the specification of modified bitumen, flexible pavement et cetera. They have released the recent version of modified bitumen specification and its inclusion for the major highways and expressway, and they have also drafted the new specification which is supporting usage of rubberized bitumen for the bituminous roads. I am also part of the task force committee which has been formed by Ministry of Surface Road Transport to promote the use of waste material for the road construction. So, with these numbers, we are very hopeful and confident to reach somewhere around INR 350 crores of top line in the financial year and to align with the vision what we have aspiring to reach in 2027. Majority of the CapEx has been done in the current financial year so that we reach 2027 vision as we have declared in our previous earning call.

So, with that, now I'm opening the floor for question and answer. Thank you so much.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. First question comes from Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah

Hello sir, good morning. With this INR 350 crores of revenue target which you expect to achieve this year. So, how will you end the year in terms of EBITDA margins then? Is there a scope for improvement from the current 16.7% which you just reported?

Subodh Kumar Sharma

Thank you, Mr. Shah, for your question. So, as we covered in our speech, we yet to assess the impact of Red Sea on the raw material cost. So then only we shall be able to. But we are fully aware, and we are trying to at least maintain if doesn't know improve or doesn't go below than this. So, we have to assess the impact of Red Sea. I think it's too early to comment on the maintaining increase in the EBITDA margin.

Rahil Shah

And the same applies for next year as well? Like early FY25 as well? Do you think the impact will linger or maybe it's also early to comment on the next year?

Subodh Kumar Sharma

I think the Red Sea impact, we are just closing this month, January, and the impact is yet to be assessed because most of the shipments are still on the water. So, once we have a clarity and as per the market and as per the understanding during the discussion, we got to know this issue is likely to remain by end of this quarter and maybe

end little bit in the next quarter as well. If not the fully, maybe by April. So then only I think we shall be able to comment anything on that.

Rahil Shah

Okay. So, there are no improvements witnessed yet over there.

Subodh Kumar Sharma

As of now, we don't see. Ultimately, we will try to share some of the burden with the customer, but you can understand even the burden also the customer takes time to consider the increase in their cost. But the team is fully aware, and they have initiated the process for the increase in the sale price. But that impact will also start coming in maybe from February or by mid of February. So, I think that will help us at least to maintain the similar level of EBITDA, if not increase.

Rahil Shah

Okay, got it. And you say the vision FY27, its impact, right? So, you're on the right track to achieve the target set by the company.

Subodh Kumar Sharma

Yes. As of now we're very-very confident and the whole groundwork has been done. And you can see in the FY24 itself we did CapEx somewhere around INR 40 crores, INR 45 crores. That will set the stage for the next financial year and that will take us to the path of 2027 vision.

Rahil Shah

Okay. And lastly, just other than this Red Sea impact, any other major challenges you foresee which can hinder the growth?

Subodh Kumar Sharma

As of now? Not really. Because the post-winter, normally the peak months for the business are February to July, August and especially these are the months where our infrastructure business, it's right on the track. So as of now, we don't see any other challenge other than the Red Sea impact.

Rahil Shah

Okay, sir. Thank you so much for answering and all the best.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Next question comes from Khush Nahar, from Electrum PMS. Please go ahead. I repeat question comes from Khush Nahar from Electrum PMS. Please go ahead.

Khush Nahar

Hi, thank you for the opportunity, sir. So, I had a couple of questions. First, what would be our growth drivers for this EBITDA margin expansion that we're expecting around 18% in our vision 2027? So, would that be only the operating leverage? Like you said, the CapEx will be done by FY24 or it will also involve a change in product mix or launch of new products?

Gaurav Sekhri

Hi, this is Gaurav Sekhri. There are many levers at play in the EBITDA enhancement that we are foreseeing. See, we are already at about 16%, 16.5% is the run rate that we have already achieved with a INR 350 crore top line. So, with our vision of 2027 which is going to INR 900 crore, we expect the EBITDA margin improvement to come on many accounts. One is operating efficiency. There are many benefits of scale which will start emerging as we have also seen already, we have harvested some benefits from where we were about a year-and-a-half ago when we were at roughly INR 200 crore business to now we are INR 350 crore. So, those operational efficiencies are visible. So, we expect some of these to further come in as we go towards INR 900 crore-plus. Our focus is to get into premium value products and that will assist as well to get us to our aspirational number of 18%.

Khush Nahar

Okay. What would be the competitive intensity as of now in our products? Who are competitors? What are our advantages, our moats over them?

Gaurav Sekhri

See a lot of this information is in our presentation and I would request you in your spare time, please go through

that. But see, the moats that we have come at a fundamental level have come on account of three or four basic points. One is our pan-India business footprint to which we are unique. We were a pan-India business three years ago and till-date we are the only pan-India tyre recycler in the country. We are further enhancing our moat here by setting up a new plant as you are aware. Also, by us going into Oman, we are the only large tyre recycling business from India which is operating in another geography outside India. As a result, we are also seeing benefits of that both in terms of sourcing of materials as well as in our sales of products.

Our second moat and advantage comes from the fact of catering to many different sectors. We have products for the industrial sector, consumer sector, infra sector. There is no other recycler who's doing that. And we are deepening our moat in this space as well. So, we are not doing anything unique. Tyre recycling is tyre recycling. Many people do it. There are many companies who do recycling. But nobody does it in the way we are doing it. I hope that answers your question.

Khush Nahar

Right, sir. Just one last question. Are we expecting any slowdown because of the elections in the infrastructure spend industry which will affect our sales as well?

Gaurav Sekhri

On the contrary, usually we see when elections are announced, state level or federal level, the spend on infrastructure increases. So, we expect some benefit from that because a lot of road projects, infrastructure projects, government, rightly so, is always pushing to finish them, to announce them and commission them and inaugurate them. So, I see that as helping us.

Khush Nahar

Okay, sir. Thank you.

Moderator

Thank you. Next question comes from Smita Mohta from Kredent Infoedge. Please go ahead.

Smita Mohta

Yeah. Am I audible, sir?

Subodh Kumar Sharma

Yes.

Smita Mohta

Okay. So, my question was on your Oman plant which you had been talking about and for which you were very gung ho. So, can you just let us know that what the contribution from the Oman plant to the current financials and what do you see going ahead in next two to three years?

Gaurav Sekhri

So, I'll take this question regarding Oman. See, Oman plant was commissioned in July 2023. And yes, we are very excited, we've always been very excited about Oman. It is our first venture to do something outside India and I credit my team and everyone working in Tinna to set up a plant in record time. They have also brought the plant in EBITDA positive within its first quarter of operations and a net positive number we have seen from Oman in our second quarter, which is Q3 of this financial year. So, we are very pleased with the progress we have made in Oman. We have already taken initiatives to expand the production there. We had started off by operating at around 30%, 40% efficiency. Now we are getting to about 70% to 80% plant capacity utilization. So, Oman is proving to be and validating our decision of being the right strategy to go into Oman.

Smita Mohta

So, can you diversify sir that what percentage of revenue was contributed through Oman plant?

Gaurav Sekhri

Our numbers with Oman are consolidated. Chhabra ji, can you throw some light on Oman numbers?

Ravindra Chhabra

Actually, Oman has contributed turnover of about OMR 80,000 every month. And in this quarter actually Oman has acted as a cost reduction for us because most of the things we are developing our unit there and which has been bought. So that turnover is not reflected because in consolidation it is eliminated. But there is an impact of INR 18 lakhs in the quarter PAT of Oman operation. So, it has acted more as a cost reduction. And because we are developing that market, gradually we can sell in directly also.

Smita Mohta

Okay. Second of all, sir, as you had pointed out in your investor presentation that it's 30 km road today. So, if we compare what [Inaudible 00:22:40], do you have any government initiative in this regard of making it 30 km?

Ravindra Chhabra

Sorry, we are not able to hear your question properly as the line was having some disturbance. Can you please repeat the question?

Smita Mohta

Yes. So, in your investor presentation, you have mentioned that the road construction is 30 km, right? Per day. So, if we go by the China data pointers which is much higher. So, do you see any impeaches by the government of doing it better going ahead? How do you see your order book on that [Inaudible 00:23:33] next two to three years?

Subodh Kumar Sharma

So, Ms. Mohta, I'm Subodh, trying to reply your question. See the government as of now is reaching a target of 30 km per day whereas they aspire to cross 60 km per day, number one. So, that speed is slow because there's extended monsoon was there and now in the northern region it's extended, winter also there. That is the point number one. Second number is, in the road construction in 30 km per day, the calculation is all sort of road whether it is 50 MSA and above or low. So that cover all sort of roads. So national highways and expressway and the roads which are having the higher excel load requirement that only consumes the modified bitumen or rubberized bitumen in the top layer. So, 30 km per day construction covers all sort of road but still our product goes right on top of the road layer which consumes the modified bitumen. I think I'm right on your questions.

Smita Mohta

Right. So, I want to know sir what about the order book currently which you are holding?

Subodh Kumar Sharma

Order book as such the demand comes directly to the Indian oil refineries, wherein we are processing their bitumen by supplying the crumb rubber modifier. So, we see excellent order book in the time to come. The season is yet to start from 15th February onwards when there is a little bit temperature goes up. So, this year we estimate

to sale crumb rubber modifier and the crumb rubber to the road sector itself is somewhere around 7,000 tons in total. The value wise for this year.

Smita Mohta

Got it. And sir, the segregation that you have put in the segment-wise. Are they expected to remain more or less in the same region? And in this segment-wise which segment gives you more amount of margins than the others?

Subodh Kumar Sharma

So, the segment wise, there are products in the industrial sector, there are the products in the infrastructure. So, combining all we are trying to maintain 15 plus sort of EBITDA. So, in the industrial cell sector, we have a product which is a micronized rubber powder and we have refined the quality of the product, we have upgraded the specification of the products. So, that is also contributing good to the EBITDA margin. Similar way on the infrastructure business side, we also have modified the product. We have upgraded the specification and recently we have been awarded with our roads of Adani Infrastructure Limited wherein we are using a specialized modifier which is also contributing a major net margin on the product side. So, both all the lines are having specific product which contributes to EBITDA. But in nutshell we are trying to maintain 15 plus sort of EBITDA across all the sectors.

Smita Mohta

Okay. Thank you, sir. That's all for my side. Thank you.

Moderator

Thank you. Next question comes from Ajay Surya from Niveshaay. Please go ahead.

Ajay Surya

Congratulations sir on good performance. Sir, my question is more on the update of the EPR policy. So, is the EPR policy effective from now or do we still have some time for that to go live?

Gaurav Sekhri

Thank you for your question. This is Gaurav Sekhri here. We are seeing much more engagement now from Ministry of Environment as well as CPCB, especially in the last three to four months. So, we are seeing high level of seriousness to get this EPR policy now activated and operational. I am more confident now than I was ever before

to see this policy taking shape and EPR credits being generated for recyclers like us which will become a tradable instrument and hopefully a new revenue stream for us within the next three to six months.

Ajay Surya

Got it. Sir, for the follow up on this, if you can just throw more light on the supply side of this crumb rubber, bitumen or micronized rubber powder? How is the supply side on this front and the industry? Is it more towards the organized players where only few players are manufacturing and catering the majority of the market? Or if you can just guide us through what is the market scenario or the industry dynamics over there?

Gaurav Sekhri

Sure. So let me attempt to give you some answer and maybe my colleague Subodh can add on to it. See, on the micronized rubber powder, we have probably more than 80% market share in India. It's because of the efficiencies that we have developed and being end to end tyre recycling business. We command that position as well as another factor is that the MRP usually goes to large, organized players like the tyre companies. And the approval processes here are very cumbersome, very long, one has to go through various audits. So, we are among the very few people who are shortlisted to supply. So, the supply to MRP is largely to very organized and specialized users like tyre companies and conveyor belting businesses. Of course, we are also working on some new uses of MRP. And that is why we are very bullish on the demand side of MRP.

Reclaimed rubber on the other hand, is a product which is made by probably over 50 companies India. But within that, there are only a handful companies, maybe under ten, who make a higher quality, higher tensile strength reclaim. And again, approval processes from tyre companies become an entry barrier for others. So, I guess to answer your question, what I wish to state is on reclaim many producers in India, but to make high quality product and have approvals, it again becomes very select few people. Crumb rubber is a product which is not very specialized. It is again maybe made by a hundred odd people, hundred businesses in India. But our ability to make crumb rubber competitively, which has happened because of our pan India presence and the optionality we have created for our business that makes us do that business very efficiently versus others. I hope that helps to clarify your question.

Ajay Surya

Got it, sir. Better understanding on that. Sir, my final question is, you said the working capital cycle has reduced from 1.5 months to 30 days. So, is it a one-time scenario or how do we see things going forward? Like what has changed? Is it going to continue or how should we see this going forward?

Gaurav Sekhri

Subodh would you and Chhabra ji like to take this?

Ravindra Chhabra

More or less, we will continue like our data would be in the range of one month and inventory one-and-a-half to two months. We expect this to continue for near future.

Ajay Surya

And sir, is it due to some industry change, any revamp of demand in the industry which is reducing our inventory cycle? Or is it the product which is commanding better premium in the market which is allowing us to have shorter deter days? So, if you can just throw what are the reasons behind this for this new change? Because the industry hasn't moved in that way previously and now it has suddenly changed. So, if you can just throw or give some more confidence or light onto it.

Gaurav Sekhri

Could you please repeat the question?

Ajay Surya

Sir, previously if I look at the recycling industry, so the working cycle hasn't been this short. So, what is that that Tinna Rubber is doing differently which is having a shorter working capital cycle? So, on the inventory side, is it that the demand has sort of rapidly and we are seeing a shorter inventory cycle, and on the deter side, is it our products which is commanding better premium or better demand from, again, the industry that has reduced the deter days?

Gaurav Sekhri

It's a combination of things. Of course, as with time we have learned to anticipate and manage our inventory cycles much better. Also, as more and more of our business is happening with organized players, it also helps us manage our inventory better because our customers are very well organized and they give better visibility of when their schedules are for taking deliveries. What has also helped us tremendously

Again, and I cannot stress enough on the benefit that we have because of having a pan-India business that has helped us tremendously as well. Because as an example, if a tyre company has plants in north, west and south of India, we are able to service them far more efficiently, far more in a shorter span of time because of the optionality we have created ourselves by having plants also in all parts of India.

And now with the Oman plant also coming in. Very interestingly, we have seen, we can service the coaching market. For example, the rubber matting industry customers far more efficiently from Oman than we can do it from our Gummidipoondi plant. So, these are the kind of benefits that we are seeing because of creating a business of scale and that is helping us operate at these more efficient.

Ajay Surya

Got it. And sir, I mean, one last question on the new segment which we are going into Thermo Plastic Elastomer. So, if you can just add more information on what is the market size or how is Tinna Rubber going to **[Inaudible 00:34:59]**?

Gaurav Sekhri

Sure. Anurup, my colleague, will take this. Anurup, can you just maybe give a brief overview of where we are on TPE?

Ajay Surya

And also, on the application of the product. I mean, if you can just add to that.

Anurup Arora

See, with Thermo Plastic Elastomer business as explained by my colleague earlier also, we are already through most of the R&D works. We are developing customized applications, customized recipes for different applications and these applications include products like rubber shoe soles to fenders, to mud flaps, as basic products, as dust bins or traffic management products. So, these are very well diversified application base and one of our core strength which we are trying to use in this is the usage of recycled rubber along with the polymer. And we are already having well laid out recycled rubber products. So this, we are trying to leverage our strength and bring up a new product in the market which can replace products which are made from recycled plastic or virgin plastic and offer better costing with unique quality of combining rubber and plastic together.

Ajay Surya

Got it, sir. Thank you.

Moderator

Thank you. Ladies and gentlemen, if we have any question, please press * and 1 on your telephone keypad. We have a follow up question from Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah

Thank you for taking again, I forgot to ask. In previous con call, I believe you mentioned FY25 you aim to achieve INR 500 crores of revenue. So, any thoughts there?

Ravindra Chhabra

So, Mr. Shah, I think we have never declared the value, but on year-to-year basis we have always promised our stakeholders, investors. Like YoY basis we are aspiring to grow at 25% basis, 25-30% on the growth part. I don't recall that we have announced some number in the previous con call.

Rahil Shah

Actually. Yeah, I'm reading it right now, but okay. All right. 25%, 30% is the category looking at.

Ravindra Chhabra

Yes.

Gaurav Sekhri

Let me add to what you were saying. With the plant in Varle getting commissioned during this quarter, which is what we have also mentioned in our earlier calls, we expect sales to commence towards the end of Q4 and we will start seeing the benefit of those sales in Q1, as well as Thermo Plastic Elastomer business sales will start kicking in and with some natural growth kicking in, we are very aware of getting to that number of INR 500 crore in the coming financial year. And if you see our quarter-and-quarter growth this year, this Q3, we have touched INR 93 crore and you will progressively see us hitting a run rate every quarter which will start giving even our investors like you visibility of us achieving the sales that we are forecasted.

Ajay Surya

Perfect. Thank you. Thank you for explaining.

Moderator

Thank you. Next question comes from Divyansh Gupta from Latent Advisors LLP. Please go ahead.

Divyansh Gupta

Hi, I just have one question. So recently I came across an article where steel slag is being used on the highways. So, does this act as a competition to Tinna Rubber or is it more that it goes into the base of the road and you only come at the top end of the road surface?

Subodh Kumar Sharma

Yes, I will take this question. I'm Subodh here. So, the steel slag you are talking about, right?

Divyansh Gupta

Yes.

Subodh Kumar Sharma

Steel slag may be in the structure layer or in the bottom layer where a non-bituminous layer, it's being used for the stabilization in the other application. Whereas the modified bitumen is something like a cosmetic layer which came into the contact of atmospheric conditions as well as the traffic. So, there is no link in between the both two. So, the modified bitumen for the flexible pavement, bituminous loads that will remain there for the highways which are higher than 50 MSA and above. But parallelly the concerned Ministry and the Indian Road Congress is considering if this is good for 50 MSA and above, maybe can be introduced to the lower MSA highways also.

Divyansh Gupta

Got it.

Subodh Kumar Sharma

While steel slag is not for the bituminous layer. Maybe the bottom layers which are below the bituminous work.

Divyansh Gupta

Got it. Thank you.

Moderator

Thank you. Next question comes from Kanv Garg from Garg advisors. Please go ahead.

Kanv Garg

Hi, sir, congratulations on good set of numbers. I have two questions. Both of them are on the infrastructure side. My first question is what is the technical benefit of having modified bituminous layer on the highway?

Subodh Kumar Sharma

Okay. So, thank you, Mr. Garg. So, the modified bitumen is actually from the word itself you can judge once the bitumen is modified. So, for making any bituminous road, you have to use the bitumen. And bitumen has got three enemy. In a very simple language, I will explain. The bitumen has got three enemy. High heat, high excel load for traffic, and the water. If you somehow improve the inherent weakness of bitumen by adding some additive, so your road will survive better. So, the rubber is the one and similar way the polymer. So, in both ways, you can modify the bitumen.

So, Government of India, Ministry of Road is all for the waste to wealth and the circular economy model. So, they are also promoting waste plastic, they are also promoting waste rubber. Polymer bitumen is also available for the modification purpose, and it's being used on the highway. But the delta in between these two products is very high and not aligned with the government vision on the circular economy. So, by adding these additives, you basically overcome with the inherent weakness of the bitumen so that your road survive for the longer period of time. That's the reason. What's your next question?

Kanv Garg

The next question is, let's say we are producing let's say 10,000 km highways every year. On what percentage of highways we are currently using modified bitumen? And then subsequent question is, what should be the actual

market size for us? Let's say, if this 10,000 number remains consistent, right? So, what becomes the actual market size for us?

Subodh Kumar Sharma

India consumes somewhere around 8 million metric ton of bitumen, right? So, the TAM, if we think about and consider the modified bitumen provision only on the national highways, expressway and the roads, which are 50 MSA and above, even then the market should be somewhere around 1 million ton of modified bitumen. Whereas in the current scenario, an overall consumption of modified bitumen is just one-fourth of the total market size. So, there is a big headroom for the growth in this line, number one.

Number two, how it help us to sell more and more waste material for the road. See, bitumen and the rubber ratio remains 12% to 15%. It replaces the bitumen by 15% or 12% to 15%. So that help to the user on the cost side as well as by using the better road wherein he can save on his maintenance cost. Just plain bituminous road will survive three to five years, whereas the modified bitumen road will survive seven to ten years. So that's how the contracts also get benefited.

Kanv Garg

Logically, what you're saying, it becomes a no brainer, right, to use modified rubber. So, why this penetration is, let's say just 25% as you said, is there a government hasn't mandated it? What is the reason? Because logically it's a no brainer right to use modified bitumen.

Subodh Kumar Sharma

The overall model of the contract within the concerned ministry is now changed. Earlier the contract was more about the BoQ basis, Bill on Quantity. The product was very much available. But now the government has improved the defect liability period. I mean, one has to maintain the road for a longer period. So that's one reason. The another reason is the government pushed towards the use of modified bitumen on the top layer. Because all these government contract doesn't move forward unless there is a clear-cut inclusion of the product in their specification. So, from 2017 onwards the Indian Road Congress had introduced the product. And it's mandatorily directed. Any ID which is having the axel load capacity of 50 MSA and above it has to be used.

Kanv Garg

Okay, thank you. Thank you, sir.

Subodh Kumar Sharma

Thank you.

Moderator

Thank you. Next question comes from Nikhil Porwal from Perpetual Capital Advisors. Please go ahead.

Nikhil Porwal

Hi, thank you for the opportunity and congrats on a great set of numbers. My first question is, I think a couple of quarters ago in a con call, the company had mentioned that it held a couple of land on the balance sheet and you were looking to monetize it. So, any update on that?

Gaurav Sekhri

Hi, this is Gaurav Sekhri. Thank you for your question. It is still work in progress, sir. We have not yet been able to find an option to exit some of those lands which we consider noncore. But rest assured, our focus remains on it and I hope we will give you some news on that shortly.

Nikhil Porwal

Sure. So, you mentioned that going forward, the focus of the company would be on higher margin products. So, are these newer ones that the company we're developing or is it that the mix of current higher margin products will move up going forward?

Gaurav Sekhri

We expect both to happen. We are very bullish on sales of MRP as well as our high tensile decree in product, as well as some newer grades of high performance grade bitumen modifiers that we are developing. I think we had mentioned it and made it very apparent to our investor community in the last quarter presentation that we are going to be a research-led organization and tremendous amount of work is being done. Both to make higher category of products as well as do research at the end of consumer level where we can convince our customers how they can use more of our product. MRP is an example of that, how its inclusion rates can increase in making of new tyres. So, work is happening at all those fronts as well as our decision to move into Thermo Plastic Elastomers is also going up the value chain. It is forward integration of our business. So that also is an area where we are getting into, which should result in us seeing better margins and more research led product development.

Nikhil Porwal

Got it. So, one question for just conceptual clarity. Volumes in this quarter was close to 40,000 tons. While the current tyre crushing capacity is almost 1 lakh ton annually. So that's what 25,000 tons on a quarterly basis. So, can you explain, are we also accounting for the bitumen that we are processing for these refineries? Or where is the difference in volume coming from?

Gaurav Sekhri

So, in tyre crushing capacity, also, our crushing capacity is sort of variable in a way, because if we are making more basic products, we can crush more and produce more through our plant. If we are making products which are higher mesh crumb rubber, for example, then the capacity reduces, but you're making higher value product. So, that is why the capacity. There is some level of flexibility in our capacity utilization. And then efficiency is also some unplugging of capacity continue to happen, process improvements continue to happen.

Nikhil Porwal

Actually, what I meant is 1 ton of raw material. That is the tyre that you crush. Can it be converted into a higher tonnage of finished goods, or is the conversion less than one?

Gaurav Sekhri

See conversion level, firstly, on a mass balance basis, we get roughly 99% to 99.5% recovery between rubber and steel when we process a tyre. Okay?

Nikhil Porwal

Okay.

Gaurav Sekhri

And in regards to capacity, like I explained, see, if I'm making a 5 mesh or a 10-mesh product, I can put through my same equipment, I can put through more tyres, I can crush more. But if I'm making 30, 40 mesh higher mesh products, then my capacity reduces.

Subodh Kumar Sharma

Try to attempt this query from Nikhil. Mr. Nikhil, if you see our infrastructure, the infrastructure region includes some of the products which are not made out of the tyre recycling like bitumen emulsion. Some of the bitumen also we sell to our infrastructure customer. Similar way, this includes the total tonnage of the steel also what we recover.

Nikhil Porwal

Okay, perfect. This is what I was actually asking. I even added that to the question. That are we also adding the bitumen tonnage.

Subodh Kumar Sharma

Having the doubt, so I hope I could clarify you the way you want to ask?

Nikhil Porwal

Yes, perfect. And one last question from me is how do you account for the freight cost for raw material? Like in the income statement, is it as part of the cost of goods sold or is it in the other expenses? Because I expect freights will move up now given what is happening in the Red Sea. So, just trying to understand the impact of it.

Ravindra Chhabra

Myself Ravindra Chhabra. This freight cost goes into the cost of raw material consumed because it is always stating in the landed cost of purchase. Some parties sell FOB, some CIF, some FOR. So, make it uniform. That purchase freight course is reflected in the cost of raw material consumed.

Nikhil Porwal

Okay, thank you. Thank you so much.

Moderator

Thank you. Next question comes from Chandragupta Acharya, an Individual Investor. Please go ahead.

Chandragupta Acharya

Hello. Thanks for this opportunity. My question is about imported raw materials. If I'm not wrong, we have around 60% dependency on imports right now for raw materials. So, are there any plans to reduce our dependence on imports? What are we doing? Can you elaborate on that? And also, where do you see this trending year by 2027 or something? Where will our imported raw material stand?

Gaurav Sekhri

Hi, this is Gaurav Sekhri. In terms of our raw material usage, we will always be aspiring to use the least cost option raw material for us and for our plants. At this point of time, because of non-existence of EPR policy in India, the availability of tyres in India is very fragmented and slow and less and lot of tyres go for sort of polluting applications. We expect with EPR getting implemented, our dependency on imports will reduce because a very large quantity of locally available tyres today, which are going for illegal and polluting uses like being burnt in brick cans, et cetera, will get diverted and get organized to come to established recyclers like us.

So that is the trend we foresee. We are already building our supply channels and making them stronger within India. We are working closely with tyre companies as well. Fortunately, we have an existing relationship with them on a pan-India basis. We are the only tyre company, recycling company, which has the ability to go to a large Indian player and offer them a solution to procure, aggregate and recycle tyres locally. So, we expect to answer your question to use more and more domestic tyres over the next two to three years.

Chandragupta Acharya

Okay. So how much will it come to like to say two to three years how much progress do you expect to see?

Gaurav Sekhri

Again, we go with the concept of lease cost option. It is very hard to predict where it will be. It could change very rapidly. India produces 2 million tons of waste tyres annually. So, you see the volume that we are talking is very large. It could become 70% Indian origin, it could become 80%, it could remain 50-50%. Because also the kind of countries from where we pick up tyres, Australia, France are two examples. There is very low level of industrialization, and they are equally motivated to see their tyres going for environment-friendly recycling. So, if they see them running out of options, it is quite possible that they may give us very high incentives to recycle those tyres. So, we are in a very opportune position to choose from many different geographies.

Chandragupta Acharya

So, this EPR has started to a small extent right now or right now it is absolutely zero?

Gaurav Sekhri

EPR policy is notified. The tyre companies are already being encouraged by CPCB as well as Ministry of Environment to start procuring EPR credits from recyclers like us. But the infrastructure from government side like the portal was not yet set. It still has some bugs in it. But now weekly meetings are happening, and those bugs are getting removed. I expect the policy to get operationalized within the next three to six months.

Chandragupta Acharya

Okay, thanks a lot. That's all from my side.

Gaurav Sekhri

Thank you.

Moderator

Thank you. Next question comes from Rohan D, an Individual Investor. Please go ahead.

Rohan D

Yes, I'm actually new to this company. I recently, after results, was having a look at it. Sir, I wanted to ask you that basically, how do you procure your bitumen content? Like, I see, you do it from the Gulf countries. So, you give these contacts to the third party. So, what kind of margin differential is there? And the second thing, I wanted to ask is that, can I get a clear indication like how much is the scope of this bitumen growth according to you?

Gaurav Sekhri

Sorry, just before Subodh answers this question, let me clarify. Bitumen procurement is a very small part of our business. We make bitumen modifiers. We are not in the business of bitumen procurement.

Rohan D

Yes, but for that you will need the basic traded bitumen and then you will do the modifiers. If I'm not wrong.

Gaurav Sekhri

No. Our primary business, just to clarify, is producing modifiers, making modifiers available to either the petroleum company who do the modification themselves. So, we are not procuring bitumen from them. Also, we make our modifier make it available to road contractors who also source their own bitumen. So again, we are not dealing with bitumen. And thirdly, sometimes to service our customers who do not have a source for bitumen. Yes, we will do it, but it's a very small part of our business.

Gaurav Sekhri

Okay, yes, I see it's a very small business.

Gaurav Sekhri

Okay. I hope that clarifies.

Rohan D

Yes, it cleared my question. Thank you.

Gaurav Sekhri

Okay, thank you.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. We have a follow up question from Smita Mohta from Kredent Infoedge. Please go ahead.

Smita Mohta

Yes sir, thank you for taking my question once again. So, my query was regarding this facility that you said that India has a capacity of near around 2 lakh ton tyres which are wasted. So, you being a pioneer in the same, I would

like to ask, in India, what is the market share that you have in this when this ERP is implemented, where do you see yourself in the market share?

Gaurav Sekhri

So firstly, the number is 2 million tons, not 2 lakh tons. India generates 2 million tons of waste tyres annually. In regards to our share, once the policy is implemented and tyres start coming to organized sector, I believe that because of our pan-India presence, because of our existing relationship with tyre companies who are under obligation to ensure environment-friendly recycling, we expect us to be the first choice for recycling. That is the kind of positioning we are doing for us, and we expect to be a very important player. It's too early to say what will be my share out of 2 million tons of tyres.

Smita Mohta

So, will that help reduce your expense in your total expense?

Gaurav Sekhri

Absolutely. See, it's a basic economic supply and demand. If the supply of waste tyres increases, if my optionality increases, if I have the ability to source tyres domestically localized, close to my plants, or import them at any given time, certainly that will add to my ability to bring down my cost of raw material.

Smita Mohta

Okay. And sir, from the Oman plant that you are saying it's running at 70% to 80% capacity utilization if I heard you right. So, from there, which geographical expansion are you looking at or the sourcing that you are doing the tyre from Oman, this thing. So, do you feel that would be more economical for you or the post-ERP implementation, the Indian will be more economical to you, sourcing of tyres?

Gaurav Sekhri

Ma'am, Oman is a separate ecosystem in itself. Because earlier, before we had a plant there, we used to pick up tyres from Oman, bring them to India. Now that we have a plant there, we recycle them in Oman itself. There is not so much merit in bringing those tyres to India as well as in fact to something which is very positive for our Oman plant. Oman government has actually restricted export of all waste tyres from Oman. So that is not an option for our Indian plants to a large extent and it makes a lot of captive raw material available for our plant in Oman. That is point number one.

In terms of the output of products from Oman, we have the option to bring those products to India. Like I had mentioned earlier in my call today that we have found that it is more economical for me to service Kerala market from Oman rather than servicing it from my Gummidipoondi plant. So those are the options that we have for our end products from Oman. Plus we can go to Sri Lanka, we can go to some of our other markets also directly from Oman itself. And we expect Oman for this reason to operate at very good margins. So, the two things are slightly different. I mean, Oman doesn't feature so much in the conversation now in context of EPR.

Smita Mohta

Got it. On the order front, are you seeing Oman facility getting huge order book from the countries nearby? And are you in talks with all the major players there for your Oman business?

Gaurav Sekhri

Ma'am, again, GCC overall does not have a very high level of industrialization. They are a very import driven economy. So, there is not so much use for our products in the GCC. But in countries like Sri Lanka, in Europe, in South America, even India. We can bring those products very competitively from Oman. But within GCC, there is not so much industrialization. For example, there are very few tyre factories in Oman. Subodh, would you like to add to that?

Subodh Kumar Sharma

Yeah. So, Smita, I just wanted to add like if you have gone through our investor presentation, earning call presentation, we have highlighted, we recently have been given a trial-patches to be executed using the rubberized modifier for the road construction in Oman. So that job has been assigned and we hope to do a trial patch with some of the road developers within the Oman. Because Oman government is also very keen to use their waste within their country. Because Oman is also the net importer of bitumen and this will help using their waste and replacing the bitumen, that will not only help them building the good road as well as the waste will be consumed and will become the circular economy example.

So with that thing, I think the crumb rubber market will grow in the Oman or in the GCC country once they adopt the rubberized roads and build the infrastructure using their waste in their country itself. Parallely the product micronized rubber powder what we are producing in Oman, we have started marketing as you know. Getting the entry with the tyre company takes time. It's a longer period. But we successfully got it through in Sri Lanka market. And the micronized rubber border is just started in the month of December in our Oman operation. So, we are trying to build the micronized rubber market separately rather than bringing it to the India. So, that's in the

pipeline. But till the time that market gets developed. So, some of the crumb rubber we are importing to India and meeting the requirements of my domestic customers. Hope I could clarify to your point.

Smita Mohta

Yes. Thank you so much. That's it from my side. Thank you.

Moderator

Thank you. There are no further questions. Now, I hand over the floor to management for closing comments.

Gaurav Sekhri

Thank you very much Valorem team and thank you to all our participants in our earnings call. I hope we were able to answer your questions satisfactorily and at the same time offer you insights into our business. If you have any further questions or would like to know more about the company, please reach out to our investor relation managers at Valorem. Thank you. Have a lovely day. Stay safe. Stay healthy. Thank you.

Moderator

Thank you, members of the management. Ladies and gentlemen, on behalf of Ventura Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.