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24/05/2022

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 20th May, 2022 at 3:00 p.m. to discuss Company's operational and financial performance for FY22.

Kindly take the same on record.

Thanking you,
For GRP Ltd.

A handwritten signature in blue ink, appearing to read 'Swechha Shende', is written over a blue horizontal line.

Swechha Shende
Asst. Manager – Legal & Compliances

Encl : a/a



“GRP Limited Q4 & FY22 Earnings Conference Call”

May 20, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 20th May 2022 will prevail.



**MANAGEMENT: MR. HARSH GANDHI – JOINT MANAGING DIRECTOR
MS. SHILPA MEHTA – CFO**

Moderator:

Ladies and gentlemen, good day and welcome to GRP Limited Q4 & FY22 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 may involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touch-tone 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. Thank you and over to you, Mr. Gandhi.

Harsh Gandhi:

Good afternoon, ladies and gentlemen! Thank you for joining us on the Annual FY22 Earnings Conference Call. I have the company's CFO, Ms. Shilpa Mehta and our Investor Relations, SGA along with me on the call today. I hope all of you as well as those around you are safe and in good health! Hope you all have had a chance to go through the results uploaded on the website.

I would like to provide a quick recap on the different verticals that we operate in. GRP has been a sustainable material producer for more than 4 decades and our focus has broadened beyond tire recycling into other domains of recycling in the last 4 years. The core business of the company continues to be reclaim rubber, a material which is produced from end-of-life tires and supplied to manufacturers in the automotive tire segment, conveyor belt and other auto component segments, which in some ways helping them fulfill their circular obligations. They use this rubber to blend with virgin rubber. Our supplies are to more than 60 countries around the world and 7 out of the top 10 global tire companies. With a stable portfolio of customers and a dedicated supply chain, we spread our activities beyond end-of-life tires to plastic recycling as well. Our industrial polymers segment uses nylon from waste tires, end-of-life fishnets as well as textile waste to produce upcycled nylon and nylon compounds which find applications in consumer goods and in the automotive industry. Our polymer composites division is where we manufacture composite boards which are made using recycled rubbers and plastics. These are polyolefin-based plastics and end applications, which are substitution for wood and concrete in applications ranging across transportation, shipping to oil & gas industry. During the year, to sharpen our focus, we decided to continue to remain a material producer and supplier, and as a result, we decided to exit the tire retreading business which was a joint venture in partnership with Marangoni of Italy.

I will move to an overview of how the events unfolded for GRP during the year gone by. FY22 was a challenging year for the company like most others in our industry. The impact of the second wave of Covid at the beginning of the year led to demand drop in several segments where

our company operates. The constant concern during the year was of semiconductor shortages, container shortages, and supply chain disruptions. This led to volatility in orders on hand and in our ability to post a sustained performance throughout the year. Despite all these challenges, we were able to post the highest ever annual revenue in the year and with a strong growth in profitability over the previous years. Our revenue grew by 39% year on year off which 22% was on account of volume growth and about 16% on account of price increases as well as product mix changes. The EBITDA has grown by 37% year on year and PAT has more than tripled from a lower base. The demand was led by strong growth in both our reclaim as well as non-reclaim rubber businesses. Our reclaim rubber business grew by about 37% on the back of improved performance in the replacement tire demand across major geographies in the world. A slow revival in the OEs in India increased offtake by the tire industry, coupled with growth in mining activity across the world provided an impetus to growth even in the non-tire sector demand for the company. Towards the later half of the year or rather in the last quarter of the fiscal year, the Russia-Ukraine conflict also brought a fair bit of uncertainty in our customer demand but by and large has been a positive for us. Since several materials such as carbon black and others that are used by the tire industry are originating from Russia have become short in supply on account of the conflict, the near-term shortage has presented an opportunity for increased substitution of reclaim rubber.

The currency changes especially with respect to US dollar has also allowed for improved pricing power for the company and hopefully likely to remain a positive for margins in the next couple of quarters. Another important development during the fiscal 22 has been the Ministry of Environment & Forests' proposed draft on extended producer responsibility for end-of-life tires. Taking clue from what is happening around the world, the government has been very progressive in taking these steps, and as these become regulation which we do believe will come through over the course of the next month or two, will provide a significant impetus to a more organized supply chain in the end-of-life tire collection. GRP has been an active member of the committee formed by the government and we do believe that managing waste tires will present a significant demand prospect for our industry. The obligations to responsibly collect waste should drive more circularity by the tire industry and thereby present a positive outlook for not just GRP but the industry in general.

Of course, while there is a positive outlook on the demand of the product, there remain challenges on account of input cost pressures and an increased activity in the pyrolysis industry in the country. The high oil prices and the ban on imports of end-of-life tires have prompted aggressive competition for procurement of end-of-life tire collection in India. While the industry demands currently allow for a seamless pass-through of the resultant price impact, it is an area which we, at GRP are closely monitoring.

During the year, we were also able to ramp up revenues in the non-reclaim rubber businesses. The non-reclaim rubber businesses as you are aware are aligned along the value chain and help

the company diversify its offerings to a variety of end customers reducing our dependence on the tire sector.

During the year, revenue from the non-reclaim rubber businesses grew by 67% on the back of customer approvals in segments such as electrical and furniture industries apart from the work undertaken by the company in expanding the product portfolio, which is not just limited to nylon but is also spread across other engineering plastics. During FY22, we expanded our non-reclaim rubber businesses with capacity expansion in the engineering plastics and polymer composites business by doubling capacity to about 6,200 tonnes and 3,000 tonnes respectively. The order book for the EP business is robust and there is confidence that the company should get to close to 100% utilization of capacity before the end of this current fiscal. While in case of polymer composites, efforts are underway to develop a local customer base in addition to the US partner where the order book is in line with what we have witnessed last year. The total investment in these CapEx have been in the region of about Rs. 15 crores funded largely through internal accruals and when I say this, I want to mention that the company has maintained a strong fiscal discipline and balance sheet strength. During the year, the company has been able to maintain a low working capital borrowing compared to the limits we have in place. We have been conservative with long-term loans in light of the inflationary trends that are building around us and have also built a cash reserve to enable future funding growth. The external credit ratings also continue to be in line with a fairly strong investment grade. While we have been at the forefront on developing environmentally sustainable products which help our customers fulfill their producer responsibility, with rising focus on recyclability, GRP with its rich product portfolio, is well placed to cater to this rising demand not just in India but even globally.

A testimony to the above efforts is the external recognition that the company has gained over the last several months. We were recognized as the best circular economy by FICCI at their Circular Economy Symposium earlier in the year, and we were also awarded the runner-up at the Global Recircle Awards for our circular business model. Along with these industry accolades, GRP has also been declared a Great Place to Work for the third consecutive year, a testimony to our ability in building a team of committed individuals focused on sustainability in the long run.

Before concluding my part of the speech, I would like to mention that the company has also been a prominent player on the ESG front, and we have launched our profile on the ESG world. This gives our stakeholders, potential investors, analysts, and rating agencies a chance to know the value we are adding on a real-time basis. Given the positive outlook for the company, we have proposed a final dividend of 90% subject to approval of the shareholders at the annual general meeting. At this stage, I would like to hand over to our CFO, Shilpa, to take you through the financial highlights for the year gone by.

Shilpa Mehta:

Good afternoon, everyone! Let me take you through the consolidated financial highlights for FY22. FY22 revenue from operations was at Rs. 3,884 million as compared to Rs. 2,797 million in FY21, up by 39% on a year-on-year basis. Revenue contribution from non-reclaim business increased by 150 bps from 7.3% to 8.8% in FY22. FY22 gross profit stood at Rs. 2,064 million as compared to Rs. 1,443 million in FY21, up by 43%. EBITDA stood at Rs. 232 million as compared to Rs. 169 million, up by 37% on a year-on-year basis. EBITDA margin stood at 6% i.e., at similar levels to that of last year. PAT in FY22 was at Rs. 57.6 million as compared to Rs. 16.7 million in FY21, up by 245%. Our finance cost reduced by 16% on a year-on-year basis to Rs. 45.1 million in FY22 from Rs. 54 million in FY21.

There are some exceptional items also in profit and loss. In FY21, there was a profit on the sale of Assets of Rs. 10 million whereas in FY22, there was a loss on the sale of Assets of Rs. 10 million. Thus, after removing the impact of exceptional items, FY22 profitability to that extent is higher. GRP reclaim rubber segment being predominantly export dependent, an increased freight charges affected the margin to some extent but gross margins for reclaim rubber is better in FY22 as freight increase was passed over to the customers.

With this, now I open the floor for questions & answers.

Moderator:

We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Umang Shah from Sarath Capital. Please go ahead.

Umang Shah:

1. Sir, what would be our sourcing mix for the bias ply tires and radial tires?
2. Is the steel that is recovered from radial tires processed in-house or is it sold directly? Because all the other businesses that you have, none of them are with respect to steel.
3. Overall global industry is around 3 million tonnes and we have around 60,000 tonnes of capacity. Who are the largest players or who would be the players who have a bigger capacity than we do? These are the 3 questions that I have as of now.

Harsh Gandhi:

I'll start by answering the third question first. The industry's 3 million tonnes figure is an estimate. There are a variety of estimates out there. The numbers with and without China are quite different. So, it's tough for us to comment beyond that. Yes, we are at approximately 60,000 tonnes sales while the capacities are a little higher. The largest manufacturer or player in the industry is the Chinese player by the name Nantong Huili. The largest capacities for reclaim rubber outside India are all mostly in China. As far as other manufacturers are concerned, Elgi Rubber from India is among the largest competitors and besides these there are several others in the country as well.

The second question is about what we do as GRP when it comes to steel from the radial tires. While we process radial tires, the tires that we receive are already shredded and most of them

do not have much steel left in them. As we purchase shredded tires, the percentage of steel that we recover from our process is fairly small and it is generally sold to the steel rolling mills within the areas that we operate. Normally, steel by weight in a tire is about 20% but because we bring in shredded tires and, in some cases, even granulated radial tires, the generation of steel in our process is fairly low.

The third one which was your first question is the sourcing mix between radial and bias. Of our tire reclaim portfolio, about 90% of our raw material continues to be bias tires and about 10% or so is the radial tire reclaim.

Umang Shah:

Just one followup to the last question that you answered is - Now that the radial tire mix in the overall transportation sector continues to be increasing, just wanted to understand, are both bias tires and radial tires fungible in our capacity- like we have the same output there or would we want to take a separate empanelment because of the raw material change in terms of bias ply tire to radial tires? And in case that happens, would your machinery need to change substantially or that's not required?

Harsh Gandhi:

The equipment that we have and which we use, is a swing equipment. So, we could process radial tires and bias ply tires in the same set of processes that we have. The only thing that changes partially is yield and output rate. The capacity is fungible between the 2 raw materials. As the radialization grows in the country, we have the ability to switch. We need to get a few customers to approve the product that comes out of the radial tires, but we believe that's an incremental process and would not impinge on our ability to switch if the need arises. Having said that, as we also compete with pyrolysis industry who have a preference for steel radials because of the higher calorific value, it in some way allows us to buy a lot more of the bias tires and thus helps us in the long run.

Moderator:

The next question is from the line of Jainam Ghelani from Moneybee Securities. Please go ahead.

Jainam Ghelani:

I just have a few questions. Sir, could you give a segment-wise utilization please for all the segments? The second question is that whether our exports have been reduced or are we facing any container shortage in our exports? And my last question would be that are we planning to enter the tire retreading business again having a joint venture with any other company in the future?

Harsh Gandhi:

As far as reclaim rubber is concerned; the capacity has not been constant throughout the year. We have done debottlenecking of capacity in reclaim rubber through the year and capacity from Tamil Nadu plant which was temporarily shut down 2 years ago has been reallocated to the other plants, and as a result, the capacity utilization number is tough to give for the whole year, but I can say by the end of quarter 4, our utilizations were in the region of about 82% to 85%.

When it comes to industrial polymers, we doubled the capacity. We grew from about 3,400 tonnes to close to 6,200 tonnes. By end of the quarter, our utilization would have been closer to 40% to 45% and that's mainly because most of the new capacity expansion has come through only in Q4 of the last fiscal.

Similarly, in polymer composites, the capacity has doubled from what it was an year ago, with majority of the capacity coming through only in February of 2022 and therefore at the end of the quarter, our utilization of capacity may have been closer to 40% or thereabouts

To answer your question on tire retreading, our focus is to be a materials supplier and we realized the synergies that were expected were not as strong as the opportunities we see in aligning and building the portfolio of other recycling opportunities. I think eventually it's a question of allocation of capital and we do believe that given the synergies on the supply chain, there is definitely improved return on capital employed expectation from the allied businesses in recycling as opposed to value chain through forward-end play which was tire retreading.

The third question was about the availability of containers and exports. Yes, the volatility in availability of containers as well as Covid-related shutdown of ports across different parts of the world at different times in the year has obviously played a role in being able to supply material to customers on timely basis, but I don't think we have been affected to the extent that we have not been able to execute exports on account of non-availability of containers. Yes, there has been impact on pricing and margins to some extent, but I would say by and large, we have fulfilled all the obligations and orders that we have had for the customers. It also means that excess inventory has been accumulated both at our plants as well as at the customer warehouses, but this is a deliberate plan, to not affect and lead to any shutdown for our customers. So, you would see that there is some excess inventory sitting on our books at the end of the year, but these are deliberate and are planned additions to ensure that there is no disruption for our customers in operating their plants.

Moderator: The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, as I am new to the company, I just wanted to understand if I see your 20-year history, from 2002 to 2012, you did 10x revenue. Your margins were strong double digit at about 15-18-20%. What has changed in these last 10 years where your margin is consistently falling? And if I see in March 2012, your revenue was somewhere Rs. 250 crores and now it is about Rs. 350-380 crores. So, what has changed in the industry and what are the levers for the margin from now onwards?

Harsh Gandhi: We can continue to dwell in the historic performances, but I think a lot has changed over the last 10 years. If you look through how the prices or the margins of the company have been vis-a-vis the prices of the different commodities, specifically natural rubber, and synthetic rubber, it kind

of paints a picture in terms of substitution of reclaim rubber and its impact on the margins of our company, but post 2012, prices of major commodities reversed as well, and as a result, our revenues remained stagnant. It is not a reflection of the volume reduction alone. A lot of it was on account of the prices, and therefore, the prices of reclaim rubber reversed starting 2012 and that's what affected the margins. There has been a relatively steady volume growth over the last 10 years in the reclaim rubber space. That's where I would leave it as far as historic versus today is concerned.

As far as your question on what the drivers of margin are, going forward, it is the diversification away from tire into other forms of recycling – plastics being a key area for our growth, and as a result, we believe that the ability to use a common supply chain to collect various type of materials and ability to recycle and add value in other segments should be the driver of margins and value going forward. Since you mentioned that you are sort of new to the company, I would also say that our products are substitute to virgin rubbers and virgin plastics and the percentage of substitution depends on a combination of factors, key being the commodity prices that it is replacing, and the other is also in some ways the alternate uses of the waste product itself. In the last 10 years, another key development that has happened is the advent or entry of the pyrolysis industry in the country which wasn't the case until 2012 or 2013; and pyrolysis in some way produces 3 factions – energy to run the plants, oil which is used as fuel oil, and third is char which is used in very low-end application. So, pyrolysis as an industry is dependent quite a bit on fuel oil prices for survival, and if you look at fuel oil prices in the last few years and as a result pyrolysis' ability to replace fuel oil, that has been the single factor in terms of how our margins have played a role as far as the tire reclaims are concerned. As I mentioned at the beginning of the speech, to de-risk ourselves and to hedge ourselves against this one particular industry as well, our ability to grow in the other non-reclaim rubber businesses will be key to growing margins in the time to come.

Ritesh Poladia: On the balance sheet, there is an investment of Rs. 15 crores in current assets. This is like liquid investment or is there anything else in that?

Harsh Gandhi: Yes, these are liquid investments and for funding hopefully growth opportunities in the future. This is a combination of improved fiscal prudence, low debt to equity, and so on.

Ritesh Poladia: This would be used in the CapEx in a year or two down the line?

Harsh Gandhi: Absolutely.

Moderator: The next question is from the line of Amit Shah from Ace Securities. Please go ahead.

Amit Shah: Sir, I have 3 questions. Firstly, what has been the demand for reclaim rubber recently? Secondly, what is the current capacity utilization of reclaim and non-reclaim businesses separately? And lastly, how much reclaim rubber is used in a tire?

Harsh Gandhi: 70% of the reclaim rubber is used by the tire industry across world and if you look at the way the industry landscape is changing and the growth in the replacement tire market is, we believe that the demand for reclaim rubber will be fairly robust in the coming years. To add to that, the Russia-Ukraine conflict is causing a shortage of certain key raw materials for use in the tire industry, and that prompts for hopefully higher substitution of reclaim rubber. The 3rd key theme has been the increased level of sustainability, the tire industry has publicly stated in their goals on sustainability, and I think most of them have indicated a higher percentage use of recycled materials. Reclaim rubber is one of the products that is part of that basket of recycled products that the tire industry could use. So, as they act upon their promises of increased recycled materials, we do believe that reclaim rubber plays a formidable role in the days to come.

Your second question about capacity utilization has been answered with the first speaker. So, I don't want to take time again.

As far as percentage use in tire is concerned, depending on the country, the temperature, and performance conditions, the percentage use of reclaim rubber in tires range from as little as 1.5% in high performance tires to as high as 20% in really low performance tires, and when I say low performance, I mean the likes of-the-road tires as well as 2-wheeler tires. And I think the percentage changes depending on the company and the region that we are talking about. If you look at the statistics, India as a country uses close to 6% reclaim rubber as a percentage of polymers in their formulations. The global average in our view is a little under 4%. That's the broad indicator of percentage use of reclaim rubber in a tire. However, if you look at again the percentage use of recycled material, then most of the tire companies have announced in their annual reports as part of their sustainability agenda. The number in the coming decade up to 2030 indicates that the percentage use could go up to as high as 8% to 10%. But again, I would say reclaim rubber is one of the ingredients of recycled materials that a tire company can use. There are other options and alternatives, but potentially, this number could go up to between 8% to 10%.

Moderator: The next question is from the line of Deepak Kapoor from Benchmark Capital. Please go ahead.

Deepak Kapoor: My first question is about your EP division. You mentioned earlier in the call that you have expanded capacities and are confident of almost reaching full capacity utilization during the course of this year. So, are you already planning on further expansion in the EP division? My second question is that.... I am sorry if I have missed it in your updates in the past, but I am looking for details on the terms of the split up in the joint venture. I think GRP is selling back

its stake to Marangoni on the retreading business. Are there any further details on what the terms are?

Harsh Gandhi:

I will take your second question first. We have announced the desire to sell, and we are engaged in active conversation. We are at the final stages of closing of the transaction. I think, by the end of Q1 of this fiscal, you will have an announcement on the terms of the share sale. As far as your first question is concerned, utilization of the EP business and the expansion therein, I would say we have adequate approvals in the business to confidently say that by the end of the year, we should get to a full utilization, but I think in terms of commitment of the next stage of investment, it is something that we will probably take towards the end of this fiscal and the reason for that is that the EP business is dependent to a great extent also on raw material availability from the reclaim rubber business. So, for the growth in the EP business, we need to also expand reclaim rubber business to be able to recover more nylon from our processes. So, I think the two must go in tandem and I think a call on that can be taken only towards the end of the year, as and when we kind of start maxing out or starting to get to the visible end goal of 500 tonnes a month of utilization. We have on the drawing board plan but commitment to the capacity creation is something that we would take only towards the end of this fiscal.

Deepak Kapoor:

Just a followup question. You had mentioned in the past that you are also looking at sourcing fishnet because that's one of the largest pollutants in the sea in the world and seeing if that can work as a raw material for you. Is that progressing well or any updates on that side?

Harsh Gandhi:

There is a lot of focus on ocean plastics and the ability to recycle it. So, it does present a significant opportunity for growth. However, it has its own set of challenges because fishnets do come with a lot more contamination than a lot of other materials. So, the ability to have supply sources which provide clean material is something that we are working closely with the points of generation to develop. I would say we have taken baby steps in that; we have a very small percentage of the product portfolio which is based on the fishnet waste. However, that will continue to grow as we have greater confidence in the ability to source clean fishnet waste because it has the potential of also damaging equipment with high failure rates and so on. So, I think it's more a technical question and I would say we probably should take baby steps before we have a larger confidence in that whole project.

Moderator:

The next question is from the line of Ankit Agarwal from Arc Capital Partners. Please go ahead.

Ankit Agarwal:

I have a few questions; the first one being, what would be the revenue potential from the new CapEx that we have undertaken in reclaim and non-reclaim business? The second one being, what are the potential consequences of the EPR regulation for our company? Does it help the company in any way? The last one is our employee costs have increased if you see. Is the company taking any initiative to save the costs like automation or something like that?

Harsh Gandhi:

As far as revenue potential is concerned, as I mentioned, a) I am unable to provide numbers, but I mentioned what is the utilization of capacity in each of the businesses. And I think it's our ability to execute on those plans that will determine what is the revenue, but roughly if I were to put it, at 6,000 tonnes of monthly reclaim rubber capacity that the company currently has, I would say that the revenue potential from the current levels which we have indicated is at about Rs. 350 odd crores, there is probably another 20% upside possible in that. As far as the non-reclaim rubber businesses are concerned, I have already indicated that we have just doubled capacity expansion in both of those businesses which is the engineering plastics and polymer composites, and given that for the year of FY22, our capacity utilization by end of year was around 40% to 45%, so one can estimate what could be the revenue potential from those businesses as well in the FY23

Your second question was about the EPR consequences. I think EPR in general provides an opportunity for recycling companies like us to have a more organized supply chain and as a result bring in more efficiencies in the collection network and as a result provide efficiencies by way of margins in long run. Having said that, the EPR regulations for tires is very different than EPR regulations that have come in place for plastics and other materials like e-waste and so on. A lot of those regulations are focused on circularity which essentially means that brand owners are obligated to use back certain recycled content in their end products. However, in the case of tire recycling draft regulations, there is no provision for circularity. So, whether it means an impact on demand; we are not sure. But yes, there will be improved efficiencies in collection, there will be a more organized supply chain. I think it's too early for us to predict what will be the outcome on our margins

Your third question was regarding employee costs. Again, as a percentage of revenue, it has reduced in the current year compared to the previous year. Of course, a large part of it is on account of the improved volume sales. Two ways to look at this; I think as our capacity base is expanding, the wage inflation in the country is expanding much higher, but our wage costs are not in line with that of wage inflation. That is clearly because the reduction in the workforce is underway, and a lot of automation initiatives are already underway. Its full impact is tough for us to be able to predict at this stage, but I can say clearly that key indicator that we use which is number of people required for a tonne of production, that continues to reduce on a year-on-year basis over the last 3 to 4 years.

Moderator:

The next question is from the line of Umang Shah from Sarath Capital. Please go ahead.

Umang Shah:

Sir, we undertook expansion in our non-reclaim rubber segment to the tune of Rs. 15 crores even before the capacity utilization had reached a certain level previously. So, in terms of ROCE, what is the long-term direction that you want to take your ROCE to? Because, even in the non-reclaim rubber business, the ROCE has been in single digits for a long time.

Harsh Gandhi: Of course, our target ROCE numbers obviously would be tending towards mid-teens for the company as a whole and we do believe that as the non-reclaim rubber businesses will scale the ability to generate incrementally higher ROCE. Again, tough to give out numbers and I am not sure how you are arriving at the ROCE of the non-reclaim rubber business, but the early set of capacities that we had were in some way semi-commercial and then we are moving to commercial scale only in the last 12 to 15 months; so, tough to put out ROCE numbers separately for reclaim and non-reclaim business.

Umang Shah: The second part of the question is, our reclaim rubber business operations are pretty much dependent on the prices of the substitutes which are the natural rubber and the synthetic rubber. In case of non-reclaim rubber, the delta of change in price is as much as it is in reclaim rubber or will it be significantly lower?

Harsh Gandhi: I would answer this question in 2 separate ways. The tire industry has an agenda on circularity or in terms of use of recycled material, if you look at the engineering plastic industry, a lot of global as well as Indian compounding companies as well as end manufacturers including automotives have got a fairly strong number that they put out in terms of percentage of recycled content that goes back. So, to some extent, in the plastic industry, our experience has been that the prices of recycled material while are at a discount to the virgin polymer-based compounds, it is not at a significant discount to what we see in the rubber industry. On a like-a-like basis, for example, in the rubber industry, if the price of reclaim rubber is at a range between 30% to 40% of that of the virgin rubber, in case of plastic industry, the prices are closer to 80% to 90% of that of the virgin plastic-based compounds. So, yes, it is dependent to a large extent on the virgin plastic prices but the percentage substitution or the percentage impact is much lower.

Umang Shah: There is one more question if I could squeeze in. Sir, could it be right to say that you will be able to get into double digit, 12% to 13%, EBITDA margins in your reclaim rubber business if the realization per kg crosses 65 or is that a lower number?

Harsh Gandhi: The realization per kg is a function of the product mix as well as the currency. So, I won't be able to put a number out there as of now but will the EBITDA margins for the reclaim rubber business get into double digits? We sure hope so. The freight costs that have risen over the last 18 months have to some extent been a dampener on margins over the last 5 quarters, but by and large, I think the tailwinds in the industry point towards certainly, as I said, greater level of substitution, and if the price trends in the synthetic rubbers and natural rubbers continue the way they are, we do hope that the margins will start improving from where they were in the last 2-3 years.

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



GRP Limited
May 20, 2022

Harsh Gandhi:

I thank you all for the time taken to attend this call. I appreciate all the questions. They have also provided us a good understanding of how the investor community is viewing the business but more importantly also provides us insights into areas that we need to focus on. So, I appreciate the time and the questions that you have all asked me. Thank you so much. I also appreciate the efforts that SGA, our Investor Relations partners, has taken to engage with the shareholders. Thank you all and have a pleasant day.

Moderator:

On behalf of GRP Limited, we conclude this conference. Thank you for joining us. You may now disconnect your lines.