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GRP
IMPACT POSITIVE

03/06/2021

| To | To |
|---|---|
| BSE Limited | National Stock Exchange of India Limited |
| Phiroze Jeejeebhoy Towers, | Exchange Plaza, Bandra Kurla Complex, |
| Dalal Street, | Bandra (E), |
| Mumbai - 400 001. | Mumbai - 400 051. |
| **Scrip code : 509152** | **Symbol : GRPLTD – Series: EQ** |

Dear Sir / Madam,

**Subject: Earnings Call Transcript**

Please find enclosed herewith a copy of transcript of earnings conference call held with analyst/ institutional investors on 28th May, 2021 to discuss Company's performance for fourth quarter and the year-ended 31st March, 2021.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For GRP Ltd.

Abhijeet Sawant
Company Secretary

Encl : a/a

# "GRP Limited Q4 FY 2021 Earnings Conference Call"

May 28, 2021

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

**Moderator:** Ladies and gentlemen, good day, and welcome to the GRP Limited Q4 FY 2021 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 involves risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" 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. Over to you, sir.

**Harsh Gandhi:** Thank you so much. And a very good afternoon to all of you, ladies, and gentlemen. Thank you for joining us on GRPs annual FY 2021 earnings conference call. Along with me today from the company side I have our company CFO, Ms. Shilpa Mehta and Abhijit Sawant, who is the Company Secretary. And we also have SGA, who are our Investor Relations advisors on the call.

These are tough times, so I hope all of you that are attending the call as well as all your families are safe and in good health. And we hope that we get over this pandemic sooner rather than later. Our results have been uploaded on the stock exchanges and I hope everyone has had a chance to go through the same.

Before providing the business update, I would like to provide a quick recap on the different businesses and the verticals we operate in. This is for the benefit of the first-time shareholders. GRP is a sustainable materials manufacturer, and we are focused on helping our customers fulfilling their obligations of responsible end-of-life tyre recycling. We started as a tyre recycling company, but over the last few years, we have transformed ourselves into a sustainable materials company. Keeping customers in the mobility sector at the center of everything that we do, we operate across the end-of-life tyre value chain to offer solutions in closing the circular loop of end-of-life tyres and also most recently, in the plastics space.

The businesses we run include reclaimed rubber. This is the core of the company; this is the genesis around which the company has been built. This business procures tyres at its end-of-life to produce reclaim rubber as raw material for the tyre industry when making new tyres.

The second vertical we operate is recycled nylon, this business separates nylon from end-of-life tyres and other sources nylon of end-of-life waste streams and blends together to produce raw material for sale to the engineering plastic manufacturers. These are applications in a variety of end uses, mostly in automotive industry but also in the electrical, railway, furniture applications.

Another business that has been recently established, is rubber composites, wherein the residual rubber from the above businesses is used to blend along with recycled plastic waste. This is mostly household plastic waste. And we produce composite materials which replace wood and concrete in a variety of applications. The applications for these are mainly in the transportation industry and currently limited to only North America.

Apart from the above three businesses, we also operate a joint venture with an Italian company called Marangoni. This is a commercial vehicle retreading business where GRP owns a 50% stake, with the idea to help fleet owners extend life of their tyres by providing multiple lives and helping them reduce the cost per kilometer of a tyre run.

The end use applications and customers for the company have grown from predominantly tyre manufacturers to now fleet owners, auto component manufacturers, as well as vehicle body manufacturers. And our company is among the leaders in the tyre recycling industry in India.

Let me give you an overview of what transpired during FY 2021 at GRP, and how we have kind of moved from a survive mode at the beginning of the year to now, what we would like to call a thrive mode. During the early days of the pandemic, the strict lockdown restrictions meant production stoppages, and this is true for most of the country. The focus of the company in the early days really was on employee safety and well-being. We made adequate arrangements to ensure effective work from home, ensure that the plants were safe for a restart as and when it happens.

Along with the above precautions, we focused on ensuring there was adequate liquidity within the company. Tight control over fixed expenses, and most importantly, managing key relationships, mostly the customer, but as well as the supply chain, because your company's supply chain is a lot of underprivileged individuals that are engaged in the end-of-life collection. So, supporting them through financial means and other means was critical for the company to focus on.

Our factories resumed operations between April 20 to May 5, at different start times. And we slowly regained control over operations. A slow return to normalcy resumed towards more or less end of Q2. And this was on the back of continued strength in international orders and slow and steady revival in the domestic demand. Mind you, while we were in the state of lockdown, most of our international customers in a lot of geographies continued to operate, so that resulted in actually a backlog of orders which we were able to start delivering from more or less end of Q2.

On a literal basis, everything was not smooth sailing. And that was on account of major disruptions in the global shipping industry and massive volatility in availability and price of containers. The lockdown brought with it uncertainty in terms of raw material availability, on account of low operation of fleets. On account of this economic slowdown, generation of EOL tyres or the end-of-life tyres as well as plastic waste was reduced. And this resulted in delayed order fulfilment from our side. Of course, we took a lot of tough calls with rationalization of employee strength, focused quite a bit on outsourcing non-core activities, improved efficiency at the plants. And all of that has kind of resulted in contribution to reduction in fixed and variable overheads. And some of these are visible in the results as you study the quarter-on-quarter progression.

Another painful but a strategic decision in our view during the year was to temporarily suspend production at our plant in Tamil Nadu. And with this move, we consolidated our capacities across the remaining three plants and improved their overall economy of scale. So, in Q2, while revenue reduced by 15% year-on-year, EBITDA increased by 9%, year-on-year. In Q3, revenue was down 7% year-on-year, but EBITDA increased 46% year-on-year. And during Q4, revenue increased by 11% and the EBITDA increased actually 67% on a year-on-year basis. The rebound in economic activity that started in the end of Q2 across major geographies helped improve the demand for reclaimed rubber as well.

As I mentioned, during the pandemic, we worked hard on maintaining relationships, and that helped in increasing the share of wallet with key customers. And we are happy to report that in several key customer accounts, while we had success in the growing the share of reclaimed, in some instances we were also able to increase the consumption of reclaimed rubber in the customer formulation. Now this was, obviously possible also on the back of the commodity price rise that we saw. And that enabled us to pass through a lot of price increases as well, during the course of the last two quarters. The current prospects in the tyre sector look promising, mostly in the international tyre market. Although shipping challenges continue to affect delivery and on-time performance. We have also starting to see and witness growth in the GRG segment, which is the general rubber goods segment. And this, again, is spread across Latin America, North America and even parts of India.

While the focus on operating efficiency was maintained, as I mentioned, the rise in oil prices and a subsequent rise in the commodity prices provided an opportunity for price increases for rubber commodity, and that helped improve the gross margins as well during the year. With the lower capacity in use across the industry in the country, and an opportunity to rationalize the customer base, we believe the cost increase impact from shipping and other input costs was also more than offset by the rise in the selling prices. The continuing firmness in the commodity prices in our view will continue to provide improved margins compared to the previous years.

During the year, we were also able to scale the more profitable non-reclaimed rubber businesses. As you are aware that these businesses are aligned along the same value chain and they help the company in diversifying its offerings to various end customers and reduce our overall dependence on the tyre sector and help in the concentration risk reduction. During this year, while revenue from reclaimed rubber business reduced by 22% year-on-year, revenue from the non-reclaimed rubber businesses increased by 23% year-on-year. So, while it is off a small base, we are pleased to inform that these businesses became financially independent by the year end.

Revenue contributions from the non-reclaimed rubber businesses increased from 4.8% in the previous year, which was FY 2020, to about 7.3% in FY 2021. But importantly, towards the second half, it was closer to the 9%. And this has been in line with our expectation that these businesses will be the future engines of growth for the company. In these businesses, we are not only growing the customer base but adding several Tier 1 and other multinational customers to the fold, this we believe will give us a lot more traction in the years to come. We have added some capacity in the nylon business specifically, and that is likely to start yielding top line growth in this fiscal.

The newer businesses, as I mentioned, are more research driven, have a strong interdependence with the core businesses, have potential for long-term partnerships with brand owners and strong synergy for material manufacturers as well. So, we do believe these will command higher profitability when reached to scale, which in a few cases we are close to achieving.

We continue to focus on developing other businesses in the similar sphere, and with the aim that we want to help fulfil the circular economy goals and help customers fulfil their producer responsibility. With rising focus on recyclability, companies world over are trying to incorporate sustainable materials in their portfolios and we are aiming to expand our offering to cater to this rising demand.

Before concluding my part of the speech, I would like to say that FY 2021 has been among the most challenging for the company. But it has also given us an opportunity to be bolder with decision making, allowed us a lot to experiment with new ways of doing business, and deeply analyze the cost structures to make it more efficient. Lessons learned during this year will clearly help us in the future and hope fully has made us wiser to take smarter, informed decisions for the future.

With all the steps being taken towards managing health and safety, conducting awareness camps across communities, and facilitating vaccinations, I am relieved that only 4% of our employees contracted COVID through the entire duration, with a fatality which was less than 0.5%. Our endeavor to financially support such employees, families will continue for a longer period of time. But we have also undertaken supporting families who have lost their breadwinners to COVID in the communities we operate, through local NGOs. We have provided ventilators in hospitals around our plants, food support to the community and spread awareness and facilitated a lot of vaccination. In fact, as of last week, almost 25% of GRP employees across all locations have been vaccinated with at least a single dose of the vaccine.

Given the strong finish to the fiscal year and a positive outlook ahead, we have decided to pay dividend in line with the payout policy, and accordingly a final dividend of Rs. 2.5 has been proposed to the shareholders for approval at the upcoming AGM.

The last two months of the current fiscal, of course, has again brought about a wave of lockdowns, the second wave as they are calling it, and there has been a slight slowdown in the domestic demand. So, while there is an air of uncertainty, there also remains bullishness with regards to the international markets about the prospects for FY 2022. So, while it is a mixed bag of the slowdown in India, there is that promise of improved demand in the international markets, but a lot depends on the recovery in the upcoming quarters.

With this, I will now turn it over to Shilpa, the CFO, to take you through the financial highlights for the call. Thank you, everybody.

**Shilpa Mehta:** Good afternoon, everyone. Let me take you through the consolidated financial highlights of Q4 of FY 2021 and for FY 2021. As the COVID-19 lockdown has impacted business operations during the last year of FY 2021, FY 2021 results are not directly comparable to FY 2020. So, I urge you all to view our FY 2021 results in perspective of low orders, lower material and manpower availability, and global shipping industry disruption.

Now let us go through some financial numbers. So, Q4 2021 revenue from operations was Rs. 883 million as compared to Rs. 794 million of Q4 of last year, up by 11% on year-to-year. And FY 2021 revenue from operations was Rs. 2,798 million as compared to Rs. 3,487 million, which is down by 20% on year-to-year. Revenue from non-reclaimed business increased by 23%, that is from Rs. 166 million in FY 2020 to Rs. 205 million in FY 2021.

And Q4 2021 gross profit was Rs. 443 million as compared to Rs. 429 million, that is up by 3% on year-to-year. And gross profit for FY 2021 is Rs. 1,443 million as compared to Rs. 1,784 million in FY 2020. So, it was down by 19% from previous year. And EBITDA of Q4 FY 2021 is the Rs. 75 million as compared to this Rs. 45 million of the Q4 of FY 2020, up by 67% from previous years. And EBITDA for the year FY 2021 is Rs. 169 million as compared to Rs. 189 million of FY 2020, down by 11%.

And percentage rise if we see, then Q4 FY 2021 EBITDA margin increased by 280 bps, so from 5.7% in Q4 2020 it increased 8.5% in Q4 FY 2021. For FY 2021, EBITDA margins increase is from 5.4% in FY 2020 to 6%. This increase in EBITDA margin is on the back of cost optimization initiatives taken during the year, and better product mix in the reclaimed rubber business, and of course contribution of higher revenues from non-reclaimed rubber businesses.

PAT for Q4 of 2021 is Rs. 47.1 million as compared to a loss of Rs. 13.7 million in Q4 of FY 2020. And for the year FY 2021, PAT is Rs. 16.7 million as compared to Rs. 29.7 million in FY 2020.

On the debt side, I am pleased to share that we were able to reduce our net debt, which includes both long-term and short-term by Rs. 191 million from Rs. 726 million in FY 2020 to Rs. 535 million in FY 2021. Our finance cost also correspondingly reduced by 34% on year-to-year basis, from Rs. 82 million in FY 2020 to Rs. 54 million in FY 2021. And recently, CRISIL reviewed ratings and reaffirmed our credit rating and changed outlook from negative to stable.

So, with this now, now I will hand it over for question-and-answer session.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankit Agarwal from Spark Capital. Please go ahead.

**Ankit Agarwal:** I have a couple of questions here. First one is regarding the capacity utilization. Sir, we understand that in the initial few months there was no utilization as such, but for the whole year of FY 2021, what has been the capacity utilization? So, in capacity utilization, for the full year FY 2021, as well as for both the business, reclaimed a non-reclaimed separately as well.

The second question being, sir, do you need to add any more capacity in the next two years? And the last one being, are there any major factors that influence the pricing of reclaimed labour? So, any insight on the same? And how has the price movement been during the last one year? So, these are the questions from my side.

**Harsh Gandhi:** Thank you, Ankit. So, as far as capacity utilization for the year is concerned, I mean, it is tough to give a number for the year as a whole, because Q1 we have pretty much produced I think only at 20% of the capacity. But that kind of progressed to a stage where by Q4 we got to close to 90% of utilization of capacity. So, I hope that answers it, because it is tough to give an annualized number because availability was a challenge in itself. As far as new capacity addition for the year is concerned, we do not have plans to add any new capacity as far as the reclaimed rubber business is concerned, but there are capacity expansion plans in the non-reclaimed rubber business, and that is in the region of about 30% to 40% of the existing capacity is going to be added. It is going to come on stream during the year, so it is not likely to all be impacted in the current fiscal. It is coming in phases so, therefore, the last set of capacity expansion will be completed only by February of 2022.

As far as price movement or the price indicators are concerned, as we have mentioned always, reclaimed rubber especially is a substitute to virgin rubbers, which is natural rubber and synthetic rubber. So, the price of the reclaimed rubber is quite dependent on the prices of the Virgin rubbers. As far as our nylon business is concerned, on similar lines, the price of our compounded nylon materials follows a trend which is similar to that of nylon prices. As far as composite businesses are concerned because they are replacing wood and concrete, it is to a great extent dependent on the prices of lumber in North American markets. So, this is broadly the interdependencies of prices of our end products with that or three other competing materials that it replaces.

**Moderator:** Thank you. Next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

**Rohith Potti:** Thank you for the opportunity and a very detailed commentary in the beginning, it was quite helpful. So, over the last couple of years, we have been talking in our con-calls as well as we have been observing the increasing focus on sustainability across the world. In that context, my expectation was that the reclaimed rubber might see a capacity increase going forward. But you mentioned that we have shut down this plant in Tamil Nadu and consolidated capacities. So, with the increasing sustainability trend, why are we not looking at increasing capacity in reclaimed rubber or why is the industry demand not growing as much as we expect?

**Harsh Gandhi:** Thank you for the question. Point one is, I think the earlier question that Ankit asked, whether there is any capacity expansion planned in this current fiscal, and my answer was specifically to that as to there is no plans on adding reclaimed rubber capacity in the current fiscal. As far as the rationalization of capacity is concerned, it is not easy to sort of just pull-out capacity from the plant we shut down and place it in the other plants. So, we have slowly been expanding and adding those capacities. So, that full capacity rationalization will be completed by this quarter as we speak. And therefore, this capacity will be available for the entire or the remaining nine months of this current fiscal.

As far as future plans of expansion are concerned, there are two ways to look at it, I mean, while one is to look at physical capacity expansion, the other is debottlenecking. And the third is the focus on value added products. So, to put it in context, we are moving away from the lower margin, lower value grades of reclaimed rubber to the higher value and higher margin grades. So, within the same capacity by only migrating away from the low value products or the low margin products to the higher margin products, we believe that should be our first attempt before we look to add capacity. So, in that sense, we are moving away from certain segments of the industry or end application which were really the low-cost footwear, low-cost mats, and sheets and so on and focusing a lot more of our product portfolio towards the tyre industry as well as, within the GRP, the higher value added products. So, that rationalization of the portfolio is happening and that is to improve the margins and the bottom-line, and correspondingly there will be a corresponding increase also in the top-line. But the actual capacity expansion, therefore, will come through once that portfolio rationalization of the product is completed.

As far as non-reclaimed rubber is concerned, as I said, we are adding about 30% to 40% capacity in the current fiscal in the nylon business, and all of that will be available in the subsequent year. And we are also evaluating and have on the drawing board plans to add capacity in the composite business as well. So, net-net there will be an addition to capacity, it is just a staggered approach in the reclaimed business, do a rationalization, do the debottlenecking, and then look at the brownfield. While in the nylon this year we are focusing on the brownfield, next year it will probably be a stage of rationalization in there, while we probably look at adding on the reclaimed rubber side. So, we need to balance it also with the cash flow constraints.

**Rohith Potti:** As a follow-up to your current answer, could you give us an idea of the segmentation within our reclaimed rubber business of what you consider to be low value and what you consider to be high value in terms of value? How do you segment that? And on a larger scale, so we have mentioned in one or two calls back that our capacity is 66,000 tonnes, and the global capacity is around 3 - 3.5 million tonnes. So, the way we are graduating towards higher value products, and given that a majority of the global capacity is in China, I would assume that our target addressable market might be much smaller. So, could you put our strategy of moving towards high value products in the context of what our total addressable market is today and how you see that moving forward, let us say, over the next five years?

**Harsh Gandhi:** Sure, be happy to do that. So, I put it a little differently. So, I mean, there are multiple ways of segmenting the product portfolio, we look at two broad ways of broad categories and that is the percentage of natural rubber and synthetic rubber in the portfolio. And the reason we do that is because the natural rubber portfolio has historically had a lower margin compared to the synthetic rubber lithium portfolio. However, within natural rubber itself, now we have kind of entered into certain segments which are used much in larger volumes by the tyre industry. So, let me call it high-performance natural rubber reclaim, and the lower performance or the standard performance natural rubber reclaimed. So, within this portfolio, if I were to put it over the last three years, I mean, our portfolio of natural rubber to synthetic rubber has moved a little bit in favor of synthetic rubber. And now that occupies about 45% of our total capacity. But, within the natural rubber portfolio, the portfolio of the high-performance natural rubber reclaimed used to be only, about 20% of the total natural rubber reclaimed portfolio, that stands today at about 25% to 30% of our natural rubber portfolio. So, that is the change in the context. So, therefore, within that 55% of natural rubber reclaims that we produce, the mix was more like 45% and 10%, which is now moved closer to about 30% and 25%. So, that is really the context of the upgradation of the product portfolio.

As far as synthetic rubber reclaims are concerned, we have maintained that share at 45%. There has not been a significant change, but there on account of the growth in the tyre industry, we have actually moved away, as you rightly said, and done a rationalization of the customer portfolio. So, while there may be capacity expansion possibilities, we focus more on margin expansion and therefore certain segments or certain geographies which were not yielding as much of profitability, we have tried to sort of minimize our exposure to. By increasing, as I said, share of wallet with the marquee customers and marquee tyre companies across the world and reducing dependence on the low margin customers, let us say, mostly in China. So, if you look at geographic mix, our dependence from China has been reduced in the synthetic rubber basket of products.

**Rohith Potti:** So, if you could touch upon the 3 million tonnes global capacity that is there, what would you say is a target addressable market? And what part of the capacity is out of China?

**Harsh Gandhi:** So, I think the 3 million tonnes has been quoted from several reports. But if you look at what is outside of China, these numbers are much, much different. So, I mean, outside of China, we believe that of the 3 million about 1.2 to 1.4 million tonnes is addressable outside of China. And our share of 66,000 tonnes is more or less from there. I would say within this, I mean, if you start focusing on what is the consumption by the tyre industry, I mean, generally tyre industry is roughly a 55% consumer of rubber, compared to the GRG sector. So, I would imagine that in the reclaimed rubber space as well the consumption by the tyre industry would be in the region of about 55% of that 1.2 million. And that is really where our focus is because our case, the share of tyre industry is in the region of about 60% to 63%, well, closer to 65%.

**Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from I-thought PMS. Please go ahead.

**Rohit Balakrishnan:** So, I have couple of questions. So, one was if, in your previous phone calls and even in this con-call you have articulated that you want to grow your non-reclaim rubber business, which is higher in terms of profitability. So, can you just talk a bit about that more in terms of the business architecture there in terms of broadly two, three things maybe in terms of the opportunity that you have? And also, in terms of competition, and also in terms of the economics, what kind of margins? You talked about these are margin accretive businesses, right, but just want to understand in slightly more detail, if you can just speak on that. And then I can maybe ask another question after that.

**Harsh Gandhi:** Two things, I mean, as far as the non-reclaimed rubber business is concerned, as I said, that also has a portion of business which is related to nylon, a portion of the business which is related to rubber composites. These two are part of GRP's numbers, the third business is a joint venture, so only at consolidated level does that appear in the financials. As far as the nylon business is concerned, in terms of the dynamics, nylon is used in two major ways or categories, if you look at it, there is a textile and then there is a non-textile, which is the engineering plastics. Our focus and our product is catering only to the engineering plastics space. Now within nylon, there are different types. So, there is a 6, 6,6, etc., and I do not want to get into the finer details of the same. But we recover nylon mostly from the tyre chord and then we also buy a lot of waste nylon in the form of textiles etc. And then this is what we are upgrading to make it usable by the engineering plastic industry. This is used for automotive manufacturing of products, mostly, I mean combination of both under the hood as well as in the cabin products. In the furniture, it has a lot of applications and then there are applications, as I mentioned, in the electrical segment as well.

Competing companies would be, several in the international space. If you look at, there are companies by the names of the DSMs and Domo etc. And in the domestic, companies like Ester Industries, or Formulated Polymers etc. they have a particular business which is focused on a similar category as we are operating in. So, those would be the comparables in this space.

As far as end applications, I already talked about. As far as the growth itself in there is concerned, I think nylon as a product is going to witness significant growth on account of both the growth in the automotive space but also specifically in the electrical. I think with the electrification of the country under the Prime Minister's aegis I think the rural electrification is leading to a huge demand in that space. Also, railways being a big consumer and railways looking at a major infrastructure spend, would also lead to growth in that segment. So, these are the two major segments. One thing I wanted to clarify, as far as our nylon business is concerned, it is 100% domestic business, there is no international customers there as of now.

Composites, again, as I mentioned, it is only being sold into the North American markets as of now. And we are aiming to see how we can expand that into other markets. So, as, and when that capacity enhancement plan comes through, we will come through on the basis of expansion of markets beyond the North American ones.

**Rohit Balakrishnan:** So, in terms of the economics here, so I was just looking at your presentation, when you talked about you give out cogs for this business as well separately. So, over FY 2021, over FY 2020 there has been a significant reduction in cogs for the non-reclaim business. So, just wanted to understand, I mean, one, what was the reason for this? And more longer term, what is the kind of gross margins that you see in this business in the non-lithium, I mean, all the three parts, nylon composites, and the lithium business.

**Harsh Gandhi:** One has to keep in mind that they all have different price dynamics, I would say the margins for nylon business are to some extent dependent on the tyre business, because the raw material that we use continues to still be end-of-life tyres. So, it just depends on the pace at which the prices of nylon are moving versus the prices of rubbers are moving. So, it is very tough as a result to be able to predict how the margins will move in the future. But it is clear that at the current level of procurement of end-of-life tyres, and as a current selling price of nylon, there is a fairly significant gross margin there.

As far as composite materials are concerned, again, there also end-of-life tyres continue to be the single largest raw material, followed by the household plastics. So, in some ways, margins are a lot reflected based on how end-of-life tyre prices are. And that is to some extent dependent, as I have indicated in the past as well, on alternate uses, which is generally as fuel, and so on. So, while they are all interdependent, they still have strong leanings based on what is happening in those respective industries. Sorry, I am not able to give you a firm answer on this in terms of what the exact margins will be, but that's because today commodity prices are so volatile that it is very difficult to predict anything.

**Moderator:** Thank you. We will take the next questions from Sriram Rajaram from Ratnatraya Capital. Please go ahead.

**Sriram Rajaram:** Firstly, I just want to understand what is the relationship between the rubber price and the fortune of our industry, in the context of, historically, what has been the growth rates for us whenever the rubber price have moved up, especially between 2008 to 2012, I believe, that you have done well. So, was rubber price the reason for that? And also, what is the current state of blending of reclaimed rubber in the tyre industry? And does it go up whenever there is an increase in rubber price?

**Harsh Gandhi:** Thank you for the questions. So, first part of the question is, do reclaimed rubber prices move in tandem with the prices of natural rubber and synthetic rubber? The answer is yes. However, if I was to put it statistically, is it a 1:1 correlation? Answer is no. There is a substitution effect, so I mean, for example, there has been a 50% spike in rubber prices in the last six to nine months, against that our product prices have moved between 12% to 18%. So, that's the kind of a delta that we have. Is it same all the time? No, answer is a lot dependent on demand and supply. So, as of now, with the prices the way they are, we have been able to get a price increase ranging from 12% to 18%.

Your second part of your question was with regard to I am sorry, can you come back again?

**Sriram Rajaram:** That was on the current blending, how much percentage of reclaimed rubber…..

**Harsh Gandhi:** Correct. So, the blending percentages in the tyre industry do not fluctuate significantly with short-term price changes in commodities because tyres are built with a lot more research and orientation towards passenger safety, speeds etc. In the medium to long-term, yes, there is a shift. So, in a typical commodity price cycle, when the price of commodity and expectations of shortfall are likely, there is generally an increase or a tendency to look at reclaimed rubber more favorably than otherwise. But I would say that it takes several months of consistent upward movement before a significant change in the consumption pattern is observed in the tyre sector.

As far as the GRG sector is concerned, yes, a change in price in the natural rubber or synthetic rubber will lead to a generally higher consumption of reclaimed rubber in the formulations, because the expectations of quality etc., can be managed with the newer grades of reclaimed rubbers that are in use. So, I would say, at a 50% increase of price, I mean, there is a possibility that a 5% to 7% increase in consumption of reclaimed rubber would be witnessed from a lot of GRG manufacturers. But again, these are all specific formulation, so I cannot it generalize it because the conveyor belt industry would behave very differently to cycle tyre industry, to a molded goods manufacturer, to an automotive component manufacturer, so it is very difficult to put a number. Generally, our belief has been that the tyre industry consumes in the region of 6% to 8% of reclaimed rubber to the virgin rubbers. And if there is a sustained pressure on prices and availability of synthetic and natural rubbers, this could go up to about 10% or 11%, because several companies globally, are in that ballpark of consumption as well.

**Sriram Rajaram:** So, just to put things in context, I mean, for your company, at least, whatever the numbers are, I mean, there has been tremendous growth between 2010 and 2014. So, that explains the reason, I mean, whatever you just commented, was that the reason for that growth?

**Harsh Gandhi:** No, there was also capacity expansion. I think there was volume expansion during that period of time. So, it was a combination of both. And we added capacity to piggyback on the growth that was coming through in the tyre sector. However, post that when the prices collapsed, a lot of newer product categories where the tyre industry was to use reclaimed rubber, they put a lot of those plans on hold. And we continue to invest in the other businesses. As a result of it, the overall operating performance took a hit because we were in the phase as far as nylon and other businesses were concerned, where we were sort of incubating or nurturing those businesses, which meant that we were also taking away money from the reclaimed rubber operations to fund some of those activities. As I mentioned, that by Q4, nylon as well as the composite business have attained financial independence. So, hopefully, reclaimed rubber profitability will now show on its own an improvement on account of lack of dependence of the other businesses on it.

**Moderator:** Thank you. Next question is from the line of Nitin Dharmavat from Aurum Capital. Please go ahead.

**Nitin Dharmavat:** Sir, you mentioned about the CAPEX and our focus on non-reclaim or the nylon kind of business. So, what is the revenue potential that we have from nylon and composite business once these CAPEX are completed?

**Harsh Gandhi:** So, I think a lot will depend on how fast we are able to penetrate the market. I mean, having the capacity will not guarantee us revenues. I think we will need to work a lot on developing customers and end markets. I have given you a sense of who the comparable or who the other competitors in the space are, so I think that should give you a broad sense of what is the potential of the industry and what is the potential revenue numbers that the company can make. I think the success of the company will depend on how effectively we are able to execute. And therefore, I cannot really put a number to it. But I mean, currently we are operating at a fairly low capacity, we are looking at getting into a phase where the capacity starts becoming a little decent in comparison to some of the other names that I talked about.

**Moderator:** Thank you. Next question is from the line of Faisal Hawa from H.G. Hawa & Co.

**Faisal Hawa:** My question is, what would be our share in India of the total reclaimed rubber market? And secondly, are we targeting to develop more manufactured products, which would cater to the tyre industry in future also?

**Harsh Gandhi:** Thank you for the question. So, our share of sales in India, so I would say that there are two parts of this question when you ask about the market share. When you talk about the share of our reclaimed rubber sales in India compared to the rest of the industry, our total sales, I would say, is in the region of about 20% to 22% is the market share. If you compare this market share vis-à-vis the tyre industry, our share of the market is closer to 40%. But when you look at the production capacity because we have almost, as we have been indicating, almost 60% of our product is exported out of the country. When you look into production capacity, I would say we account for about closer to 28% to 30% of the total capacity in the country. Does that give you a broad sense of the three different…?

**Faisal Hawa :** Yes, very much. So, would the growth come out of trying to collect more reclaimed rubber or trying to really ramp up manufacturing facilities with more, where is the difficulty coming in in increasing sales year-on-year?

**Harsh Gandhi:** So, it is a little bit of a mixed bag, because we have got an export market as well, I think you have got to realize that while it is a good hedge against India, it also means that it has its own challenges. And regulations in different parts of the country and competition in different parts of the world also drive the global demand. So, while there are some companies that are obviously looking at enhancing and adding more reclaimed to their consumption, there are some that are moving away to other forms of sustainable materials. And reclaim is not the only form of recycled material that is being used. As far as the domestic industry is concerned, the domestic tyre industry growth is quite, I mean, if we look at the last few quarters, it has been quite promising. And again, there is you look at GRP share of revenue from the domestic market, we have actually started to grow share in the domestic market. And that is clearly an indication that it reflects how the tyre capacities are growing and vis-à-vis that our sales in India is also starting to grow.

**Faisal Hawa:** Second question is, are you looking at enhancing some more products, which would cater to the Indian tyre manufacturing industry?

**Harsh Gandhi:** So, the Indian tyre industry uses rubber, then they use rubber chemicals, they use oils, I mean, a variety of other products. I do not see much synergy on the operations or the manufacturing side or on the sourcing side, the only synergy could be on having the same customer to sort of offer an alternate product to. We have evaluated opportunities from time to time, but nothing at the moment on the horizon.

**Faisal Hawa:** There is not a reason enough to expand any line.

**Harsh Gandhi:** Yes. I mean, as I said, unless there is a strong synergy with either operations, having the same customer does not mean that we can make the same quality of products that they may expect in, let us say, a rubber chemicals.

**Faisal Hawa:** I was only trying to understand where the growth would come from.

**Harsh Gandhi:** So, I mean, as we have been maintaining, I think as far as the tyre industry is concerned, we have gone through a phase of consolidation as well as actually the lower commodity prices did not help the growth in any way. I believe for the next two to three years as the commodity prices continue to at least directionally show that they are going to remain firm, there is a strong possibility that we will continue to grow in the tyre segment. However, as we have also indicated that we are pinning a lot of our hopes on growth from the non-reclaimed rubber side, which is basically the nylon and the composite businesses.

**Moderator:** Thank you. Next question is from the line of Samrat Singh from TPS Capital. Please go ahead.

**Samrat Singh:** On the reclaimed rubber side, how does the pricing work there? Is that in a pass through on a daily basis or is it like a quarterly contract?

**Harsh Gandhi:** Thank you for the question. Yes, I mean, depending on the customer and the relationship, the prices are either fixed for a quarter or six months, or sometimes even as long as a year. And these are all long-term contracts, because there is quantity commitments that are also given by the customers. So, pricing depends on that. Of course, we do also have a spot market price with distributors and dealers, which is more or less a monthly change in prices. So, it is a combination of customers, monthly, quarterly, six monthly as well as annual. If you ask me, majority of the customers in terms of the impact of volume would be quarterly pricing, very few in the one month and in the 12 months category, and several in the six-month pricing category.

**Samrat Singh:** Okay. So, the increase, and you said you have taken off 2% or 3%, was that fully baked in, in your quarter four numbers? Or will that now show up in Q1?

**Harsh Gandhi:** So, again, I think it is a combination, some price changes started to happen from Q4 of last year's fiscal, the monthly numbers started to change from Q3 of last year. And some of the annual numbers of impacts have started from April, as well. So, I think it is a combination, it is continuing to increase. So, the 12% to 18% that I mentioned what was achieved last year from point-to-point basis, it was not consolidated or weighted average of the increase. We have also seen this quarter some increases come through and some pass through also expected in the next quarter. Now, mind you that not all of it is on account of only commodity, I think a lot of it is on account of cost increases that we have seen in our operation, mostly on account of shipping and the other oil derivatives. I mean, we use a lot of oil derivatives in our processes. And if you look at energy, if you look at packing materials, etc., those are all oil derived and oil dependent. So, some of these price increases that we are seeking from customers is to only offset the prices that price increases that we have had to see. And some of it is over and above that offset. So, it is a combination of all of that. So, this 12% to 18% does not reflect the pure offset, it is a combination of cost increases, as well as some of it which is over and above that.

**Moderator:** Thank you. The next question is from the line of Dilip A. Jain from Ayush Capital. Please go ahead.

**Dilip A. Jain:** Is government incentive on exports of reclaimed rubber set to increase as we have reported in Q4 of FY 2021? What is the COVID second wave impact on our business operations as of now? Have we entered into any long-term contracts with our customers for supply of reclaimed rubber? In the past, we had planned for process automation and reduction in manpower costs, what is the progress on the same as of now? And my last question is, with lumber wood prices skyrocketing in North America, is there a scope for volume expansion in rubber wood by our clients? Thank you. Thank you very much.

**Harsh Gandhi:** This is five questions actually. So, I do not know whether the operator will allow me to answer all those five. But let me do two things. One is, very quickly, talk a little bit about the long-term contracts and the COVID second wave with the export incentives, they are pretty much linked. So, one, most of our relationships and most of our sales comes from, I would say, 90% to 95% of our customers are all repeat, our orders are all repeat. We get annual and quarterly contracts commitments from our customers, so there is a high level of predictability in the business. Of course, with the COVID second wave, there has been a slowdown in domestic demand. But as I mentioned in the speech, the international market demand continues to be fairly robust at this time. So, it is a question of balancing the two volumes. I do not know where you picked up this thing about export incentives, because export incentives actually are declining as far as the government is concerned. Yes, there have been packages given to exporters for COVID relief, but there is no specific incentives that have been given to exporters. So, our export incentive continues to be a drawback income, which is a certain percentage, and that has not changed through COVID period.

The last part of the question that you talked about is on the process automation. I think a fair bit of employee costs not entirely visible in this year's financials, because we had a lot of separation costs during the last year. But in the current fiscal you will start seeing the benefit of some of the process automation, as far as this cost is concerned. Having said that, I mean, one needs to look at that there is always a wage inflation in the country. So, while we are reducing deployment numbers, I think the important thing to note is that wages as a percentage or wages on a per tonne basis continue to keep dropping as far as the organization is concerned. Does that answer all your questions? I have tried to do justice to all your five questions but been a little reasonable.

**Dilip A. Jain:** How about lumber wood prices that are skyrocketing in North America, is there a scope for volume expansion in rubber wood?

**Harsh Gandhi:** Yes, so lumber used in two major industries, I mean, one is construction and the other is in the transportation. To the extent of construction and the housing sector is concerned, there is going to be no impact, obviously, on how that impacts our rubber composite business. Yes, as far as the transportation is concerned, yes, there will be an impact on the same. Having said that, I think the replacement in these end segments is also a lot dependent on how much of OE sales happens in the transportation segment. I mean, as commercial vehicle sales grow in North America, you are absolutely correct, there should be a corresponding increase in the composite business. But not just because of the price in lumber, but it is more linked to the OE sales of commercial vehicles. Commercial vehicles, when they are sold, we will use the wood for its flooring, they will not replace it through its lifecycle. So, even if the lumber prices are high, but if the OE sales do not increase, it will not lead to an increase in demand for composite material. If there is a demand increase in the OE space, yes, there will be an increase in the demand for the rubber composite.

**Moderator:** Thank you. Next question is from the line of Keshav Garg from CCIPL. Please go ahead.

**Keshav Garg:** I wanted to understand that what has to happen in the external circumstances for us to go back to the EBITDA of around Rs. 45 crores with 18% operating margin, which we made in FY 2012?

**Harsh Gandhi:** Well, the short answer is, we need to go back to 2012. But the long answer of this is, I think there is a combination of a lot of things, in the sense that, the demand fundamentals, I mean, you are talking about a situation with natural rubber prices were at Rs. 250 a kg, you are talking about a time when oil was at close to $150 a barrel, you are talking about a time when synthetic rubber prices were all in the region of $5 to $6 a kilo. So, I think from that perspective and the ability to sort of extract a higher margin for the product, depends a lot on how the prices of the virgin rubbers are and where it is going to be. As we speak, today, natural rubber prices are in the region of Rs. 150, I mean, they are much higher, they are 50% higher from what they were about 8 to 10 months ago, but they are nowhere close to what it was at its all-time high. And so is the case with synthetic rubber. I mean, not saying that we are only dependent on those prices to change. But I mean, our effort is to see how we can get into more value added or high margin products. And as kind of the other businesses have started becoming financially independent, I think you will start seeing improved EBITDA margin even from the reclaimed rubber businesses. That is the long answer. But the short answer is clearly we go back to 2012.

**Keshav Garg:** And sir also you would appreciate that rubber prices and crude prices are cyclical, whereas some of the factors that affect us are basically structural in nature. For example, if we see the cost of collecting the scrap tyre, it is very labour intensive, so it will keep on going up. If we see the power prices, it will keep on going up. And especially with more and more radial-ization, it will become more power intensive, I understand, for us to reclaim the radial tyre as compared to the previous tyres. So, basically what that means is that, okay, in fact, today natural rubber prices are favorable towards, but in future they might go down, but these factors like higher cost of collection of rubber scrap, higher power costs. So, I mean, how do we balance this out?

**Harsh Gandhi:** So, important, and interesting questions. Thank you so much for the same, because rarely do people ask this question. So, two things, as far as energy is concerned, I mean, you are right, it is the second largest cost for us, after raw materials. And I will address that bit separately. So, I mean, as a company while we are a sustainable materials company, we have also focused on seeing how we can move to more and more sustainable energy, therefore try and find a way to bring our overall cost down. So, we really need to understand and appreciate that energy costs, as a percentage of sales, has been dropping and that is clearly because we have been moving from, if I may, traditional sources of energy to cleaner sources. I mean, today, we have about 1.2 megawatt of solar installation in our plants, we use about 0.8 megawatts of wind energy, and we got 2 megawatt of gas-based energy that we are using in our plants. So, all of this is clean energy, but at the same time, it is also lower cost per unit than the traditional fuel that one would buy from the grid. So, yes, we have been on year-on-year basis making efforts at reducing the energy cost on a per kilowatt hour unit basis.

The second part of the question, which is on the RM costs, yes, RM collection is going to become more expensive as time goes on. And that is one of the reasons why I talked about a little earlier that we are more focusing more on the higher margin products. And there the idea is really that, you buy a Rs. 15 per kg tyre scrap or tyre waste, and you would try and sell it at Rs. 30 a kilo. Today we are looking at buying the same materials, which may cost about Rs. 17 or so and I am giving numbers which are representative, so please do not take these as actual. So, while there has been a 10% odd increase in the raw material cost, our endeavor is to see how we can sell reclaimed rubbers which will now fetch us not Rs. 30 but Rs. 40 in the industry. So, I think what we are looking at balancing both RM cost and energy cost is by moving to the higher value margin products and also looking at year after year reduction in the rupees per kilowatt of energy that we are consuming.

Of course, apart from that we are also focusing on bringing down the energy cost per tonne, but that is difficult because there the focus is to see that more automation to reduce people is going to mean higher consumption of energy per tonne of reclaimed in the long run. But that we are offsetting by reducing the rupees per kilowatt hour of energy cost. Does that make sense?

**Keshav Garg:** Yes, it makes a lot of sense answer. Lastly, sir, have any peers of ours, have they folded up due to the lockdown in unorganized sector over the past one year?

**Harsh Gandhi:** I would think that consolidation and rationalization in the industry always takes place. I do not want to comment on what is happening as far as the competition is concerned. But I do not have a right now absolutely accurate information about how many of our competitors have closed down on account of economics, how many have closed down on account of COVID, etc. There is a lot of forces in play at the moment, so it is very tough for me to kind of comment on whether an industry wide rationalization has happened yet or not.

**Moderator:** Thank you. The next question is from the line of Kirti Gangar from Grey International. Please go ahead.

**Kirti Gangar:** It is a pleasure to talk to you after 10 years, I was at the 2011 AGM at GRP, and I wanted to ask two questions. In retreading business, what is the market potential for retreading business? And how is our company differentiated vis-à-vis other measure players in that?

**Harsh Gandhi:** Thank you for the questions. Good to have you on a call after 11 years, so thank you again for your renewed interest in the company. As far as the retreading business is concerned, our model is very differentiated because of two things. One is, traditional retreading involves making a trend which is flat in nature, and then in some ways curving it around the tyre to force fit it. The technology that we are bringing into India, which is patented technology of Marangoni is essentially produced as a ring, and therefore is able to offer a much significant life as far as the tyre is concerned. So, the focus is to see whether we can get to as much as 80% of the life of a new tyre with the ring tread that we are fitting onto the fleet's tyres. So, the focus is on reducing the cost per kilometer for the fleet owner. And that is the genesis, or that is the basis of this. Apart from that, of course, on the second retreading and on its third retread, you need to have flat tread. So, we actually have a differentiation by way of having three categories of products. One, which is the ring, which is priced higher than anything else out there in the market. We at command at least 20% to 25% premium over the next best product available in the country. Our flat treads are comparable to other flat treads in the country. And we offer them again in two configurations, based on the price and the quality of the casing, which is the tyre that comes in for retreading.

As far as the margins are concerned, today is not a good indicator of what the margins could potentially be, because we are not manufacturing tread in India, we currently bringing it in on a trading basis as a master franchisor. And the reason for that is, we need to have a certain minimum volume before it warrants a manufacturing capacity. So, I would say, at the moment the number of franchisees that we have, does not warrant building a manufacturing scale plant. But yes, this is something that is in the offing and hopefully in the next several quarters as we hit certain volume of ring treads, we will look at a full-blown manufacturing setup for this. At the moment, the flat treads are also being outsourced on a contract manufacturing basis from within the country. So, today's margin profile is really not a clear reflection of what we believe is the true potential of this business. However, we are clear that we need to invest in this business to build it to a certain volume, after which only a manufacturing unit will make sense. I do not want to comment on the margins because today it is more a trading margin and not a manufacturing margin. Manufacturing margin numbers would be very different, but I cannot comment on it until we have the scale to give you a number.

**Moderator:** Thank you. The next question is from the line of Ashok Jain from Ayush Capital. Please go ahead.

**Ashok Jain:** Happy to note that team GRP is safe and healthy, I hope all our plants are open and working. My first question is regarding, in Q4 of last year, our non-reclaimed rubber business margins dropped significantly compared to Q3, what is the reason for this?

**Harsh Gandhi:** Sorry, in Q4, of which year are you referring to?

**Ashok Jain:** Last year, Q4 of 2021, our non-reclaimed rubber business margin dropped significantly compared to Q3.

**Harsh Gandhi:** Compared to Q3, yeah, actually if you see, there was a slight dip in revenue as well. This is actually a lot to do with year-end shipping line pressures. And as a result, there was a lot of material which was in transit and was unable to sail through. So, I think it was an aberration of sorts, not a reflection of business. I mean, if you notice, it went from 9% something to 8% something revenue as well dipped. So, I think it is more a reflection of that than anything else. I'd treat it as an aberration; I do not think it reflects why margins dropped.

**Ashok Jain:** Because the Q3 reported a margin of 15%, whereas in Q4 we reported a margin of just 8%.

**Harsh Gandhi:** So, as I said, there is a lot of stock variation and in-transit materials at the year end. I think the shipping prices has actually, we thought it would start improving in Q4, but it actually started to get worse as well. Even as we speak now, there is a lot of our containers and a lot of our material which is sitting ready but unable to ship through. And that is one of the reasons why we are not able to make a lot of sales and conversions at the moment. So, you look at March, as far as the non-reclaimed business is concerned, some of the composite business was to do with that. But, I mean, it is an aberration, I would say.

**Ashok Jain:** But it is not improving this quarter also?

**Harsh Gandhi:** This current quarter, you mean?

**Ashok Jain:** The current quarter, for April and May the shipping lines are better, you are able to ship or not?

**Harsh Gandhi:** So, I think depending on the sales, there is a lot of volatility. All I can say is that, even after prepaying for cargo there are times when you do not get the containers, or you do not get the shipping in time. So, I think there is a lot of struggle. I would just say that, I mean, in some trade lanes the prices have gone up by as much as 5x or 6x. So, it is a very, very difficult time out there. I mean, I guess you probably hearing this from all exporters, that they are struggling on getting containers and costs have kind of gone and hit through the roof. We are not in any different situation than them. I mean, some of the largest tyre companies to whom we supply, on an FOB basis, which means they are to organize for the cargo, even they are having difficulties in arranging for ships to take the containers on time. So, it is something that everybody is trying to cope with. These are challenging times. I think it is funny, but there have been a couple of companies that have actually taken airfreight of our cargo just to sort of fulfil and make sure that their plants do not shut down. I mean, it is crazy that somebody would pay Rs. 50 lakh to ship material, which is worth Rs. 10 lakh, but it is the reality.

**Ashok Jain:** Sir, is there any correlation between raw material tyres with the crude oil prices?

**Harsh Gandhi:** Yes, as we have been maintaining that the alternate use for end-of-life tyres is pyrolysis. And that is closely linked to the price of fuel oil. So, to that extent, yes, there is a correlation of raw material prices with that of fuel prices.

**Ashok Jain:** Is it 1:1?

**Harsh Gandhi:** No, I do not think so. I mean, again, it is tough to put a number to what it is. But yes, there is a correlation. I mean, pyrolysis recovers 30% of the tyre to produce low grade fuel oil, which is used for different purposes, specifically heating. So, I mean, depending on how FO prices move, and how some of the other prices like diesel, etc., move, their ability to compete and therefore buy is affected. The other issue was that temporarily the Ministry of Environment and Forests had banned the import of waste tyre material. And as a result, for a period of three to five months, there was a major scramble and shortage of material, because all the manufacturers that were otherwise importing raw material were left to buy material from domestic sources, as a result of which there was a temporary increase in prices of tyre materials. That situation is behind us now that has temporary kind of this thing, because the government is now offering permissions to import waste tyre, as long as it is in shredded form.

**Moderator:** Thank you. Next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

**Rohith Potti:** Sir, just curious to know your thoughts, with the increasing focus on sustainability around the world, do you see the reclaimed rubber to virgin rubber ratio going up over time? In the sense that the customers might be willing to pay a little higher in order to meet the sustainability targets with time, in relation to the past.

**Harsh Gandhi:** So, I think while everybody wants to be sustainable, nobody wants to pay a price for it. I mean, that is unfortunate, everybody wants sustainable materials, but I am not sure about the second part of your question, whether they will pay a premium, answer is probably not. Do they want to be more sustainable? Answer is yes. I mean, are we working with our customers to increase or help them increase the percentage of reclaiming their formulation? The answer is yes. Will they therefore give us a premium for the product? Answer is, possibly not. So, I think there will be a balance in terms of what will be the ratio of natural rubber price or synthetic rubber price to that of reclaimed rubber price. And I think that question is better answered by our customer, because every customer seems to think differently about this. So, I do not want to give you a blanket answer on that. But yeah, I mean, from our perspective, it is very clear that we are making attempts and helping our customers in increasing the content of reclaim in their formulations, and have been successful in the last years, and hopefully, we will be continuing in the coming months. But I do not see this resulting in any kind of pricing premium or pricing power for us.

**Rohith Potti:** Thank you, that was helpful. And my last question is, I mean, from 2003 to 2013 our EBITDA margins averaged at 18%, as was mentioned by previous participant, and from 2015 to 2020 it has been in single digit ranging from 6% to 9%. So, you mentioned that a part of it was due to external factors like raw material competition, energy costs, etc., and a part of it was internal as we invested more into the newer business area. So, could you give us an idea of what percentage of revenues was due to internal reasons in the same that you are investing for the long-term? How much of the P&L hit was because of that?

**Harsh Gandhi:** I do not have the numbers immediately available for me to comment on, but I would say that on a standalone basis, reclaimed rubber definitely has the potential to get to double-digit EBITDA margins. And I think once we achieve a certain scale, which as part of this rationalization and debottlenecking we are in line of achieving in the next couple of months, I do believe that we will get to double-digit EBITDA margins as far as reclaimed rubber business is concerned.

**Moderator:** Thank you. The next question is from the line of Harshit Bolecha, an individual investor. Please go ahead.

**Harshit Bolecha:** I just want to know imports as a percentage of raw materials consumed, and will Q1 FY 2022 will be expected to be better than the last year Q1? Because with the increase in the price of rubber and the commodity prices. Thank you

**Harsh Gandhi:** So, the second part of your question is, Q1 of last year was a pretty much of a write-off, I mean, we were in the worst part of the pandemic as far as industrial operations were concerned. Yes, our plants are, as I mentioned, operating, and we are operating depending on the plant between 65% to 85% of utilization. So, definitely we will be expecting a much better Q1 compared to last year's Q1. Will it be in line with Q4 of the last year? Answer is clearly no, because the second wave has affected us by way of availability of manpower and raw materials and so on so forth. The first part of the question in terms of what is the percentage of imports of raw material, I mean, I can tell you on a volume basis, it is in the region of about 14% to 15% of our total input material consumption.

**Moderator:** Thank you. Next question is from the line of Rakshit Jain, an individual investor. Please go ahead.

**Rakshit Jain:** What is the number of franchises we have right now? Will we be growing it by one every two months, which we planned earlier?

**Harsh Gandhi:** So, at the moment, as far as the retreading business is concerned, we have 12 signed franchisees that are there, the level of operation will be depending on because they are all spread across different states. So, at the moment, franchisees in Tamil Nadu and Kerala are worst affected, while some others in the other parts of the country are not as badly affected. Our stated target of growing at the rate of one franchise a month, obviously, did not assume that we will be in COVID second, third, fourth waves and COVID lockdown. So, to be honest, I cannot say that we continue to remain committed to that number. Yes, our attempt and endeavor are to, but I mean in these times it is very difficult to set up franchisees at that pace, especially when people do not have enough mobility, I doubt that the pace will be the same. I think once we normalize and if once things kind of go back to pre-COVID kind of situation by way of economic activity, yes, our stated target of adding one per month definitely continues. We have made the on-ground readiness and availability to ensure that happens by way of whatever is the level of localization as well as the ramp up in capacity as required for the Indian products by our partners, that is all in place. But I think franchise expansion cannot happen at the same pace if we are going to continue in these lockdowns. So, I do not have an answer to what we will add this year, because I do not know how long these days will last as well.

**Rakshit Jain:** Will they be able to increase or non-reclaimed number sharp to 20% or at least higher teens during this current financial year, and to at least two-thirds by next three to four years?

**Harsh Gandhi:** Well, that is definitely a stated goal, which I have put out publicly as well. So, I mean, assuming you are referring to that same one, I mean, yes, that continues to remain the stated goal. I mean, how soon we can execute will depend on a lot of factors. And I think the second wave of COVID has a major role to play because the nylon business is 100%, as I said, dependent on demand from India. So, I mean, depending on how soon we unlock and how soon we normalize, I think the growth will depend really on that. But yes, we stay true to that. As I said, we are adding capacity to the extent of about 40% in this current year, as far as that business is concerned, composite business also we are adding some capacity. So, that, we continue to invest in the non-reclaimed rubber businesses. When will we get to 20% and one-third, again, tough for me to answer as we speak because of the impeding lockdowns we are all faced with right now?

**Rakshit Jain:** My last question. As we shift from reclaimed rubber to non-reclaimed, will we be able to improve our working capital base?

**Harsh Gandhi:** Well, I think the CFO has already said that, I mean, our net debt has come down and that is a combination of reducing the number of days both from an inventory as well as from a net debtor perspective. So, yes, our attempts are at being fiscally more disciplined, if I may. And, yes, net debt is something that we are focused on to see how we can bring down our total utilization of working average limits.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now have the conference over to Mr. Harsh Gandhi for closing comments.

**Harsh Gandhi:** Thank you so much. Thank you, moderator, for making this conversation seamless. I appreciate and thank each and every one of you that has attended this call, taking the time out to learn more about the company. And also, some of the questions have been really enriching in terms of providing us an insight into what are the concerns that you see, so thank you so much for those insights.

As all of us are going through the challenges of COVID, I can only hope and imagine that we get over this as soon as we can and all of us get back to business as normal and we can meet in person or the at the AGM sooner rather than later, rather than just having e-AGMs. I thank you once again for taking the time out and I hope that the business environment improves, and less lives are lost and more people get vaccinated. Stay safe, everyone. Thank you so much for the call today.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of GRP Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your line.