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26.06.2020

To BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001.  <b><u>Scrip code : 509152</u></b>	To National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051.  <b><u>Symbol : GRPLTD – Series: EQ</u></b>
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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 16<sup>th</sup> June, 2020 to discuss Company's performance for fourth quarter and the year-ending 31<sup>st</sup> March, 2020.

Kindly take the same on record.

Thanking you,

Yours faithfully,  
For GRP Ltd.

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

Abhijeet Sawant  
Company Secretary

Encl : a/a



“GRP Limited FY2020 Earnings  
Conference Call”

June 16, 2020



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



*GRP Limited*  
*June 16, 2020*

**Moderator:** Ladies and gentlemen, good day and welcome to the GRP Limited FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal 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. Thank you and over to you Sir!

**Harsh Gandhi:** Good morning. A very good morning to all of you ladies and gentlemen. Thank you for joining us on the annual fiscal 2020 earnings conference call. Along with me today I have our company CFO, Ms. Shilpa Mehta and SGA our Investor Relations Advisors on the call. Firstly, I hope that you and everyone around you are safe and in good health given the current time that we are all in.

We have uploaded our results on the stock exchange and I hope all of you have had a chance to go through the same, while most of you are familiar with the company and what we do, I would just like to kind of run a quick recap on our businesses and the verticals just so that there is greater clarity and then will help you guys prior to the Q&A session.

So the company was incorporated more than 45 years ago, and over the years we have grown from being a single product company, operating in the reclaimed rubber business to now a multiproduct business, but all of them with a singular focus of providing sustainable material solutions to substitute virgin rubber and plastics. The focus has been also on using a single source of raw material, which has been end-of-life tyres and trying to extract as much value as we can through the multiple business units that have been set up. At this moment, we are operating four business verticals within the company and one which is outside the company, which I will talk about separately as well. So the core of the business continues to remain reclaimed rubber and this is the predominant business of the company. This is where we recycle end-of-life tyres, tubes and other automotive product wastes to make rubbers, which are used again by the tyre manufactures, conveyer belt manufacturers and other auto and industrial product manufacturers to blend along with the virgin rubbers. In some ways we are helping most of these tyre manufacturers fulfill their circular economy obligations and therefore they are able to use this material successfully in making new tyres. We supply to 7 out of the top 10 global tyre companies in the world and all of the Indian



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tyre manufacturers in the country and we are an export dependent company, so our exports are to more than 60+ countries as far as reclaimed rubber business is concerned.

Our second segment is industrial polymers or what we also call engineering plastics. This business uses the nylon from end-of-life waste partly tyre waste and also other types of end-of-life waste and here we make products, which are upcycle nylon as well as nylon compounds and this finds application in the sectors ranging again from automotive to consumer goods to industrial applications mainly in the electrical and switchgear sector and in the consumer goods it is mainly the furniture and the furnishing sector. This is the upcoming business we have been investing steadily over the last few years and now we have gotten to a stage where commercialization has happened and certain decent capacity expansions and additions have also taken place in this, which I will briefly touch upon a little later.

Our other business is a business called Custom Dye Forms, here we take the end-of-life tyres itself and try and recover as much of the engineering and sound barrier properties of this and cut out products, which are going in B2C markets specifically in the US and these are finding end-uses in agricultural applications in exotic applications like snow movers in North America and also in the general purpose applications like mats and stable mats and so on so forth.

The other business, the fourth business, which I have mentioned earlier is the Polymer Composite Business, this is a tie-up with an American company for whom we are exclusive contract manufacturer and we produce composite boards based on recycle rubbers and plastics and its end application is used to substitute wood and concrete in a variety of end segments. As the industry is moving away from wood and moving away from products, which are more environmentally polluting this end application has a fairly strong niche, which we have been able to establish and hopefully we grow this over the period of the next few years.

We also operate a Tyre Retreading vertical and this is in a separate company where GRP is a 50% joint venture partner with an Italian company called Marangoni and Marangoni is one of the world's largest independent tyre retreading companies and this business is being built as a franchise model and the idea is to setup franchises with entrepreneurs in the respective geographies setting this up in close association with the transportation industry in these centers and the franchise network would be supported by the joint venture, which is called Marangoni GRP Private Limited by way of supply of tread rubber and equipment to do the retreading. So this is a little bit about the businesses.



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Our focus over the last few years has been to diversify business segments to reduce our concentration risk and with a singular focus on earlier on the tyre industry we are now looking to diversify this industry risk and to achieve circularity for the overall mobility industry and I think as I mentioned before this the core focus continues to remain extracting maximum value from a single raw material source, this enables us of course to cater to a wider industry set and as I mentioned reduce dependence on a single industry.

Most of these businesses that I talked about are research driven and have a very strong niche compared to other competitors in those industries and certainly will command a much higher profitability as we kind of scale and the synergies that each of these businesses derive from one and other including the common raw material will lead to in our belief a much better return on investment in the longer run. Now these businesses while they have been incubated over timeframe ranging from two to five years they have now all moved if I may say comfortably that they have all moved from a state of development to becoming commercial and all of these now kind of are gaining more tractions and I had mentioned before as far as engineering plastics is concerned we just commissioned a new line of production and there our capacity for the business has gone from 2400 tonnes to 6000 tonnes, so an addition of 3600 tonnes per annum has taken place and this kind of machines arrived only around March, but have just been recently commissioned and therefore as part of the unlock 1.0 we have been able to commission this equipment and now take the capacity to 6000 tonnes.

Another significant feather that we have added in our cap has also been the certification has a great place to work. We realized that as we are scaling into other businesses it is important for us to be able to attract and retain the right kind of talent and this has been in that senses have moved towards that to see how we can attract the right kind of talent to kind of expedite growth in some of these businesses. So with this broad introduction, I would like to ask our company CFO, Shilpa to take you through the operational and financial highlights of Q4 as well as the fiscal year 2020 and thereafter we will talk a little bit about the near term impact of COVID and also open up thereafter for Q&A. So over to you Shilpa!

**Shilpa Mehta:**

Thank you Harsh. Good morning everybody. So as per operational and financial highlights of GRP for the financial year 2020, total volume for FY2020 stood at 59850 metric tonnes as against 64226 metric tonne in FY2019, so it was approximately down by 7%. Out of total volumes, domestic volumes constituted 37% while export volumes contributed 63% in FY2020. For simplification, we have bifurcated our business into two segments, it is reclaimed rubber and non-reclaimed rubber business. Reclaimed rubber business being the

dominant one it contributes around 95% of total revenue in FY2020 while non-reclaimed business, which comprises Industrial Polymers, Custom Dye Forms, and Polymer Composite, contributes the rest. Revenue from operations for FY2020 stood at INR 3487 million as compared to INR 3574 million in previous year so there is a reduction of 2% from the previous year. Revenue would have grown over the previous year, but due to the lockdown impact on account of COVID in March it could not happen. Consolidated gross profit for FY2020 was at INR 1784 million as compared to INR 1867 million in FY2019 so there is a reduction of 4% over previous year. Consolidated gross margin is at 51.2% for FY2020 as compared to 52.2% for FY2019. Consolidated EBITDA for FY2020 was at 189 million at 5.4% compared to INR 254 million in FY2019 so over the previous year it is down by 25%. This decline in EBITDA and EBITDA margins were largely due to disruption in the business during second half of March when there was no revenue; however, expenses continued of fixed and semi variable nature. Consolidated profit after tax was at INR 30 million in FY2020 as compared to INR 53 million in previous year. Gross debt for the year as on March 31, 2020 was at INR 855 million, which includes both long-term and short-term debt, our net debt stood at INR 773 million. We have estimated the loss on account of the COVID impact or lockdown impact at INR 1.14 Crores, which occurred due to loss of sale and due to payment of fixed and semi variable expenses. So now I will ask Harsh to take over to explain the impact of COVID on our business.

**Harsh Gandhi:**

Thank you Shilpa. I will give you a brief about what is the impact of COVID has been I am sure all of you have questions around what has been the impact of COVID and its impact therefore in our business so I will dive into that such that the Q&A is a little more meaningful for all of us.

The rapid outbreak, which sort of had been a significant health crisis around the world has quickly kind of moved from being a health crisis to becoming also as much as significant economic crisis and I think we are all familiar with and have all become experts and how this is going to impact us, yes all of us continue to be in the dark on how it will, what it will be in terms of numbers. So while the government aims at containing the pandemic and slowly, slowly opening up the economy I would like to dive deeper into what have been the challenges that we as GRP have faced and therefore what we are doing to address those. So it is clear for all of us to see that the pandemic has disrupted not just the supply side, but significantly also the demand side of the equation. As a result all our manufacturing facilities had to be shutdown during March starting 21st. Two of the plants opened in April around April 20, 2020, two plants opened in the first week of May and then another plant opened in the second week of May and these were all based on the guidelines issued by the



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local, central and state government and as a result of this shutdown the impact on revenue and profitability is going to be fairly significant.

With the easing of the lockdown, one of the biggest challenges has been to resume operations based on the directives that have been given, but more importantly to restart operations adhering to certain safety and social distancing norms and also ensuring employee wellbeing which is at paramount in terms of focus. So we have developed obviously the right workplace guidelines and all our facilities I can say fairly confidently are now operating with utmost care towards ensuring employee health and safety, ensuring distancing norms, and ensuring effective work from home for function with departments, which are not able to go back to work and that was specifically the head office in Mumbai.

We have obviously also focused right from the day of the lockdown in ensuring that our short-term financial liquidity is addressed suitably and then also taken active steps to ensure long-term survival of the business. Most of our customers in India had obviously shutdown as we all know and most of them have resumed operations, but again at varying scales and utilization of capacity levels, but as a result more or less over the last two-and-a-half months we lost all the domestic sales because most people had inventory, etc., so our domestic sales are starting to resume only by the end of May.

For us the silver lining has been the export customers most of you are aware that our exports has been more than two thirds of our total revenue and most of our customers in overseas markets continue to operate even during the lockdown in India, so this led to a quick resumption in sales and the international markets as and when we were able to restart our plans. So while a demand continues to be significantly lower levels compared to what we were averaging most of last year we are expecting hopefully soon that the demand will kind of return to normal levels.

Speaking about the automotive industry, I think we all know that in India the automotive industry even pre COVID was going through fairly significant challenge in terms of the BS 6 challenges that they were facing, increase in fuel prices, higher interest rates on account of the NBFC liquidity crisis, etc., and as a result the pandemic has actually only worsened that situation. Of course many domestic auto companies have started reporting that things are kind of getting back to normal and so on I think only time will tell how soon this normalcy will get reverted to or resorted to. At this moment I can say confidently the GRP is in a very comfortable liquidity position to meet its financial and all other commitments. We have taken active steps of rigorously assessing our operational liquidity and taken significant measures in reducing our cost structures in a variety of areas, employee cost being one of

the major ones where we have unfortunately had to go through a round of layoffs. We have also frozen hikes in salary of course and for the first quarter we had imposed cuts in salaries across the organization starting from the senior management level. We have deferred most of our capex and thankfully again because of a fairly significant robust debtor book, which was comprised mostly export customers our collections continue to be at a pace, which is faster than our expense cycle, so therefore we have a comfortable liquidity situation in terms of unutilized working capital resources.

We believe there will be obviously on account of all of this a significant impact to revenue and profitability for Q1 as well as for all of FY2021, but hopefully we are confident that we will be able to adapt with this changing business environment and response suitably to fulfill the needs of our customers. I will be happy to take any questions, which maybe a little more specific towards this impact or even answer questions at this stage on last year's performance. I would like to leave now the floor open for Q&A and hope to answer all of your queries. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ankit Agarwal from Arc Capital. Please go ahead.

**Ankit Agarwal:** Sir I have a couple of questions, the first one being like what is the company's capacity utilization for the whole year?

**Harsh Gandhi:** The capacity utilization in FY2020 it was at about 85% of the installed capacity.

**Ankit Agarwal:** What is it for like different segment wise if you can give that also?

**Harsh Gandhi:** The utilization by different businesses?

**Ankit Agarwal:** Yes.

**Harsh Gandhi:** It is a little difficult in the sense that the capacity numbers is a function of product mix, so normally when we do talk about our capacities it is based on a certain product mix and therefore it is tough to give a product wise or a business area wise utilization, but as I said broadly one can assume that the utilization has been at around 85% because product mix determined the eventual end capacity so it will be inaccurate to provide the number for each of the businesses as a result.

**Ankit Agarwal:** Right. Sir as you mentioned in your opening speech that tyre industry has kind of slowdown because of pandemic so has there been like reduced orders for GRP as well?



**Harsh Gandhi:** Yes for the Q1 in the domestic tyre industry as I said we have our first sale in the domestic industry happened only towards the end of May so while we started operating from end of April in some plants the domestic tyre industry order started to come in only much later because I think everybody was straddled with quite a lot of inventory as on March and as a result even when they started production they did not need new materials.

**Ankit Agarwal:** The last question is on the raw materials, so where do you source the raw materials from which is end-of-life tyre?

**Harsh Gandhi:** 95% of our end-of-life tyre material is bought from within the country within India and this is from a collection network that is spread across the country and combination of institutional sales, which is auctions of State Road Transport Corporations and large corporate to retail collection, which is a pyramid kind of a network where the collection happens at a puncture shop and then aggregates across levels before it kind of reaches our plant, but we have about 180 or 200 active suppliers from across the country from which we source these materials.

**Ankit Agarwal:** In this situation you have been like facing difficulty or what has been the condition now?

**Harsh Gandhi:** So generation of tyre waste has obviously taken a little bit of a hit on account of the low sales and low economic activity per se that is a very short-term trend, this is the time when rather than sales of OEs the replacement sale will actually pickup and whenever there is more replacement sale, which means there is more greater generation of waste tyres, so going forward we expect for this fiscal year the availability of raw materials will be relatively easy compared to the past year.

**Ankit Agarwal:** Fine Sir. That is it from me. Thanks and best of luck.

**Moderator:** Thank you very much. The next question is from the line of Ayush Agrawal. Please go ahead.

**Ayush Agarwal:** I have couple of questions. So first question is what is the demand outlook for the reclaimed rubber business considering the weak demand from the tyre industry?

**Harsh Gandhi:** So I will put this question in two buckets, one is in immediate short-term and then one is the little bit long-term. When it comes to the immediate short-term demand I think one has to rely a little bit more on the way the auto industry and the way tyre industry are talking about the outlook. I think we have been hearing a lot of our industry stalwarts from the auto sectors the likes of M&M, likes of Bajaj, and likes of Maruti, if you look at these three

major companies and they are all saying that they are starting to see some sort of pickup in demand over the course of the last several weeks. Now what really happens is everybody's guess at this moment, but at the moment there is an expectation that there will be some amount of pent-up demand that will kind of get met hopefully, but in any which case our expectation is that the replacement demand will kind of start looking better over the course of the next few months and that should hopefully help the entire value chain as far as the replacement side is concerned. So that is the immediate thing I am unable to provide any numbers, but what we are starting to see is some level of normalcy is returning in a few sectors of the economy and therefore a few types of tyres and few types of categories of tyres where the demand is starting to kind of return to normal. As far as the international markets are concerned, as I mentioned most of the international plants continue to operate, there the reduction in demand is not as severe as we have seen in India and therefore while it is lower than what their order situation has been whether there may not be any cancellations rather there have been postponements of orders, which means the immediate demand in the international markets is not as bad as what we have seen in the Indian markets. As far as the long-term is concerned our very strong belief based on conversation has been having with our customers is that in the long-term tyre companies and other manufacturers are looking at solutions of sustainability more so than they have before and this is clearly because I think pandemic like this provides a right impetus to social businesses and circular economy businesses are definitely going to gain as a result of this. The other thing that will also happen is that the companies are going to be forced to look at reducing costs and we have been having active conversations with some of our customers in the tyre industry for trying to help them use more of reclaimed rubber in their products. Of course these are developments that are not going to happen overnight this does take a few months to fructify, but therefore from an indication point of view what we have seen is there is a greater interest in looking at recycled rubber more to fulfill their environmental obligations as well as to reduce cost in the future. That is all I will categorize to the immediate short-term and the long-term.

**Ayush Agarwal:**

My second question is that I want to know the quantity of reclaimed rubber used to manufacture one tyre?

**Harsh Gandhi:**

So this is not a straightforward answer and the reason for that is every tyre company has a different formulation that they use and therefore the percentage varies. Generally speaking in India the percentage of reclaimed rubber that is used by the tyre industry is at about 7.5% to 8% of the total rubbers that they use. Now this depends in a two-wheeler the percentages would be a lot higher it would kind of keep reducing as the tyre size has kind of grown so in a commercial vehicle tyre by weight the percentage of reclaimed rubber will be much lower

while in a two-wheeler it would be much higher same in the case of a tractor tyres and so on which are the off road tyres there the percentage of reclaimed rubber again would be a much higher so I think the percentage of the weight of reclaimed rubber in a tyre will depend on the type or category of tyre and its speed and performance will determine the extent of reclaimed rubber that can be used.

**Ayush Agarwal:** So we see increase in trend when looking at the current cost rationalization by the tyre OEM?

**Harsh Gandhi:** Yes, as I mentioned in the previous question yes we are seeing an increasing interest by the tyre industry in using more reclaimed rubber in their formulations and we are running at active programs with a few tyre companies at the moment to help them in incorporating more reclaimed rubber.

**Ayush Agarwal:** So have we enhanced any demand?

**Harsh Gandhi:** As I said these are long-term projects so these take a few months before they fructify, so our conversations have started with a lot of them over the course of the last three, four months, so we are hoping that in the course of the next few months we will have indication of what this means in terms of volumes for us. I cannot put a number at this stage.

**Ayush Agarwal:** So what kind of return on capital do you expect from the new non-reclaimed business?

**Harsh Gandhi:** I think COVID has thrown a lot of estimations as well as forecasting a little bit out of the window, but I can say confidently that all of the other businesses are all generating high double digit EBITDA margins and the return on capital is also fairly healthy and robust compared to the reclaimed rubber business at this time. I think as we scale these businesses I think one will get a better sense of what the ROCE numbers for each of the businesses are. Right now because a lot of costs are shared across each of the businesses it is very tough to put out numbers on each of these.

**Ayush Agarwal:** Thank you Sir. That is very helpful. All the best for the future.

**Moderator:** Thank you. The next question is from the line of Akhil Shah. Please go ahead.

**Akhil Shah:** Sir I just have a couple of questions. Sir can you highlight in detail about the business model of each of non-reclaimed rubber business?

**Harsh Gandhi:**

As I mentioned in the opening remarks as well I will be a little bit of repetition and I will just go through very briefly, essentially the idea is to use the single raw material or majority of our raw material will be the end-of-life tyres, to put it in context you take a tyre and you are able to make components directly cut out of and split out of the tyres and that is the business of CDF where we assemble it to make mats and barriers for sound as well as insulation in a lot of applications, agriculture as well as household applications, so that is the business of CDF. Whatever is the rubber and the fiber that is left over we separate the rubber out and separate the fiber out as much as we can and for that we have patented processes to do it and that business that is separating the nylon, fiber out of the tyre is the business of engineering plastics or industrial polymers as I talked about and this business uses this nylon that we recover from the end-of-life tyre to upcycle to make again engineering plastic compounds, so this is again nylon that goes into automotive industry into things like gear knobs, switch gears, etc., and is also used in furniture to make all the handles and base of the chairs and so on, which are all nylon based, so that is the business of industrial polymers where we separate the nylon and we upgrade that to sell it to the other sectors. The rubber that is left over we have to use this for it, the one use is the reclaimed rubber as I mentioned where do we put the rubber through a chemical process to make reclaimed rubber sheets, which go back into making tyres and other kind of products and the other business is the rubber composite business as I mentioned where we take again partly with the recycle rubber, which is the rubber powder from tyres and recycle plastics of different types and we make boards, which are again end application or end products, which go into transportation, oil and gas, defense and some of these applications. So that is broadly how I would say the overall business is. The joint venture company, which is a retreading company they do tyre retreading power fleets and here the objective is that the fleets have tyres of different categories or life and there are certain tyres that can be retreaded, which the franchises are retreading and there are certain tyres that cannot be retreaded, which need to be sort of pushed out as waste and that waste is what our reclaimed rubber business again or our GRP buys and again run this through this process. So end-to-end integration of end-of-life tyres is what we do and each of this business caters to those.

**Akhil Shah:**

Sir how is the margin profile different from reclaimed rubber business and non-reclaimed rubber business?

**Harsh Gandhi:**

In the reclaimed rubber business our margins are tied to a great extent on the demand side with the crisis of natural rubber and synthetic rubber and our pricing is based a lot on how those prices move and therefore the margins are dictated a lot by that demand supply exposure. When it comes to similarly the nylon business there the margins are dependent on the price of virgin nylon, which is sold by the likes of GSFC and a lot of other multinational

companies like DSM and others. The composite business again competes as I mentioned with wood and concrete so the pricing and the demand supply dynamics depend on how our product compares with the price of different kinds of woods that are available in different markets and the tyre retreading business competes in some ways with the price of a brand new tyre because our objective is to extend the life of the tyre therefore the competition is the mileage that our product can give vis-à-vis the mileage of the new tyre so depending on the price of new tyre, the retreaded tyre prices are dependent on and that is how the margins kind of get determined.

**Akhil Shah:** What is the most accretive margin business right now?

**Harsh Gandhi:** These are things that change over certain polymer cycle so until I will say a few years ago reclaimed rubber was the most profitable, but that is when we actually started looking at these other businesses, today reclaimed rubber is not as high margin because the prices of natural rubber and synthetic rubber are lower. Today actually it is the plastic or the nylon business, which is the most profitable followed by the retreading business, which is also fairly profitable, but a lot of these profitability metrics are also dependent on the size and scale that we reach so some of these businesses have so far being supported by the core reclaimed rubber business in terms of common resources and so on, so I think only when each of these businesses can be truly independent with its own P&L can one say that which of these businesses is the most profitable. For example the reclaimed rubber business without the overhead cost continues to still be a double digit EBITDA margin business, but the overhang of the other businesses that kind of brings down the overall company profitability and as we kind of grow and the other businesses achieve a certain size and scale I think the margin potential of reclaimed rubber will also then be seen as fairly attractive.

**Akhil Shah:** How do we plan to grow this non-reclaimed other rubber businesses?

**Harsh Gandhi:** Yes, I think we said we have a step-by-step process we have not gone inorganic, which has been an organic expansion in each of these businesses, so that all gone through a development cycle and therefore the R&D sales if I may want to call it that last time about two to three years where a combination of whether the right process along with the right product which the customer can buy is made available thereafter then what we called as seeding phase, which is essentially in some way semi commercial kind of a phase where we had smaller capacities in each of these businesses to sort of start seeding the market and start to get to customers use to have a product, make any changes to the product as may be required and then I would say is the third phase, which will be the full blown commercial

state and there I think the success depends really on how effectively we are able to market the product, we have been able to attract and acquire new customers, so each of the businesses are at different scales of maturity as far as this timeline is concerned. For example the engineering plastic or the nylon business has reached a stage of maturity and that is why I also mentioned that we have added additional capacity because there we have done the R&D phase where the seeding phase has also been done now we have kind of just at the beginning of the full blown commercial state where a lot more customer acceptance was coming in, we are in the stage of appointing distributors and hopefully this business will scale now pretty rapidly. The composite business is concerned it is in that stage of the development has been done, the relocation of the equipment of our partners has been done and the seeding is going on in a lot of sectors, so while they had good success in the transportation industry, in some of the other industries the success is still a little at the nascent stage, which means we just have one or two customers that have started to buy, but that repeat business still needs to come in and I think as that kind of happens we will see even the composite business get to a stage of matured growth, which we are hoping will be a few months down the road. As far as again the tyre retreading business is concerned we have had a much longer period of time when we expected to get the product right and get the equipment right and get the product positioning right in terms of the price because our product is selling at a significant premium to all the competitors in the industry, it has taken sometime for our customers to accept the higher initial cost and higher initial payout before they have realized that there is a much lower cost per kilometer that the retreading business offers. So we have kind of gone through that hurdle, now we have grown that business to about 8 franchises at the moment and we are in pace to kind of add more or less I mean as we would have spoken in February I would have said we are in at a pace of adding one franchise every two months, but because of COVID I am not in a position to say what that looks like so they are fairly significant that we will get to double digit franchise numbers very soon and hopefully in the way things by the end of the year hopefully.

**Akhil Shah:**

My final question Sir if you can throw some light on our retreading business and as to how it is scaling up and also what was the revenue from this business in FY2020?

**Harsh Gandhi:**

It is a joint venture so the results are not reflected in the GRP financials it is a separate company it will get reflected in the consolidated numbers to the extent of interest of that business, which would be 50%, that business I believe has generated in the region of about 5.5 to 6 Crores of revenue last year, we have as I said eight franchises in place already, at the moment we have three product lines or product ranges of which one continues to be an import product while the rest are domestic. We have localized a lot of equipment manufacturing here in India, which means that earlier that business was dependent on even

equipment coming in as an important equipment, but we found that economically it was not viable and it was not making sense for the entrepreneur to invest, now that the franchises are investing in domestic equipment there is a much higher ROI that they are starting to see at the business and I think out of the 8 franchises I can say confidently that 5 out of the 8 franchises are generating a much significant profit, two of them are at a breakeven stage and one of them continues to still reach the breakeven stage so with that reasonably well of getting the confidence from the franchise is established and now in fact the last year we have also had a significant victory by one of the large franchise systems in India so one of the retreaders that have switched over to us from the earlier franchise for over 15 years, with one of the large tyre company franchises and has recently shifted to the MGPL franchise system and he is fairly happy with the progress that has been made, so going forward our focus will be on a combination of converting existing franchises of other retreaders and also growing through other means in terms of adding new franchises who are people who are in allied businesses. In some ways the retreading model or business has transformed the way retreading have been looked at in the local geographies it is no longer a mom & pop store it is a organized franchise which by itself generates a reasonably high revenue and profitability and therefore the players that we are attracting our companies that are either in the transportation business themselves or are owners of petrol pumps that want to offer this as additional service to their fleet owners, all our distributors of new vehicles new trucks and new buses who are getting into this business as again a value add service to their customers who are the transporters, so we are changing the profile of the retreaders in the country and out of the 8 franchises I can say 6 franchises are new to the business, one is a conversion and one is a small retreader that is kind of upgraded to becoming an MGPL retreader so we are changing the dynamic of the industry in that sense for JV.

**Akhil Shah:**

Sir just my last question, I know it is very difficult to say as to what will be the impact of COVID-19 on the FY2021 results, can you elaborate or can you throw some light as to in terms of what impact it is likely to have on our Q1 FY2021 results?

**Harsh Gandhi:**

It is very hard to give that number to be honest I do not want to hazard any guesses at the moment. As I said we are living on a day-to-day basis. I can only very briefly share in terms of what are the percentage of sales has kind of reaching so that gives you a context of how the topline is likely to be and April obviously was a washout month more or less we just had some carry forward sale from March, in May we did about 35% to 40% of our normal volumes in the month of May in terms of sales and in June our sales looks like it will be closer to the 55% to 60% of the normal sale volume. The projections beyond this I am not in a position to provide and what has happened so far.



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- Akhil Shah:** I agree Sir. Thank you very much for the opportunity. That is all from my end.
- Moderator:** The next question is from the line of Alana Shah from HU Consultancy. Please go ahead.
- Alana Shah:** I had a few questions. First was regarding the EBITDA margin. In the coming times do you see an improvement? I do understand for this year EBITDA margins were affected, but in the coming times where could we see better controlling the expenses?
- Harsh Gandhi:** So I will put it this way as I mentioned before as the other businesses start scaling up the impact of EBITDA margins start showing positively in the overall company performance, but some of the major cost areas that we are looking at focusing on is and we have been mentioning is one of the key cost is the employee cost and there we are taking significant steps by way of automation and digitalization of the operations to be able to reduce our dependence on labor so that is one of the key areas that we are looking at. We are of course also looking at one of the other areas where during the last year the cost have gone up is on account of international trade and freight cost and that is on account of certain regulatory changes that have comes out globally in the shipping industry we are hoping that, that will start moderating out starting end of this year so that should be also a healthy addition to the bottomline. So these would be the two major areas where I would say we are taking active steps in reducing costs, but I think the broad margin improvement will occur on account of the scaling up of the non-reclaimed rubber businesses.
- Alana Shah:** On the automation front Sir where do you see what is the timeline in the coming times that can we see the automation in those front and we can see the margins, do understand the employee number of employees also will be coming down then where the automation is coming to play so where do you see that coming into action how many quarters, years?
- Harsh Gandhi:** So it is a slow process because we cannot automate processes while production or demand continues so it has to be done in a phased manner and the journey we have started on almost about a year and year-and-a-half ago and we continue to make strives and actively every few months we are adding more lines to become more automation processes. As a majority of our process automation should be complete while I mean as per the original plan it was suppose to be complete in this fiscal now deferring capex I would assume that there will be some delays in this execution. The other part is that the dependence of employee cost in the non-reclaimed rubber businesses is actually much lower as a percentage to the reclaimed business, so again as a function of the other business is growing the overall average employee cost will start to just come down because the other businesses the employee costs are lower than reclaimed rubber as a percentage of the sales.





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**Alana Shah:** The second question was on the receivable days do we see that coming down or do you see this is the kind of industry standard that the thing is happening, the number of days, which would be around probably 60 days or 50 days?

**Harsh Gandhi:** Right, I would say it is a fairly healthy number at 55 odd days this is again a standard industry practices between 60 to 90 days credit on account of a higher dependence on exports, our overall debtor days continue to be below 60 days, in fact in some of the other businesses like the plastic business and so on the debtor days are likely to be a little higher than this number because there the industry standards are closer to the 70, 75 days, but I would say our overall focus will be on ensuring that this number remains within the 60 days bang and we are doing all we can to ensure that, that does not go out of or extend beyond 60 days.

**Alana Shah:** We can try and increase our payment cycle to our creditors the trade payables, which is around 20 to 30 days right now?

**Harsh Gandhi:** That is one of the challenge because we are dealing with a fairly unorganized sector of people in the collection of end-of-life tyre and these are people that are again traders that depend on cash to be able to survive in the business, so we do not expect that the creditor days will go up significantly beyond what it is, yes, having said that if the non-reclaimed rubber business is where we have other material purchases like other oils and chemicals and so on, there the credit period is extended beyond 30 days so the net impact might be positive, but not significantly because as long as end-of-life tyre, which continues to be the key raw material for the company, our creditor days in that segment will be fairly low, that is again the nature of the business in itself. In fact for imports we are required to pay everything upfront so if we kind of in the future depend a lot more on imports there is a possibility that the creditor days may even reduce further.

**Alana Shah:** Sure thank you Sir that is all from my side. All the best.

**Moderator:** Thank you. The next question is from the line of Sahil Jain an Individual Investor. Please go ahead.

**Sahil Jain:** Sir I have a question on the volume Sir and if I look at your long-term numbers in 2013-2014 we were doing close to 90% capacity utilization and still we have the same number and there was no loss on this thing the non-reclaimed part there was no engineering part in all these businesses, so what will be the big issue this is one, second there is a lot of R&D, which is going on with the tyre companies to increase the reclaimed part in their tyres the

percentage of reclaimed rubber use so are we directly involve with these companies or are will we just see the benefits after the R&D is done?

**Harsh Gandhi:**

So I will answer the second part first which is the R&D development, yes our interactions and our conversations and our projects are directly with the tyre companies so to answer that question we work directly with the tyre companies, which is that the R&D efforts can take anywhere between 6, 7 months to as long as two years and it is very difficult to predict what is the time for each of these developments and it is a slow process so therefore by the time the results that do come in it is generally a couple of years down the road so that is the first part of the question. The second part in terms of utilization you are right that our utilization was at similar levels also several years ago, but you got to therefore look at the revenue numbers and you will be able to see what has happened is that the product mix has changed as I mentioned at the beginning of the call when someone asked a question about utilization across individual businesses I said the same thing that it is tough for me to give a utilization of every business for every product because our capacity in reclaimed rubber is such that we can quickly or easily move from one to another product category. So if you can think about it our average sales has been more or less similar volume numbers, but higher revenue number is a function of the product mix change that has happened and we have moved from if I may call it the low value products to the higher value products. Now as a result the utilization remains the same, but the customers have moved from a particular product to an upgraded product and we in turn have switched capacities from one to another product line or an SKU. So to answer your question volumes have been remaining more or less stagnant you are right, but the realization of the revenue impact that you see is on account of the product mix change. Is that answered your question broadly?

**Sahil Jain:**

So I can assume previously that most of our forward looking capex is based on the new products, which is the more value added product and we would treat the reclaimed number to answer this let us say there are lot of demand from the reclaimed business side are we open to take the total percentage of reclaimed number going up in tyres in the next five, six years?

**Harsh Gandhi:**

Yes, so two things have happened our customer mix has changed and we used to have a lot larger percentage of business coming from the non-tyre industries, but over a period of time lot of that business especially in India has moved away and part of the reason is a) the quality of the customers itself and b) the type or expectations of product that they wanted, they continue to demand a lower category or a lower value product and we have moved in terms of our portfolio to a more upgraded product so that is one of the things. As far as the surplus capacity is concerned yes there is still some surplus capacity in our existing plants

to be able to add as I mentioned at least another 10%, 12% more volume and I think once we start seeing that momentum build and grow that is when we will start planning additional lines or rounds of investment for the reclaimed rubber business, however having said that I would like to qualify that at the moment in some of the projects that we are working with our tyre company customers if all of them do fructify yes there will be a need to invest and add capacity in the reclaimed rubber business as well; however, we have not done that at this stage because we want to go slow because of the margin pressures that we have seen. As far as the other businesses are concerned as I said the nylon business was getting close to capacity utilization and that is where we invested in the additional lines to kind of more than double the capacity from what it was and we are fairly confident that there against the 6000 tonnes we should start seeing larger volumes in the coming months and be able to make a significant inroad in that industry. Again with the composite business we continue to be at more or less again at about 70%, 75% utilization of capacity so we do have some excess capacity before we think about growing it, so I think every business has poised differently in terms of this current utilization, its current pipeline of products and therefore the next wave of expansion will be determined based on getting to a certain utilization rate.

**Sahil Jain:**

Certainly, but if I look at the five year trajectory for GRP. Do we have internal working as what kind of product mix you are looking to have?

**Harsh Gandhi:**

Of course we do have each of the businesses have its own so we do not look at it as what could be the non-reclaimed as a percentage of the total, I think what we look at is each individual business that we have invested in what is the potential over the next three years or five years that each of these businesses can realize so I think our approach is more the later when we say it is a nylon business is at a certain level based on this excess that we have and the possibilities we have in terms of raw material and the niche that we have developed if this is the total market size and this is the piece of the pie that we are aiming at what is the potential of the nylon business, so I think our approach has been more on that and each of the businesses are in the pace of if I may right now recalibrating its business plan because COVID has changed a lot for a lot of people and a lot of industries and for example nylon business has seen some consolidation happen in the last two years in terms of a lot of multinational companies coming in acquiring domestic players and some domestic capacity getting shrunk and so on we are trying to assess what is the roadmap for growth for each of these businesses so at this moment I would not have a number to give but hopefully down the road in a few months we should be able to say what each of these businesses is capable of growing too.



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**Sahil Jain:** Sir right now, I do not know how do you look at it, but have we ever considered doing a buyback at current price?

**Harsh Gandhi:** So at the moment I think if I look at the company's liquidity and the company's cash position I would rather keep and maintain the cash position to fuel the future growth and ensure survival for the long-term so at this moment to use any of the company cash to be able to do that I do not think it would be prudent or wise and therefore we are not looking at it when it comes to infusing such capital into the company the promoters are of course open to the idea of doing this as and when they need for the same arises and this moment as I said earlier in the call also we feel fairly confident with the liquidity position that the company is in the level of debt that the company has and is able to leverage and raise further if required and the current foreseeable cash flow needs for the next 12 to 18 months so it is a clear indication that at this stage we do not have the need for additional capital I mean we could look at promoters putting in more money, but then that money needs to have a certain purpose in terms of deployment, at the moment we do not see the need for deploying the cash into anything else, there is no opportunity in the horizon, as and when an opportunity does come up we would be open to either of the two it means either raising equity or taking any liquidity steps as maybe required for the company's purpose.

**Sahil Jain:** Certainly, sure Sir thanks for the answer Sir. Thank you.

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

**Harsh Gandhi:** Thank you all for attending this session I am grateful for all of you having taken the time out to ask me the question that you have like to only close by saying that I hope I have been able to answer most of the queries and we would be available including SGA would be available to answer any specific question on the financials or on the numbers that you may have, so feel free to reach out to SGA or the company directly, but I would like to say that we are all at a very difficult situation economically specifically the auto industry has been facing a much larger challenge, thankfully for us because our share of business coming from replacement industry or replacement business is also fairly high we have felt less of the impact of the pandemic and the automotive industry slowdown than a lot of other material supplier that have been focused only on the OE segment plus because of our export presence we have been able to mitigate a lot of the risks arising out of being dependent on a single geography. We continue to remain fairly bullish that the world around us the way it has changed will mean that circular economy businesses like ours will see definitely more interest from end consumers, there is a lot of international forums that are talking about



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making sustainable materials more mainstream and we hope to be a beneficiary of that and our investments in some of these newer businesses or a proof of our confidence in this business so we hope you join us in this journey and continue to remain interested in our company and we hope to justify your interest by delivering on performance over the course of the next several years. Thank you so much for your time and appreciate all the questions that have been asked as well. Thank you.

**Moderator:**

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