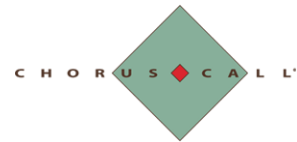




**“Gravita India Limited
Q1 FY ‘24 Earnings Conference Call”
July 25, 2023**



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MODERATOR: **MR. SABRI HAZARIKA – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to Gravita India Limited Q1 FY '24 Earnings Conference Call hosted by Emkay Global Financial Services. We have with us today Mr. Yogesh Malhotra, Whole-Time Director and CEO; and Mr. Sunil Kansal, Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Sabri Hazarika from Emkay Global Financial Services. Thank you, and over to you, sir.

Sabri Hazarika: Thank you. So good afternoon, ladies and gentlemen. On behalf of Emkay Global, I welcome you all to the Q1 FY '24 post Earnings Conference Call of Gravita India Limited. We have the senior management of the company, led by Mr. Yogesh Malhotra, Whole-Time Director and CEO; Mr. Vijay Kumar Pareek, Executive Director; Mr. Naveen Prakash Sharma, Executive Director; and Mr. Sunil Kansal, Chief Financial Officer. So today's session would be a brief on the results by the management, and then we will follow with the question-and-answer now. So over to you, sir.

Yogesh Malhotra: Thank you, Mr. Sabri. Good afternoon, ladies and gentlemen, and welcome to our Q1 FY '24 Earnings Call. I believe you have had an opportunity to review the earnings presentation and financial results that were uploaded on the stock exchanges. Before opening the floor for questions, I will provide a brief overview on the major highlights of the quarter.

I'm delighted to share that Gravita India has delivered strong performance in Q1 FY '24. Before we delve into the results, we would like to share some strategic highlights and project updates. I'm pleased to announce that pure Lead of 99.98% purity and above produced by our Phagi, Jaipur plant has been empaneled as an approved Lead brand deliverable against the MCX let futures contract.

Pure Lead manufactured by the Chittoor plant of the company is already at MCX empaneled product. This will provide Gravita with an additional platform for hedging, better inventory management and price transparency in the domestic market. I would also like to highlight the fact that MCX maintains a global and stringent quality approach, which is at par with the international exchanges.

This reaffirms the fact that the products manufactured at Gravita's plants adhere to global standards, thereby ensuring excellence in every aspect of production. Gravita has expanded its existing capacity of battery recycling unit security at Chittoor, Andhra Pradesh. The capacity has been increased by 26,440 metric tonne per annum to 64,640 metric tonne per annum.

The capex undertaken stands at around INR21 crores. It is funded through internal accruals. Additionally, it's worth noting that this plant leverages the potential of domestic scrap, which is abundantly available from permanent telecom players, UPS, OEMs, IT, IPS as well as waste scrap from the automobile sector in their respective markets.

Gravita has also secured contracts to efficiently collect pan-India scrap enabling the company to serve OEM customers in South India and facilitate exports via the nearby Chennai port, thereby optimizing logistical costs. With this expanded capacity, the company aims to fortify its position in the South Indian market, including the Southeast Asian market as well.

Gravita Tanzania Limited a step-down subsidiary of Gravita Securities in Tanzania East Africa has started commercial production and recycling of waste rubber. It has an annual capacity of around 3,000 metric tonne per annum in Phase I, which is expected to go up to 6,000 metric tonne per annum in Phase 2.

The capex incurred for Phase 1 is INR3.86 crores, again funded through internal accruals. This newly established recycling facility will not only result in cost reduction but also contribute to decrease the carbon footprint. The process of rubber recycling produces pyrolysis oil, which will be utilized by the company for in-house consumption as an alternative energy source in recycling battery and aluminium scrap.

This move aligns with the company's commitment to sustainable practices and environmentally friendly operations.

Let's now discuss the operational performance. Coming to capacity expansion. As of 24th July 2023, Gravita has grown by 22% from March 2023 and expanded its total capacity to 2.78 lakh metric tonne per annum. We are confident that we will reach 4.25 lakh metric tonne per annum capacity by financial year '26, which will include both existing as well as new verticals.

The company has witnessed a volume growth of 18% in Q1 FY '24 on a year-on-year basis. Lead volume increased by 18%, aluminium volumes grew by 63% on a year-on-year basis to 29,287 tons and 5,396 tons, respectively. We are maintaining a healthy order book of more than 60,000 metric tons per annum.

A reminder of our capex plans, Gravita is committed to expanding its capacity and hence is expecting to incur a capex of more than INR650 crores by financial year '26 for its existing as well as new verticals. Capex expected existing and new verticals is approximately INR400 crores and INR250 crores, respectively.

Moving on to Q1 financial year '24 financial results. At consolidated level, revenue for the quarter increased by 21% to INR703 crores on a year-on-year basis and showed a drop of 6%. On a Q-on-Q basis, 49% of the revenue in Q1 FY '24 came from value-added products, aligning to have a vision of achieving 50% revenues from this category. On a year-on-year basis, adjusted EBITDA increased by 24% to INR80 crores.

EBITDA margins improved 11.4% and the company continued to maintain strong margins. Delta reported a consolidated PAT of INR52 crores with a 22% growth year-on-year. PAT margins remained steady at 7.4%. Overall, the company performed significantly well on a year-on-year basis, but faced a slight drop on Q-on-Q basis. This can be attributed to a drop in aluminium and plastic prices.

Additionally, the disruption caused by the Biparjoy cyclone had a significant impact on the operation of a major lead plant in Mundra leading to adverse effects on volume growth and margins. Furthermore, the recent launch of our 2 new aluminium plants has been in stabilization phase and is yet to operate at full capacity.

At stand-alone level, revenue stood at INR654 crores, showing an increase of 6% on a year-on-year basis. EBITDA for this quarter stood at INR60 crores, demonstrating a significant improvement from quarter 1 of last year. EBITDA margin stood strong at 9%. Similarly, PAT showed a significant increase of 136% on a year-on-year basis to INR38.72 crores. PAT margin stood strong at 6%.

I would like to emphasize once again that we have steadfastly progressing towards our ambitious Vision 2027, which involves diversifying into new verticals, achieving robust financial growth and expanding our business in non-lead segments. Moreover, we have full confidence that by year financial year '26, we will successfully reduce our net working capital cycle from 83 days as of March 2023 to 65 days, thereby significantly enhancing our operational efficiency.

That's all from my end. I would now request to open the floor for questions and answers. Thank you, and over to you, Sabri.

Moderator: Thank you very much. The first question is from the line of Rahul Bhangadia from Lucky Investment Managers. .

Rahul Bhangadia: Sir, first question is, could you give us a rough sense or your approximation of how much volume would you have lost because of disruption in the operations in Mundra?

Yogesh Malhotra: The volume, we loss is approximately 10 to 12 days, which is approximately 1,500 tons for this -- because of this Biparjoy impact.

Rahul Bhangadia: Okay. Okay. That is about 1,500 tons. Okay. Second question was you had a one-off in the form of piece of being kind of reversed or something like that, that have got into the other income, INR11 crores?

Yogesh Malhotra: Yes. So basically, we made a provision earlier in the form of impact of this employee benefit scheme, which we brought. But later, we realized that we don't need this provision because we have already dismantled -- we are in the process of dismantling the trust and giving the benefits of this scheme slightly earlier to what it is planned. So -- but now we have taken a provision of giving that benefit in the employee benefits. So if you see the benefit -- employee benefit expenses is slightly higher on this side. So on the one side, it is a provision reversal, which is showing in the in other income.

But on the other side, the impact is that we have taken a provision of incentives, which we are going to give to the employees so against that benefit, which we are losing. So it is a compensation. So we are considering this reversal as a part of the operational because the other impact is coming in the employee benefit expenses. So for us, we have taken it in the adjusted EBITDA because it's operational part of the business.

- Rahul Bhangadia:** So this INR11 crores income that you've accounted for in the other income part of it, how much would you have put in the employee benefit expenses or in any other expenses in this quarter itself?
- Yogesh Malhotra:** Yes. So approximately INR8 crores we have already considered in the employee benefit of expenses of this quarter.
- Rahul Bhangadia:** Okay. INR11 crores against INR8 crores, net INR3 crores is what you got in but benefited to that extent essentially.
- Yogesh Malhotra:** Yes. Correct. Correct. Correct.
- Rahul Bhangadia:** And that is why we have put it even this INR11 crores in the operational part because corresponding cost you have also recognized there.
- Yogesh Malhotra:** Yes, yes, yes.
- Moderator:** The next question is from the line of Gaurav Gandhi from Glorytail Capital.
- Gaurav Gandhi:** Congratulations on the good set of numbers. My first question is, sir, how do you collect scraps in India? I mean do we have any contracts with the company handling municipal waste? And also, do we have any large symptoms in the cities for collection of household spreads? Do we have any kind of such centres collection for collecting scraps?
- Yogesh Malhotra:** In fact, in case of domestic collection, our collection plan exists in three ways. One is we are having a PAN India contract with Amara Raja Batteries from which we are collecting the batteries from on PAN India basis. Secondly, we are also very closely working with some of the PROs. Those are collecting the battery, e-waste, plastic and many other commodities as a waste. And out of those wastes, we are collecting the plastic and lead scraps from those companies like Sambhav Karo and other companies.
- Third thing is that we are also having our contracts with the IT companies like TCS, like Accenture and other companies from which we are collecting the batteries on PAN India basis, whether those offices are located in affluent or in domestic tariff areas. Thirdly, we are also collecting the batteries from institutions like Jindal Group, Aditya Birla Group, Adani Group. So, from the different locations of the factory plants, factory locations, we are collecting these batteries.
- Gaurav Gandhi:** Do you think these municipal waste management companies like Antony Waste Handling and all can we benefit from these companies also?
- Yogesh Malhotra:** No. No. Because this municipal waste doesn't collect these batteries because these batteries will be largely either will be auctioned or it will be sold through different, different locations. No one will hand over these batteries to the municipal for municipal waste.

Gaurav Gandhi: Okay. Okay. And my second question is to get more clarity on this EPR topic. As per EPR policy, if the producer gets responsible for recycling, does it mean that, for example, you know, if whatever Exide batteries or Amara Raja sales, they are responsible to collect and, you know, recycle all the batteries? And if yes, what happens to, let's say, if the Exide batteries are collected by us? I mean, do we hand over that scrap to them or how will it work?

Yogesh Malhotra: Yes, you are correct that as per EPR policy, they have to either collect back or recycle themselves or take in, buy, recycle lead or they have to take EPR certificates. Like even it is applied to the import of new batteries also. They have been given certain targets to collect the battery over a period of time. So that's how this will, EPR will process and there will be penalty if the EPR is not done and they can even create recycling partner under EPR. As we mentioned earlier, we are already partnered to Amara Raja.

Gaurav Gandhi: Sir, in that case, will it impact our margins if we partner with them in future, you know, will it impact our margins?

Yogesh Malhotra: So, basically, this is going to work as a tolling arrangement, which is currently in place. So, of course, if you talk about EBITDA margins, that will be lower, but there will be no working capital requirement in such a case. So, therefore, the overall ROC will be better in this case, which we are already doing. So, if you look at it, most of the domestic procurement that we are doing is through this arrangement only. So, overall, even though the EBITDA margins would be a little lower, the overall profitability or the ROC would be much higher as compared to when we buy it from domestic market.

Moderator: Thank you. The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Sir, firstly thank you so much for the opportunity. Sir, I wanted to understand how this margin scenario work in plastic and aluminium section because they remain quite volatile. Like this quarter, it was around 4% for aluminium whereas it was and previously it was. So how does that scenario work in aluminium and plastic? What kind of stable margins can we expect in this segment? And if I wanted to understand the mechanism effect?

Yogesh Malhotra: So margin in case of, operational margin in case of plastic and aluminium is like in case of plastic, it is INR10 per kg but EBITDA margin for INR10 per kg. And in case of aluminium, it is mostly business outside India where we sold slightly cheaper. So margin is in the range of INR17 per kg, INR18 per kg EBITDA margin. But there is a slightly fluctuating margin because in case of plastic and aluminium, we are not hedged fully.

So we work on a model where we keep on buying the scrap and we keep on selling the finished goods against that. So we keep the stable inventory. But sometimes when the market prices are going down or going up, so that time the margins are according to the inventory gain or inventory losses, the margin is going up or down.

So that is the reason because we are not fully hedged in this model and there is no mechanism also available of hedging this plastic and aluminium. But going forward, we are looking for a mechanism for aluminium specifically. We are entering into an arrangement where MCX is

going to be available as a platform because we are dealing with aluminium alloys. So on MCX, there will be a platform for dealing or hedging or giving the deliveries also for aluminium alloys in future. So we are working on that. So hopefully that arrangement is going to be developed by the MCX with the Ministry of Finance. So they are arranging that. So after this, there will be stable margins on the aluminium side. But still we are finding a solution for plastic also similarly where we can hedge the margins for the future.

Gunjan Kabra:

Okay, got it. So the second question I had is that you have already spoken about the total capacity expansion that you plan to do it over the years. But I wanted to know that from today and what is the expansion that is happening in, apart from lead and other metals, I mean I wanted to understand rubber, what is the expansion plan from FY '23 to '26, how much is the incremental capacity for rubber, then plastic and aluminium and if any other expansion also you plan into this segment, in any other segment?

Yogesh Malhotra:

So basically, the total capacity which the expansion we are doing in case of lead is approximately from 300,000. Okay, so the capacity of by FY 2026, the capacity of lead which is currently 225,000, we are taking it to around 300,000 tons. And in case of aluminium, it is currently 30,000 tons, which we are taking it to 48,000 tons. And in case of plastic, it is currently 22,000 tons, which we are taking to 65,000 tons.

So these are the capacity expansions which we are planning for the existing verticals. And there is another vertical which we are talking about is rubber recycling. So because since we are not considering the capacity of rubber in our overall capacity expansion, because rubber is currently being consumed, the output of rubber is being consumed for the recycling of the lead and aluminium.

So there will be capacity expansion in the rubber also because we are in the replication mode. We started from Ghana, now we are replicating the rubber recycling in Ghana, Senegal, Mozambique, Tanzania, all the African locations. So there will be expansion of rubber, but we are not considering that part of the capacity expansion.

Moderator:

Thank you. Next question is from the line of Satadru Chakraborty from Chakraborty Family Office. Please go ahead.

Satadru Chakraborty:

Hello. Congratulations on a good set of numbers. My first question is really around the hedging mechanism. I think you briefly touched on certain aspects of it. If I sort of understand from your presentation, the back-to-back fiscal inventory is fully hedged. But my question is really in the future, for instance, when you have rubber, plastics, paper, there is no forward contract that you can do in LME or any other exchange, for example, the Chicago Board of Trade. So these will be really OTC contracts that you do on a one-on-one basis. So any thoughts around how do you want to play this hedging mechanism game going forward?

Yogesh Malhotra:

So I think it's very clear that on lead we are already hedged, which is around 80%, and we are already in discussions with MCX to start incorporating ADC-12, which is the major alloy that we make, to incorporate it in their delivery mechanism. So these two in the future will be taken

care of. But apart from that, I think in other verticals like plastics, etcetera, although there is no mechanism currently available where we can hedge it on exchanges, but definitely we have tie-ups with OEMs where we sell them forward contracts.

So whatever deliveries I'm going to give to any OEMs in July, the prices would be M-1 basis. So whatever I'm collecting today, more and more of that material would go in the next month. So that is where you are probably doing natural hedging, which we call it. The mechanism for that is already in place. So going forward, wherever there is no possibility of hedging through exchanges, we would incorporate this mechanism more and more.

Satadru Chakraborty:

Okay. And just one sort of follow-up on – so it is fair to say that you mentioned aluminium, that you will potentially start to hedge this more. So it is more so it is fair to say that the EBITDA per metric ton will not be continuously dropping as we have seen for the last couple of quarters, right?

The second question I had was really on the turnkey projects piece. So I think this segment is performing brilliantly. I just wanted to hear from you what your outlook is on this, any margin revenue guidance you can give. And I also wanted to understand really very importantly, what is the market positioning that Gravita has? Is there no other integrated player who can provide, let's say, integrated turnkey solutions? Or do you have other, let's say, outside India players who can do that? Because I'm not sure that I understand the market structure fully well for this kind of service.

Yogesh Malhotra:

So basically, how we see our turnkey solution division is basically as a support to our overall expansion plan. So even though you may not see the overall revenues or gross margins coming from this because sometimes around 80% to 90% of the total revenue that we do is internal only. In terms of where we are placed, actually, if you look at it, I mean, there are either European companies that are into this who are providing these solutions globally.

And then in lead and aluminium, generally, otherwise, there are no companies available which can make or produce sustainable, environmental-friendly equipment's. So we are the only solution provider in the developing countries who can provide this solution, which is viable, even if you make a smaller plant. So generally, if you go for a bigger plant where you are recycling, for example, for inlet, around 5,000 to 10,000 tons per month, then there are various options available from European companies.

But if you are anywhere in the range of 1,000 to 2,000 tons per month, there are very few options available, and that is where Gravita is placed. But we don't see it only through that lens. As I mentioned earlier, for us, it's an in-house research centre where we keep on improving our efficiencies, our yield, in terms of making it more environmental-friendly. So that is the major part we are in this.

Satadru Chakraborty:

Understood. So you don't suspect that you will provide this solution to any other competitor, and then that's what cannibalizes your sales? I was just trying to ask...

- Yogesh Malhotra:** No, no. We constantly do this. We supply material to anybody who wants to go into lead or aluminium recycling. So far, we have sold more than 60 turnkey solutions across the globe, and we have a handsome margin of around 25% to 30% in the volume that we do externally.
- Moderator:** Thank you. The next question is from the line of Khush from Electrum Portfolio Managers. Please go ahead.
- Khush:** Thank you for the opportunity. So I have two questions. One was, any reason for the tax rate being higher in this quarter at 14%? And second, the domestic stock collection this quarter has been around 30% as of presentation, while in the previous quarters, it has been in the range of 40% to 45%?
- Yogesh Malhotra:** So your first question related to tax, because this quarter, Indian businesses were more profitable as compared to what it was earlier. So proportionately, the tax rate in India is slightly higher than the average tax rate in the overseas business. So because of this, the average tax of previous year is approximately 11%, against which this quarter, we ended up at 14%. So because of the slightly proportionately higher profitability and higher PBT in India. So that's the reason for the tax. And the second question was about the domestic scrap availability, right?
- Khush:** Yes.
- Yogesh Malhotra:** So part of the reason is that, and why we did better in India as compared to the other parts of the globe, is that Indian market was giving better premiums over overseas businesses. So we imported a lot of batteries because overseas scrap was cheaper as compared to Indian scrap during these times. So we imported more overseas scraps to increase the profitability and reduce the Indian scrap. So there are opportunities of arbitrage available time to time for us, where there is a difference between Indian scrap.
- Sometimes Indian scrap is cheaper. In those months or those quarters, we buy more Indian scrap. Whereas when the overseas market is slower, then we buy from overseas market also. And in sales, it's vice versa. Because Indian markets were good. So therefore, if you look at our performance of Indian entities, they have shown better results. We have sold more value-added products. And we've done more revenue in India as compared to overseas. So we have shifted a lot of scrap, even from our own entities into India, so that we can take advantage of that arbitrage. So we've taken advantage of arbitrage both on the sales front as well as on the procurement front.
- Khush:** Okay. And just one last question. So we as a company remain on the guidance of 25% growth in volume terms for the next three years. Just want to confirm that?
- Management:** Yes. So in terms of production, definitely we will grow more than 20% to 25%. As I mentioned here also now, sometimes there is arbitrage where it makes sense for you to not sell it to third party and bring it to India. So during those times in consolidation, you will not see the sales growth. Whereas the production volume growth would be there. But it would not reflect in the revenue numbers. But in terms of profitability, our target of 35% profit, PAT growth would always be there. Bottom line growth of 35%. We are very confident of achieving.

- Khush:** Okay. Thank you.
- Management:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hemant, an individual investor. Please go ahead.
- Hemant:** Sir, thank you for providing me the opportunity. As part of one of our earlier calls, we are supposed to actually, we have the target of doubling our revenue over the next three years. So I hope it doesn't include the revenue from the existing verticals, right? Sorry, from the new vertical. It only includes the revenue from the existing verticals. And the revenue from the new verticals will be over and above the revenue after doubling it, right?
- Management:** No, our target, I think the target that we mentioned earlier also is that we are planning to go at more than 25% in terms of volume on a year-on-year basis for the next three to four years. And around 35% profitability growth CAGR in the next three to four years. So that remains our target even now. But as I mentioned earlier that sometimes the revenue growth will not reflect the volume growth in the company. So the production will increase, but sometimes when you will consolidate if there are arbitrage opportunities and we bring our material from our overseas plant into India, it may not reflect in the revenue numbers, but definitely it will reflect in the profitability numbers.
- Hemant:** But sir, I just wanted to understand one thing. In this call also you have told us that you will be doing INR650 crores of capex and INR400 crores will be for the existing verticals and INR250 crores will be for the new verticals, right? So you have previously mentioned that the asset time will be 8x. So basically, it translates to nearly INR2,000 crores of revenue from the new verticals, right?
- And in FY '23, I guess we did something around INR2,800 odd crores. So we are getting INR2,000 crores of revenue from the new verticals only. So I think the revenue should be more than 2x by FY '26, right? So these are the basic numbers. What I am trying to understand is like the revenue growth which we are talking about by FY '26, it includes only the existing verticals. And the INR2,000 crores of revenue will be over and above the revenue growth of existing verticals, right?
- Management:** Sorry, can you come again?
- Hemant:** Like INR250 crores of capex we have already planned for the new verticals, right? And the asset time is 8x. So we will be roughly doing around INR2,000 crores of revenue from the new verticals itself, right?
- Management:** Yes, Yes. Some of the capex will come in the third year. So revenue numbers from that capex may not reflect in that year itself. So capex plan is different and the revenue which is coming from that capex may be one year to 1.5 years later. So there is a lag period for the new verticals specifically. There is more lag period because we are not making the equipment's for the new verticals.

We are dependent on the third party for the equipment for the new verticals. In case of existing verticals, we are making our own equipment. So in that case, that lag period is very small. It turns to be six months to nine months we start the revenue generation from that capex. But in case of new verticals, it is slightly later. So that is the reason will -- the effect of revenue generation will come slightly later in this case, in case of new verticals.

Hemant: Yes, sir. I got your point. I think you have already mentioned previously. But just trying to understand, like, 20%, 25% revenue growth is from the existing verticals only, right?

Management: Yes, only existing verticals. Yes, you are right.

Hemant: And the incremental revenue of INR2,000 crores from the new verticals will be there.

Management: Absolutely. Correct, right? Yes, absolutely.

Hemant: And this capacity expansion from 2.5 to 4.25, it includes new as well as existing, right?

Management: Only the existing verticals.

Hemant: Okay, so 4.25 includes only existing verticals.

Management: Yes.

Hemant: Okay, sir. Thank you.

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

Harshit Shah: In the last quarter, we have seen a promoted transferring shares through bulk yields to some investors. So, do we see any more such transactions in the future? Second thing, in the last call, we also said that we will be doing some QIP. Can you share the timeline of it?

Management: So, basically, to answer your first question, there will not be any more dilution of the stake by the owner, promoter. So, that is the first part. The second part is QIP will only happen when we see that, I mean, so we have our internal debt to equity target. Yes. So, basically, earlier we planned QIP to fund the expansion which we are planning for. But later we realized that the internal generation of the cash which is sufficient enough to fund the future capex and the working capital needs because we are going forward.

We are taking up the business which is slightly better in terms of working capital cycle. So, we are bringing down the working capital cycle. So, we don't see the requirement of the funds going forward. So, we recently got some funding from the ESG fund which is reducing our debt cost also. So, we are funded from them. So, there is no point of diluting at this moment. No further QIP is planned in the near future except we get an opportunity of a significant sizable, the opportunity of M&A. So, that will be the reason, only reason to come up for the QIP in future.

- Harshit Shah:** And just one more question, sir. You have said that you have transferred some inventories from abroad, Indian market, and we have processed here and sold it India. But we also have a plant at Africa and other markets. So, why we haven't processed it there and sold it to India? Would it be more cost effective?
- Management:** No, sir. So, as I mentioned earlier, there are certain times when there is an arbitrage in prices available in India as compared to overseas markets. So, during those times, we import that material into India because India is giving better realization for those products. Both in terms of value addition also and sometimes as the commodity prices are also different in both these geographies. So, only during those times, we bring that material into India. Otherwise, we sell directly to third parties. So, having geographical diversification also gives us these benefits from time-to-time.
- Harshit Shah:** I understood that. But my question is regarding if we have a good lower cost material from Africa, can we process it there and sell the finished product in India when the arbitrage is there?
- Management:** So, generally we do that. Yes. So, generally we do that. But in some cases, some of the value-added equipment required are not viable when the scale is smaller. So, for example, in Tanzania, we are only doing 700 tons to 800 tons per month. In those countries, it is not viable to put up all the value-added equipment for all the value-added products. So, in those cases, we bring it to India. So, the basic process is done in those countries only, whereas some part of the value-addition is done in India.
- Harshit Shah:** Okay. Thank you so much.
- Management:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Bahirwani from Vijit Global Securities. Please go ahead.
- Rohit Bahirwani:** Thank you for giving me the opportunity. My question is, if we see the interest cost, it has increased from INR10 crores to INR13 crores since last quarter. So, I want to just know how much additional borrowings can we assume going forward, including both capex and working capital?
- Management:** So, on the debt side, we are very conscious on taking the debt in terms of we have made our own parameters to take the debt. So, the debt parameter we have taken is 0.75 of debt equity. So, it should be less than 0.75 in case of net debt equity. And net debt EBITDA, we have kept our own benchmark of 1.5.
- So, within this parameter, we are consciously taking the debt. But considering the cash flow coming in and the capex plan and the working capital requirement, so we are not seeing significantly higher debt in future. We are expecting to be in the range of like from a current number of around INR370 crores to maximum of INR550 crores in the next two to three years.

- Management:** This quarter was an anomaly in the sense that we imported a lot of raw material from overseas as compared to domestic material because that was cheaper for us. And also, we diverted some of our products from overseas plants into India. So, that is why you see a higher inventory carrying cost, which will reduce in the coming quarters.
- Rohit Bahirwani:** Okay. I had one more question as per the investor presentation provided by the company. The company has signed MOU to establish battery recycling plant through joint venture in Oman. So, by when can we expect this to be operational?
- Management:** So, it will be operational in one year, probably by first quarter of next year, it will be operational.
- Rohit Bahirwani:** Okay. And also, there is one location, Dominican Republic, which is showing in your global and pan-India operations. So, just wanted to know what our company's plan with respect to that?
- Management:** So, DR is a place where we are planning to put up a paper recycling plant in the future. And also, we will start plastic recycling in that country.
- Rohit Bahirwani:** So, any numbers with respect to capacity? So, it will take more than one year and 1.5 years to two years to put up a paper recycling plant. But plastic can start a little early. So, Dominican Republic is part of our new vertical business, which we are expanding in different products. So, one of them is paper recycling, which we are planning to start in Dominican Republic. So, we are still under evaluation, second stage of evaluation feasibility at the Dominican Republic.
- So, we are just, because it's our business model to start the trading first. We start the trading of the scrap initially, and then we establish the plant for the recycling. So, we are in the process of trading of that scrap at that location. Once it is successful, then we start the capex and setting up the plant in that location. So, it will take another one year to 1.5 years from now.
- Moderator:** Thank you. The next question is from the line of Devang Shah from AC Mehta Investment. Please go ahead.
- Devang Shah:** Hi, good evening, sir. Congratulations for a good set of numbers.
- Management:** Thank you, sir.
- Devang Shah:** I have one question that there is some kind of deterioration as far as sequential performance of the company is concerned on all parameters, revenue, profitability, and this volume growth. Y-o-Y basis, we did extremely well. So, any specific reason for that? That is my first question, sir.
- Management:** So, there is a slight dip on the Q-on-Q basis, which you are talking about, right?
- Devang Shah:** Yes, sequential basis.
- Management:** Yes. So, sequential basis, as we mentioned earlier, that part of the revenue was lost because of Biparjoy. It affected the Mundra plant operations to the extent of -- I mean, so the plant operations was affected by around 10 to 12 days. And apart from that, we just recently started

our aluminium plant. So, it would take some time to stabilize those plants. Probably, that is one of the reasons why the numbers were not as good as we had expected.

And of course, there is a drop in aluminium and plastic prices also. So, these were the three issues. And all these three are temporary problems in our opinion. So, probably, by next quarter, some of these issues will be resolved. At the max, next to next quarter, all these issues will be resolved.

Devang Shah

Okay. One more thing, sir, that we have seen also, you know, dip in our volume, especially sequential basis. So, that is, you know, any specific reason on all three verticals, lead, aluminium, and this...

Yogesh Malhotra:

So, yes. So, in aluminium and lead, basically, as I mentioned earlier, that what we have done is that we have imported a lot of our material from our own plant. Into India. So, because of that, the revenue numbers does not show the total volume that we have done in production. So, it gets eliminated when you consolidate the data. So, that is why, otherwise, in production, if you look at the production-wise data, we have done better than the last quarter. But it is not reflecting in the revenue numbers.

Devang Shah

So, it is one kind of intra-transfer. Intra-transfer. That will not reflect in a number and revenue also, right? If I understood correctly.

Yogesh Malhotra:

Absolutely. Absolutely.

Devang Shah

And last thing, sir, we have seen, you know, sequential decline in a fact that is, you know, a bit higher. So, that is only due to a tax element or any kind of, you know...

Yogesh Malhotra:

So, yes. So, basically, in the last quarter, Q4, there was an additional one-time income of INR10 crores, which was there in this Q4 of FY '23. So, that is not there in this. So, that was the reason you see the higher numbers in case of Q4 versus Q1 this year. So, that is the only difference. Otherwise, as already mentioned that there are two, three things, which one is, of course, the Biparjoy impact on our Mundra facility.

So, these are the two, three things, which is contributed on two new plants in overseas. We have just started and the expenses were there, but we could not operate. So, it is under stabilization period. So, there is a reason we are lower on the expected numbers, but as compared to the last quarter. But the INR10 crores income, which was exceptionally there in Q4, that is the major difference in the PAT.

Devang Shah

And last question, sir, you know, we will continue to have a, you know, margin that is, you know, something, you know, 8.5% to, you know, 7.5%. That will be a range somewhere we can expect PAT margin. And, you know, as you have mentioned, as far as tax is concerned, because Indian taxes are high. So, what should we expect, you know, average tax rate going forward?

Yogesh Malhotra:

Yes. So, average tax rate should be 11% to 10%, 11% to 12%. That is the average we expect considering there will be slightly more profits coming in from the overseas business. So, which

is slightly lower in this quarter, but going forward, it should be back to the normal. So, we expect to be in the range of 11% to 12%.

On the PAT margin side, we expect to be. So, the percentage could be lower or higher, but we slightly focus on part and EBITDA and slightly 25% ROC minimum. So, that's a more relevant benchmark for us because we work in different geographies. So, working capital cycle is also different in different cases.

Like we discussed that there is a business which is a lower margin business, but there is no working capital in that business in case of India. So, that contributes higher. So, margin could be lower, but yes, we will be better on the return on capital. So, that's the benchmark. We have capital at 25%.

Moderator: Thank you. The next question is from the line of Shrinjana Mittal from Ratnatraya Capital. Please go ahead.

Shrinjana Mittal: Hi. Thank you for the opportunity, sir. Just a follow-up on the earlier question which was asked. So, on this scrap collection, you mentioned that since we imported more scrap because scrap is cheaper, we imported more and hence the domestic collection was less. Is that correct?

Yogesh Malhotra: Sorry, can you come?

Shrinjana Mittal: So, I was saying that domestic collection was less in this quarter. You mentioned because that was because overseas scrap was cheaper. So, you imported more than what is collected domestically. So, I just wanted to understand what is the difference between the landed cost versus the domestic scrap? Like just an approximate percentage wise, what would have been the difference?

Yogesh Malhotra: 5% to 7% difference would be there. But the thing is that it is a little difficult to compare both these because then you have to see where we are selling it and to the customers that we are selling it because Indian scrap mostly is a tolling business where the margins are fixed. Whereas, when we import scrap and we sell it in India, then the margins increase because then you -- I mean the EBITDA margins are much higher in those cases. So, it is not an apple to apple comparison.

Shrinjana Mittal: Okay. So, if I am understanding it right, because of value-add, the margin difference would be there between what is sold -- what is imported and then sold and versus what is -- but in terms of working capital, the working capital is lower in the tolling business. So, when you make these decisions, you look at it in terms of margins -- the sold margins or the dosage wise, how -- what is the impact?

Yogesh Malhotra: So, the basic idea is to get the highest ROC. So, if we are getting higher ROC by importing that scrap, even though the working capital cycle is higher, but the profitability is higher in that case, then we will go for imported scrap. But if the ROC is higher in the tolling business, then we go for the tolling business. So, that is one criteria that we have kept. But it is not that we will convert

100% of tolling business into. So, we can only play 10% to 15% only here and there. More than that is not possible.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Thank you for taking my question again. You know, there was a previous question on the interest expense going up. It is the highest in about four quarters now. Could you just give us a sense of what is your debt number right now? And what should we look forward to in that particular item?

Yogesh Malhotra: So, current debt number is approximately INR375 crores. And earlier net debt I am talking about. And the number, if you compare it with the March numbers, it is INR314 crores. So, it is increased by approximately INR60 odd crores in this quarter. And so, reasons we have discussed that there is a slightly, because we have recently started the new capacities in Mundra and Chittoor. So, we imported certain scraps in anticipation of this capacity. So, recently we have started this capacity. And the plants are under ramping up. So, gradually it will reduce to the normal level.

Rahul Bhangadia: Okay. And so, the other thing that you mentioned was this INR10 crores exceptional income in Q4. Just wanted to understand how would that get reported in the segmental numbers. Last time there was a turnkey project top line of about INR11 crores in March quarter. This quarter you also have again a INR15 crores, INR14.6 crores number. So, where does that exceptional INR10 crores sit in this -- which was there in last quarter and...

Yogesh Malhotra: So, INR10 crores income was related to the tax. It was basically recognition of the mat. So, it reflected in the tax itself.

Rahul Bhangadia: Okay. Last quarter you were saying it will sit in the...

Yogesh Malhotra: Q4 it was. INR10 crores of mat recognition. So, that was reflected in the -- not in the EBITDA. It is only in the...

Rahul Bhangadia: Okay. It was only on the tax side you are saying.

Yogesh Malhotra: On the tax side, yes. So, the tax number was lower by INR10 crores.

Moderator: Thank you. The next question is from the line of Vikash from Acorn Tree Group. Please go ahead.

Vikash: Thank you. One thing is our one of the customer is there is Amara Raja. And they also one of the early on subsidy is the Amara Raja circular solution is there which is also a recycling business area. Whether any kind of the impact has come in our lead recycling?

Management: In fact, a customer we are directly dealing with Amara Raja Batteries to which we are having the direct contract for supply of our products as well as we are collecting the battery scrap from

different owners of Amara Raja and recycling it and supplying back to them. There will be the possibility and Amara Raja is also working on that that they will be putting up some recycling facilities down the line after three years. So, there is a recycling facility they are putting up. So, that is related to that.

Management:

But the thing is that the overall opportunity in this case is pretty huge in the sense that currently around 30%, 35% of the total scrap available comes to the organized sector whereas the balance 65%, 70% goes to the unorganized sector. And with this new battery waste management rules coming into picture, we expect that majority of the scrap will now start coming back to the organized sector. So, there is a huge opportunity and there is a huge compliance pressure also on all these battery manufacturing companies.

So, just to fulfil that compliance commitment they may plan to set up battery recycling plants. Exide has already done that. But Amara Raja had earlier planned to put up that plant much earlier but now they have kind of postponed it a little bit. Basically, that will be only from the compliance point of view. If they can find partners who can do it for them probably they will not come into recycling. And even if they do come into recycling there is still enough opportunity available for all the battery recycling companies in India to grow at a very healthy rate keeping in mind the opportunity available.

Moderator:

Hello. Mr. Hassan, does that answer your question? As there is no response from the current participant, we move on to the next question from the line of Vikas Mistry from Moonshoot Ventures. Please go ahead.

Vikas Mistry:

Thank you for giving the opportunity. Sir, actually our sourcing is the main mode and how we are trying to build our mode in that regard. And from the perspective that what is the concentration of institutional clients specifically Amara Raja in case if they are trying to set their own manufacturing? That's my first question.

Management:

See, Amara Raja sells -- and for that matter all the other battery manufacturers sell their batteries across India on a pan-India basis. So the battery gets collected across pan-India basis. So even if Amara Raja puts up a plant they will put up a plant in one location where they are kind of manufacturing their battery. But what about the other regions from where they have to collect those batteries from? That is where they need partners. So Gravita fortunately has pan-India presence. We have plants, one in north, one in south, one in west, one in central region of India. So it gives us in terms of overall efficiencies and logistic cost it gives us I mean advantage over others.

So even if they bring that plant that plant first of all will not cater to the entire capacities available for recycling in India. Then collecting that battery from say north and bringing it back to south where their battery manufacturing plant is there would not be logistically economical for them. So they would need partners like us.

Vikas Mistry:

That's great, sir. But my question is what is the concentration of those five institutional players who are giving sourcing to Gravita?

- Management:** So in terms of their plants Exide has plant, major plant in Kolkata. Amara Raja is in south...
- Vikas Mistry:** Sorry to interrupt. Let me put it this way that what are the top 5 institutional client's percentage here in your scrap collection from them?
- Management:** Okay. In fact, other than Amara Raja we are collecting the scrap from various locations of SEZ then, IT companies like TCS, Wipro, Accenture those kind of clients and thirdly from the industrial sources. So by and large our scrap collection is more or less equal in volumes from all these institutional players.
- Vikas Mistry:** Sir, what top 5 players? What is the percentage?
- Management:** If you consider top 5, one is the TCS, second is Accenture.
- Vikas Mistry:** Can you place the percentage to that?
- Management:** This is random because the battery cycle is close to three years. So sometimes TCS volumes will be higher, sometimes Accenture volumes will be higher, sometimes Wipro volumes will be higher and sometimes SEZ business will be higher. So it normally varies on year-to-year basis.
- Vikas Mistry:** Any rough estimate, sir?
- Management:** Rough estimate? By and large all are equal. Because these are companies having different locations more or less similar kind of industries and similar kind of volumes data centres are having similar kind. But if you be very specific, we are getting more batteries from Tata group of the companies because we are having a global contract with the Tata group of the companies and it's an exclusive contract. So if you say that close to 20% to 25% batteries we are getting from these sources from Tata group. Rest will be distributed among four or five.
- Moderator:** Thank you. The next question is from the line of Ashit Koti an individual investor. Please go ahead.
- Ashit Koti:** My question is, sir, with regards to recycling if you are talking about sourcing of material from industrial users also and assuming that batteries, which you are procuring from secondary market that is four-wheelers, two-wheelers or passenger vehicles or commercial vehicles. Region-wise if you have to consider, major concentration is from which area where do you procure more and from there in that place itself you have a plant or again or else you have to transport it back to your plant in Jaipur?
- Management:** See, around 80% to 90% of the total batteries 85% of the batteries are sold in these three regions, south, west and north and only 10% gets sold 10% to 15% gets sold in the eastern region. And in all these three regions whether it is south, we have a plant in south at Chittoor we have a plant in Mundra which is in west, then we have a plant in Jaipur which kind of covers the central region and we have a plant in Katwa in Jammu and Kashmir which covers the north region. So region-wise we have plant in all of the regions where 85% of the battery gets sold.

- Moderator:** Thank you. The next question is from the line of Mohammed Hassan from Fairdeal. Please go ahead.
- Mohammed Hassan:** Thank you for the opportunity. Sir, since I am new to the sector, I just want to know about the new government rules about the recycling waste thing like, e-waste management thing?
- Management:** New rule on the battery waste management?
- Mohammed Hassan:** E-waste, e-waste management.
- Management:** Basically, all waste management rules whether it's e-waste, battery waste, tyre waste the principle is same, EPR principle polluter pays basis. So there is one policy wherein there is a responsibility on various stakeholders including producers, dealers, institutions and in different rules, you can visit details on MoEFCC website where the rules are already there. But in principle, every e-waste generated has to be taken.
- A laptop producing company has to take back the laptop which they produced in year X and with considering the life they have to take back certain percentage of the electronic item, whatever it is they are selling it. Or they have to give it to a recycler who will recover various metals out of that by different processes and if they are not able to recover if they are an importer they have to get certificate of EPR from these recyclers. So all EPR rules are based on the same principles. There are the fine lines which can be seen on the website of the Ministry of Environment and Forest.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you members of the management for any closing remarks.
- Management:** Thank you everyone for participating in this call. We are pleased to announce that we have begun the year on a positive note and we firmly believe that we are making steady progress towards realizing our vision of becoming the most valuable company in the global recycling industry. We trust that we have addressed all your inquiries during this session. However, if there are any remaining questions, please feel free to reach out to our investor relations team at Go India Advisors. Once again, we extend our gratitude to all the participants for joining us and for your attentiveness to our updates. Thank you and have a great day.
- Moderator:** Thank you very much. On behalf of Emkay Global Financial Services, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.