



“Gravita India Limited
Q3 and 9M FY '24 Earnings Conference Call”
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MODERATOR: MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING

Moderator: Ladies and gentlemen, good day, and welcome to Gravita India Limited Q3 FY '24 Conference Call hosted by Antique Stock Broking. 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 call an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now transfer the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you, and over to you, sir.

Manish Mahawar: Thank you, [Manoja]. On behalf of Antique Stock Broking, I would like to welcome all the participants on the 3Q FY '24 Earnings Call of Gravita India. From the management, we have Mr. Yogesh Malhotra, Whole Time Director and CEO; Mr. Sunil Kansal, CFO, on the call. Without further ado, I would like to hand over the call to Mr. Malhotra for opening remark, post which we'll open the floor for Q&A. Thank you, and over to you Mr. Malhotra.

Yogesh Malhotra: Thank you, Mr. Manish. Good afternoon, ladies and gentlemen, and welcome to our Q3 and 9 months financial year '24 Earnings Call. Today, we'll be discussing our company's financial performance and strategic decisions. Our investor presentation is available on the exchange, and we hope you have had a chance to review it.

I'm pleased to announce that Gravita India has demonstrated robust performance during Q3 and 9 months financial year '24. Before we delve into the results, I would like to share some project updates.

I'm pleased to announce that Gravita's step-down subsidiary, situated in Tanzania, East Africa, has started commercial production of recycled PP granules from its new plastic recycling plant, having an annual capacity of around 1,800 metric ton per annum.

The company will be securing domestic plastic scrap for production from this plant, and it will cater to the needs of plastic manufacturing industries situated in Europe and Asia. This plant will help the company to optimize its sales mix by increasing the contribution from plastic business.

Let's now discuss the operational performance. Coming to capacity expansion, we are making significant strides towards our goal of attaining a capacity of 4.25 lakh metric ton per annum by financial year '26.

As of 23rd January 2024, Gravita had expanded its capacity to 2.86 lakh metric ton per annum compared to 2.33 lakh metric ton per annum on 31st March 2023. I'm pleased to announce that the production has increased by 17% in Q3 financial year '24 on a year- on-year basis. However,

the company has witnessed a sales volume drop of 7% in Q3 financial year '24 on a year-on-year basis, lead volume increased by 2% to 34,488 tons on a Q-on-Q basis, whereas aluminum and plastic volume dropped by -- to 3,264 tons and 2,458 tons, respectively. The reason for drop in volumes was due to logistics disruption.

To reiterate our capex plan for the future expansions to reach the targeted capacity of 4.25 lakh metric ton per annum by financial year '26, we will be incurring a capex of approximately INR600 crores by financial year '26, covering both existing and new verticals. The estimated capex for existing and new verticals is approximately INR400 crores and INR200 crores, respectively.

Moving to financial results. For 9 months financial year '24, consolidated revenue for 9 months financial year '24 increased by 12% to INR2,297 crores, 47% of revenue in 9 months financial year '24 came from value-added products, in line with our vision of achieving 50% revenues from this category.

Consolidated adjusted EBITDA for 9 months financial year '24 increased to INR238 crores, up by 19% on a year-on-year basis. Consolidated PAT showed an increase of 24% to INR170 crores in 9 months financial year '24 compared to same period last year. PAT margin increased by 7.4 -- increased to 7.4%.

Coming to Q3 financial year '24. Revenue for the quarter witnessed a slight drop of 2% to INR758 crores on a year-on-year basis because of drop in volumes, which were impacted due to logistics disruption. However, this was largely offset by increased realizations.

On a year-on-year and Q-on-Q basis, adjusted EBITDA increased by 26% and 11%, respectively, to INR90 crores. EBITDA margins also showed a significant increase to 12% compared to 9% in Q3 financial year '23. Gravita reported a consolidated PAT of INR60 crores with a 20% and 4% growth on a year-on-year and quarter-on-quarter basis, respectively. PAT margin remained steady at 8%.

In conclusion, I would like to emphasize that Gravita is making significant strides toward realizing its ambitious Clear Vision 2027. Our emphasis on diversifying into new business verticals targeting a revenue CAGR of 25%-plus and profitability growth of 35%-plus, achieving a ROCE of 25% and increasing the non-lead business to 25%-plus, highlights our commitment to sustainable development.

Successful strategies, such as capacity expansion, increased proportion of value-added products and proactive risk mitigation through back-to-back hedging have contributed to strong and sustainable margins. With our global presence, integrated supply chain and stakeholder support, we are confident in realizing our Vision 2027.

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

- Moderator:** Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Kushal from Motilal Oswal. Please go ahead.
- Kushal:** Sir, can you expand more on this logistics...
- Yogesh Malhotra:** Excuse me, Mr. Kushal, can you be a little louder, please?
- Kushal:** Yes. Sir, can you explain logistics disruption, how long the impact would be, the quantum of impact and everything on that end?
- Sunil Kansal:** So basically, this logistics disruption came because of this Red Sea issue. So we expect to be over by this current quarter end or latest by April end. So -- but we -- as for the company, we are taking some alternatives. We are using certain strategies to mitigate this impact on the bottom line of the company. So we are moving certain goods to India also, to other territories also to maybe remain on -- lower on the volumes, but to maintain the bottom line.
- Kushal:** Sir, the quantum of impact...
- Yogesh Malhotra:** Dispatches from overseas plants to Europe were disrupted because of this issue. And also from India, some exports from our Mundra plant was disrupted. So we are looking at alternatives to sell this material to some other markets probably and also bring some material from our overseas plant into India, which will impact our revenue for some time, but it will not have a major impact on the bottom line during this period.
- Kushal:** Quantum of impact if you can -- for this quarter would be around?
- Yogesh Malhotra:** Sorry?
- Kushal:** Quantum of impact would be for this quarter?
- Sunil Kansal:** So quantum of impact on the volumes, approximately INR100 crores to INR120 crores of revenue...
- Moderator:** Thank you. The next question is from the line of Chetan Thacker from Ask Investment Managers Ltd. Please go ahead.
- Chetan Thacker:** Sir, just wanted to understand from you what we've seen in OP for the lead business in particular, which is at INR23 a kg and it appears to be more on the higher side of what we believe is the normalized operating profit. So can you just let us know is there any one-off there sitting there? Or what is the reason for this higher operating profit per ton on the lead business?
- Sunil Kansal:** So basically, as we discussed that there was some logistic issues of Red Sea and there was some volume impact where we could avoid certain volumes. So when this kind of situation is there when we are not able to increase the volume, so the lower margin business, which is where -- like the tooling business, where we get to slightly lower per ton EBITDA, so we avoid to do that

kind of business. And at that point in time, overall per ton EBITDA improves, but with the lower volumes.

So that strategy was there in this quarter specifically, where volumes were lower, per ton was higher. But yes, this is not a normal situation, so we expect to be -- whenever the normal volumes comes after this issue is resolved, so we should be normal to the INR18 to INR19 per kg of margins.

Chetan Thacker: Sure. So that will get then compensated by higher volumes, so that is how that gets compensated?

Yogesh Malhotra: Correct. Correct. Correct.

Chetan Thacker: And sir, when we say we'll be moving certain materials to the Indian manufacturing sites for recycling, does that essentially mean that there will be some impact on working capital as well to that account?

Yogesh Malhotra: Yes, definitely, there will be some impact on the working capital cycle. But at the same time, currently, we are enjoying some arbitrage because Indian market is a little favorable. So I think it will be more than compensated by having some additional realization.

Sunil Kansal: Yes. So this quarter also, the margins were higher. So overall, when we get this material to India, so we slightly get better margins. So at that point in time, the ROC remains same. But at the same time, we cannot import all the material to India. So it will have some impact if this situation continues in the Q4 also.

Chetan Thacker: Is it fair to understand that there will be certain impact on volumes in the fourth quarter as you look how best to optimize given the situation that we are facing and that you will try and optimize or set off that by doing higher-margin products for the time being and then you look at it more structurally to see how things can be worked out?

Yogesh Malhotra: Yes. So because we have long-term contracts, so it's not easy to find new customers. Probably on the short term, it may have some impact, but because of our production is not going down, our production has increased, our capacities have also increased. So in the longer run, it will come back to normal very soon.

And sir, in volume terms, what could that impact be, if you could quantify? You've given the revenue impact, but what could be the volume impact because of this?

Sunil Kansal: Because there is no price fluctuation, so the revenue impact is only -- the volume impact and revenue impact is same. There is not much, not much fluctuation impact.

Chetan Thacker: So we should ideally take whatever is the LME, plus your conversion and the margin there and then try and get a number of the volume, that would be a fair number on the volume.

Yogesh Malhotra: Correct. Correct. Correct.

- Chetan Thacker:** Okay. And sir, this impact is not purely on lead, it's on other products as well because of this Red Sea issue.
- Sunil Kansal:** Yes. So slightly more in case of plastics because plastic is not able to come to India. So lead we can bring to India, but plastic is not the case for India. So it's more impact on plastics. And aluminum also because, in our case, most of the aluminum gets manufactured in overseas plant only. So the proportion of aluminum production in overseas is more than 70%. So, therefore, the impact in aluminum also is there.
- Chetan Thacker:** So lead, the tepid in volume growth is not purely on account of logistics, there are some other factor as well?
- Yogesh Malhotra:** No, it's purely on -- so because the production is higher, so we have more stock -- finished good -- more stock of finished goods available in our factory, which will probably be diluted in this quarter probably or, otherwise, at the max next quarter.
- Chetan Thacker:** Understood. And sir, the alternate route to reach Europe will mean what degree of higher freight costs that you would have to incur if this has to be done?
- Yogesh Malhotra:** No. Right now, it's basically -- I mean very difficult to ascertain because even at the current level, the freight costs have gone 7 to 8x. So it's very difficult to ascertain. But I think it will normalize for a period of time in the sense that either the premium to these markets will come down. And similarly, the price of raw material will also drop a little.
- So -- but these disruptions only have an impact on a short-term period. In the longer term, everything will then normalize. I mean either -- because if the freight cost remains higher then what will happen is that the premium for the product from these countries into Europe will drop down a little to compensate for the increase in freight cost. But similarly, the raw material costs will also drop down. So it's only in the short-term basis that these things impact you a little.
- Chetan Thacker:** Understood. Sir, our contracts have the capability to -- or the flexibility to build them at a higher cost because this is something which is obviously not in the normal course of business, so that would mean that we could...
- Yogesh Malhotra:** So as I mentioned that, in the shorter term, no, but in the longer term, of course, either we'll have to give in and reduce some premium or they will increase the premium and things like that will happen. But as I mentioned, that it will also have impact on the raw material costs from these countries.
- Chetan Thacker:** So you are saying the RM will also go down for you, which comes to you in terms of scrap?
- Yogesh Malhotra:** Yes, if this thing continues for a longer period.
- Chetan Thacker:** Okay. And sir, scrap for this is procured, so is it -- so from the plants where we are manufacturing, this is more inbound raw material that comes through or it's more locally sourced material and that gets recycled?

- Yogesh Malhotra:** Yes, it's more locally sold material, but -- because it's not only us, the prices for logistics increases for everybody else. So the fair thing is that it gets distributed across the supply chain or the value chain. So if the premiums go down in the long run, the prices of the raw material will also come down.
- Chetan Thacker:** So a fair assessment will be that because RM is locally sourced, you see pricing going down there and given material is not moving efficiently to the European markets, most of recyclers like you will probably demand a higher premium because an alternate freight route has to be then developed. So that is how, from a more medium- to long-term perspective, profitability comes back, but the short- term disruption has to be managed.
- Yogesh Malhotra:** Absolutely. You're right.
- Chetan Thacker:** Okay. This is very helpful. Thank you so much.
- Yogesh Malhotra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Suruchi Parmar from Nx Wealth Management. Please go ahead.
- Suruchi Parmar:** Yes, good afternoon sir. Thank you for the opportunity. I just wanted to ask about the aluminum. EBITDA per metric ton aluminum has dropped from the last quarter as well as from the last year also. So what is the reason for that?
- Sunil Kansal:** So basically, as we discussed every time this part, so basically, in case of aluminum, we are not fully hedged on the metal side because this is an aluminum alloy which we deal into, so we don't find any solution for hedging of this metal. So whenever there is a price fluctuation, so it impacts the per ton EBITDA margin also and sometimes volume also. So, we curtail certain volumes, which are taking more working capital cycle or cash-to-cash cycle.
- So we avoid those kinds of -- to mitigate certain risks to avoid certain risks. So that is the reason where the per ton EBITDA of aluminum business -- so till the time we find a solution for this hedging. And in this case we are talking to MCX also for giving us a solution for hedging of aluminum alloy, the product which we are dealing into, so till the time we are finding such solution, we are slightly the margins on this aluminum alloy will be fluctuating.
- Yogesh Malhotra:** And also the freight cost has increased, as I mentioned earlier. It has also impacted, to some extent, the EBITDA margins. But we see some recovery from next quarter onwards. We are already seeing some changes there. And we believe that in the next quarter, the EBITDA margins would probably be a little better than this quarter in aluminum.
- Suruchi Parmar:** Okay. So going forward, like our lead business will be the same amount or the lead will taper down and this aluminum, plastic and whatever new segments...
- Sunil Kansal:** So the sustainable margin is around -- yes, so basically, the sustainable margin for lead is INR18 to INR19 currently. And for aluminum, it should look -- so currently, it is approximately INR9

per kg, which should go up to INR10 or INR11 per kg in the shorter term. And in the longer term, it should go back to the normal level of INR16, INR17 per kg.

Suruchi Parmar: Okay, sir. And can you just tell about -- like you said that revenues are -- the volumes offset by the increase in realization? Sir, in which segment the realization has actually increased, in lead, aluminum or plastics?

Sunil Kansal: No, it is slightly improved in case of lead only where we improved certain -- because certain goods were shipped from overseas to India, where we do certain value addition. So in that case, the realization per ton is improving. So actually, in lead, generally, we cover both the markets, Indian market as well as global market. Whereas in aluminum, entire sales is outside India. I mean, approximately maybe 90% of the sales is outside India. So we could not take advantage of bringing that material into India in aluminum.

Suruchi Parmar: Okay. So bringing into India, it's beneficial for us for the revenue's part or...

Yogesh Malhotra: Yes. So in case of lead, we find certain arbitrage opportunities like selling into India, but that is not the case for aluminum because aluminum we have only a single market outside India. So where -- so the opportunity which is available for only for lead, where we can improve certain realizations, better realizations at certain times when the Indian markets is higher.

Suruchi Parmar: Okay. Thank you, so much, sir. I'll join back in queue.

Moderator: Thank you. The next question is from the line of Vikas Mistry from Monsot Adventures. Please go ahead.

Vikas Mistry: Hi. Good morning sir. Thanks for the opportunity. I have a couple of questions. First, pardon me for the slightly longest question. In recent times, we started to venture into so many recycling avenues like aluminum, steel, paper and all that, and we have ambitions to do that. For that we needed a good sourcing for these materials. Do we have that sourcing infrastructure ready for the plants to run? Point number A.

And point number B, we are not having the newer aluminum and steel. And what is the hedging strategy for all the materials? And to put that into context, if you don't have both of the things ready, it is like venturing into uncharted water and not having proper plan for that?

Yogesh Malhotra: Yes. So I think it's a very relevant question. To answer your first question, definitely, we have our own sourcing in place -- sourcing system in place where we source everything, including the new verticals also that we are dealing into, and we will only put up a plant when we are 100% confident of having that arrangement where we can source raw material for the new plant, whether it is for paper or for steel or for any other commodity.

So that is a prime thing to consider when we go into a new vertical, whether we can source that material or not. That definitely would be there. To answer your second question, definitely, that is a challenge that is going to come. And we constantly look at opportunities to find a solution

to that. And as I mentioned earlier, probably, we are in discussion with MCX in India to set up a hedging mechanism.

Unfortunately, it is taking a little longer because it is something that is totally new to the exchanges because it's not a very freely traded commodity. There are certain specifications issues that can crop up. So it generally takes a little longer time. But we are expecting probably by first quarter next year to have this aluminum hedging in place.

The other alternative is to keep a constant flow of material and a constant amount of idle stock in your kitty. So what happens is that whenever I'm buying, I should have a natural hedge. I should have an order from a customer for the material that I'm buying today. So that is what we are keeping. But when the volumes grow, then having -- I mean, then maintaining this idle stock is very difficult.

So we are constantly looking at opportunity to do this. But what we assure you is that it is only an impact on a quarter-to-quarter basis because if you keep the same business model on, then whatever losses you have made when the prices come down, you will recover those losses when the prices go up, if you keep the inventory level common. So although it may impact on a year-to-year basis, but because we only take the margins -- the conversion margins, it will not impact us in the longer run.

Vikas Mistry:

Sir, just a follow-up on that. You said that you make up the gains in the next quarter and on year-on-year it looks quite fine. But the problem is that it increases volatility in earnings and it also introduces fragility in the business. And from investor's perspective and from the business perspective, that fragility is not right. It would be very prudent to have a hedging solution that will back to back hedge.

And point B is that whatever the -- apart from aluminum, other communities, are they -- can they be hedged or they also have the specification issues which can't be hedged?

Yogesh Malhotra:

So I'll tell you. For example, in plastics, generally -- and we are moving towards more and more tolling arrangements. So what happens in this case is that we already have arrangements with the customer to provide them, say, around a particular volume of business per month and we only procure that much material during that month. So it's more like a tolling business.

We buy from their factories raw material or waste material, process it and give it back to them. So that is another alternative that we are working on very closely with OEMs. So that will also take care of any volatility that may affect your business.

Vikas Mistry:

Okay. You are saying that in other avenues, which we are foraying into, steel, paper and plastics, we don't have to basically schedule...

Yogesh Malhotra:

Not steel, not steel, I'm talking about plastics currently. Steel is a little, I mean, further away in terms of implementation of a new vertical. We're currently looking at plastics, aluminum, paper

and then probably steel -- lithium-ion recycling, and then steel will follow up. So what I'm talking about right now is from aluminum and plastic perspective.

Vikas Mistry: Okay. Okay. Sir, my last question is on what is the technology...

Moderator: Sorry to interrupt. Can you join the queue again?

Vikas Mistry: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Sabri Hazarika from Emkay Global.

Sabri Hazarika: Yes, good afternoon sir. so two questions. Firstly, in terms of this Red Sea disruption, so Q3 numbers were the worst of it or are we seeing Q4 turning out to be similar? Or especially, on the freight side, whatever numbers you've posted in Q3 that captures the jump in freight or in Q4, we could see that go up?

Yogesh Malhotra: So to answer your question, it is very difficult to say. But the thing is that we are looking at finding solutions. Generally, in the shorter term, it will impact you more because you don't have any alternatives in the short term. But in the longer term, we are now trying to find out customers' orders from places other than Europe.

So in the shorter term, it is very difficult to move material from one source to another source. But in the longer term, probably in Q4, we would find a solution so that we will divert the material that was supposed to go to Europe, and it will go somewhere else. So hopefully, it will be better than Q3.

Sabri Hazarika: Okay. So you expect Q4 to be better than Q3 in terms of the operational numbers, right?

Yogesh Malhotra: Yes, yes.

Sabri Hazarika: And freight also you are saying that Q4 will not see any jump in freight costs compared to Q3.

Yogesh Malhotra: No. So we don't know. We don't know whether freight will increase or not, but we'll find a solution in the terms of -- so if the freight remains high to go into Europe, then we'll probably not sell enough in Europe and we'll sell to some other geographies, maybe Asia or maybe the US or things like that.

Sabri Hazarika: Right, sir. And this Red Sea disruption, I mean, there's no movement of ships or how...

Yogesh Malhotra: No, no, the movement is there, but it will affect -- it will impact the bottom line and that is -- and that again is a bottom line for us also because we don't want to disturb the bottom line, so we will look at an option where the net realization is the highest. So if even after the freight cost European realization would be the highest, then we'll sell in Europe; otherwise, we'll divert that material to someplace else where the realization is higher.

- Sabri Azarika:** Okay. Thanks And second question is, can you give us some idea on what is the current scenario in terms of like lithium-ion recycling in India? And what are your latest plans with respect to that?
- Yogesh Malhotra:** So again, I think in the shorter term, nothing has changed. We are still very keen and still India is a -- it's premature to talk about lithium-ion recycling currently because it may take five to six years for actual volume to come into recycling for lithium-ion, but we are very keen. Even right now, our technical team is in China looking at options to put up a pilot project in India at Mundra. So hopefully, you will see some action by quarter one of next year.
- Sabri Azarika:** Yes, there are some small companies which are into lithium-ion recycling, so...
- Moderator:** Sorry to interrupt, Sabri...
- Sabri Azarika:** Yes, no, it's a follow-up to this question only. So just wanted to know -- I mean, in terms of like technical knowhow and other things, are you like interested in those kind of opportunities?
- Yogesh Malhotra:** Yes, definitely. If there are some technologies available that can give a breakthrough into lithium-ion battery recycling, definitely, we are looking at such opportunities also, too.
- Sabri Azarika:** Right, sir. Thank you so much and all the best.
- Yogesh Malhotra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Fialoke from Ratnatraya Capital. Please go ahead.
- Chirag Fialoke:** Hi. Good afternoon. I have three quick questions, if you would allow me. The first one is could you share the closing inventory number for this quarter?
- Sunil Kansal:** Closing inventory number is approximately INR690 crores.
- Chirag Fialoke:** INR690 crores. And essentially, the INR120-odd-crores that has increased, that is kind of what the order that got stuck, but you have already...
- Sunil Kansal:** Correct. So we have certain finished goods, but we could not ship it because of this reason, and certain goods were in transit, which we moved from overseas to India. So because of these two issues, the inventory got slightly higher...
- Chirag Fialoke:** Understood. And just a clarification on the EBITDA per ton for lead. Essentially, what you said was there is -- because of such a disruption, there is opportunistic sort of pricing available in the market, and that's what we have taken advantage of which will definitely normalize as soon as the volume situation normalizes.
- Yogesh Malhotra:** Yes. So it's partly because of the arbitrage opportunity and partly also because when you reduce the volumes, you reduce the volumes that give you the minimum EBITDA numbers.

- Chirag Fialoke:** Sir, but what kind of business was that? Because if...
- Yogesh Malhotra:** So, for example, tolling business, although the ROC is equal or even higher than the ROC that is given by the other business, but the EBITDA margins are slightly lower in tolling business also because there is no working capital requirement, there is no capital requirement as well. So generally, we also consider ROC as a -- so ROC is also equally important to us as is EBITDA margins.
- Because we are dealing into various mechanisms, various geographies, so EBITDA margins on a consolidated level is INR18 to INR19. But if you look at each and every business per se, then ROC is a better marker to understand which business is more lucrative for us. In this case, because the volumes are going down, so we decided to -- and also because there was no alternative for us to sell our product, our overseas material into, we imported that material into India.
- So the EBITDA margins have increased. But as you see that the volume -- the inventory levels have also gone up. So the ROC has dipped a little, although it is still more than 25% that we have benchmarked ourselves for, but if we had done tolling business, then the ROC would have improved a little, but the EBITDA margins would have come down.
- Chirag Fialoke:** Got it.
- Yogesh Malhotra:** But the overall EBITDA per ton -- absolute EBITDA would have gone up.
- Chirag Fialoke:** Understood, sir. I understand what you're saying. Sir, could you give us the current capacity for lead specifically?
- Sunil Kansal:** So the current capacity for lead is 231,000, and the total capacity is 285,000 -- 286,000.
- Chirag Fialoke:** Understood. Last question, sir, on the presentation, you report an order book, which for the last two quarters has been around in the 60,000 tons number. Could you just help us understand what this order book is? Does it generally have the age of one quarter? Or does that also include some longer-term contracts? We'd love to understand what that number really represents.
- Yogesh Malhotra:** So it covers both long term also and short term also. Generally, we have a contract with any OEM for a year. The quantities are fixed, but the prices are based on that month's price. So some of the contracts are for the entire year, other contracts would be for a quarter also.
- Chirag Fialoke:** When you say 60,000...
- Sunil Kansal:** So these are including -- it includes the contracts with the OEMs and certain contracts with the large metal traders like Trafigura, Glencore. They undertake certain quantities based on -- the pricing could be on a market price basis.
- Chirag Fialoke:** Understood, sir. Is there an average age for this order book that you generally sort of think of? I'm just trying to understand from this order book how things look.

- Yogesh Malhotra:** So orders are generally for -- the contract is basically -- as I mentioned it, on a weighted average, it would be very difficult with three to four months. But generally, the contract is for the entire year with some of the OEMs. But the prices keep on changing. So, for example, there's an OEM say, Exide, so they will give you a firm commitment to buy, say, 1,000 tons per month for the next year at a particular premium over the LME of that month.
- Chirag Fialoke:** Correct, sir. I understand. And that 12,000 -- the entirety of that 12,000 is included in the 60,000 number?
- Yogesh Malhotra:** Yes.
- Chirag Fialoke:** Okay. Thank you so much, sir. That's all.
- Moderator:** Thank you. The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.
- Jenish Karia:** Yes. Thank you for the opportunity. Sir, firstly, if you can just help us understand the adjustment that we have done. In the footnote below the results, about INR18.8 crores adjustment for nine months and in the quarter, so what exactly is that adjustment? And in the previous quarters also, we have made some reversals, so could you just explain that?
- Sunil Kansal:** Yes. So basically, what we do is -- the intent is to make some clarification on the amount of hedging of currency and commodity hedging, which we -- which is part of the other income, which we take as a consideration into the operational income. So that amount reflects that part, which we have considered in the -- taken in the other income, but considered in the special income.
- Jenish Karia:** Okay. So we have classified INR18.8 crores from other income to operational income, is that understanding right?
- Sunil Kansal:** Correct.
- Jenish Karia:** Okay. So what would be the absolute amount of commodity hedging gains for the quarter?
- Sunil Kansal:** So commodity is approximately -- for this quarter, it is approximately INR20 crores.
- Jenish Karia:** Okay. And that will be forming a part of your revenue?
- Sunil Kansal:** Yes. So that's basically -- effectively, that is a part of revenue.
- Jenish Karia:** Okay. But in financials, where does it exactly disclosed if it's INR20 crores a quarter and not in the...
- Sunil Kansal:** This is reflected in the financials in the other income.

- Jenish Karia:** Okay. Second, there is a decline in the segmental assets for aluminum, plastics and turnkey segments. So is there any assets that we have sold for this division?
- Sunil Kansal:** We haven't sold anything. Where, sorry?
- Jenish Karia:** Segmental assets that were reported in the segmental financials below the P&L. So they were declining on a sequential basis.
- Sunil Kansal:** No. So that represents including the assets, including the working capital, the inventory and the receivables also.
- Jenish Karia:** Okay. So if we see the reported EBITDA per kg for aluminum segment for the quarter is around INR9,000 -- INR9 per kg. But if I calculate the EBIT per kg for aluminum division, it's approximately around INR11. So why is the EBIT higher than the EBITDA?
- Sunil Kansal:** Yes. So there is a decrease of depreciation also.
- Jenish Karia:** Okay.
- Sunil Kansal:** And there is a -- below the line, there is an unallocated income also, which represent -- there is certain hedging loss also, which is in case of aluminum, there is a hedging loss of around INR0.8 crores, INR80 lakhs, which is reduced from this EBIT for calculating the per ton EBITDA.
- Jenish Karia:** Okay. Understood. Sir, next is if you could just help us the capex spends for the nine months for existing and new verticals?
- Sunil Kansal:** Capex for -- you're talking about capex for?
- Jenish Karia:** For the nine months FY'24, how much have we spent?
- Sunil Kansal:** So we have spent approximately -- so total capex is INR85 crores, but -- sorry, INR78 crores, we have spent in nine months. Out of this, approximately INR10 crores is for new verticals, which is rubber. So now we are in the process of replicating the rubber which is still settling vertical and replicating from -- we started from Ghana and now we are replicating it to Mozambique, Senegal, Tanzania, all the locations. And later, we plan it to put it in India also.
- Jenish Karia:** Okay. And INR68 crores will be for the existing verticals. So in our presentation, we have guided for FY'24 capex spend of INR159 crores for existing verticals and INR45 crores for the new verticals. So it will be deferred in the next year, right?
- Sunil Kansal:** Yes. So whatever left over will be taken care of -- will be taken forward for the next year because there is a certain new verticals, which we are working on like lithium-ion and paper recycling slightly. We are making some more studies and more robust supply chain establishment before we go and spend some capex on that.

- Jenish Karia:** Okay. And for the existing verticals, we have been guiding for FY'24 capacity of 3,24,000 metric ton, including rubber. So we'll be able to meet that with the limited capex that we are doing in the existing new verticals this year? Or is there will be some downward revision?
- Sunil Kansal:** Yes. Of course, we are planning to have a new plant. So maybe we may not be doing it by March end, but maybe by April or May, maybe we should reach this target because we are establishing Oman also, we are in the process of establishing rubber at all the locations, and we are expanding certain capacities in Mundra and Chittoor also.
- Jenish Karia:** So what are we targeting the year-end capacity, if not 3,24,000 tons?
- Sunil Kansal:** So it should be -- we should reach to this target, maybe slightly one-month delay.
- Jenish Karia:** Okay. Understood. What would be the cash flow from operations and working capital days as on December? If you can just say anything with that.
- Sunil Kansal:** Sorry?
- Jenish Karia:** The cash flow from operations and working capital days.
- Moderator:** Sorry to interrupt, Jenish. Can you join the queue again?
- Jenish Karia:** Yes, sure. No problem.
- Moderator:** Thank you. The next question is from the line of Parikshit Kabra from Pkeday Advisors. Please go ahead.
- Parikshit Kabra:** Hi, Yogesh. Hi, Sunil. Thank you for taking my question. I've couple of them. Number one, I know that we have given a vision of 35% CAGR in profitability for 2027. But as of the last three quarters, it feels like we're missing the mark there. So I just wanted to hear any reflections that you guys may have on how to look at that guidance from -- maybe not from a four-year perspective, but even from this year and the next year's perspective, with the new macroeconomic situations and the challenges in the business?
- Sunil Kansal:** Yes. We agree. I think we are a little off mark of the 35% bottom line that we suggested. Part of it is because of the aluminum prices. As we mentioned earlier, also the aluminum and plastic business didn't give us the kind of profits that we were envisaging earlier.
- But I think we are on a recovery line, recovery path now. We already see some changes in aluminum and also plastic. In plastic also, I think we were expecting EPR to kick in a little faster, but I think it is a little slow in the sense that implementation of that EPR has taken some time. But we also see some changes happening now on the field.
- So we believe that these things will start giving us impact, if not in the next quarter, but definitely by first quarter of next year. So that will change the bottom line structure overall. And as far as

revenues are concerned, we mentioned earlier also that is not very important because in some cases, when we import the material into India, there is some elimination also.

But overall, this may not go in a perfectly straight line. I mean it may not be a linear growth, but by -- in the next three years, we see a 35% overall CAGR. So some quarters may be a little lower in terms of that growth path, but eventually, we will reach the committed path very soon.

Parikshit Kabra:

Makes sense. So -- and my second question was going to be along exactly those lines, the aluminum and plastic business. I think there is an external event that we are hoping will happen, which is -- the EPR policy gets implemented. And also, I think you guys are looking to set up with MCX some kind of financial products that enables you to do more sustainable and stable business here.

So just wanted to figure it from your guys' perspective, and I think you mentioned maybe a quarter or two quarters, but are you hearing anything that is changing around these policies and is MCX about to turn around? What do you guys think is going to be the timelines for this?

Yogesh Malhotra:

Yes. So it's not about hearing. We are seeing things happening. We already are in discussion with quite a few OEMs. We have started picking up their material. But in terms of making some products out of it is taking a little longer. Because in plastic, it's not very simple, you have to do a lot of trials before you end up making material that is suitable for the OEMs. So it is taking a little longer, but we are seeing things changing actually a lot due to this EPR.

We are getting a lot of materials also available, but in plastic, generally, no two materials are the same. So we are getting a lot of challenges in terms of how to segregate those materials and how to make something useful out of those materials. But we definitely are working on it. And definitely, it will have impact, as I mentioned, not probably in a quarter or two quarters, but we see that we are on the right path in plastics.

In aluminum, of course, as I mentioned earlier also because we are not hedging, so that if there is any fluctuation in the prices of aluminum, it reflects on the bottom line of the business, which has been the case this year. But now the prices have stabilized, and we don't see the prices going down from the current prices, the business has also stabilized. So we are planning to increase the volumes also.

And of course, the overall bottom line will also improve going forward in aluminum. But in plastic, definitely, although it may take a little longer to stabilize, but we think that we are on the right path.

Parikshit Kabra:

Got it. And lastly, in the Red Sea issue, it's already been another month into Q4, and at least from the headlines that I can read, it doesn't seem like it's getting resolved anytime soon. So in terms of finding alternative buyers, you must already be well in the process of doing that at this stage...

- Yogesh Malhotra:** Yes, yes. We already have done it. We have diverted some of the material already, but getting a buyer for the entire, I mean, production is not that easy because -- in the short term, not in the long term, right? As I mentioned that we have started diverting some of the material into India also, which has impacted the bottom line because some of it is in transit and some of it gets eliminated when you consolidate the entire balance sheet.
- It will start giving effect from next quarter onwards. From this quarter, definitely, and from next quarter onwards, we will be able to dilute all the materials -- all the increased inventory that we have.
- Parikshit Kabra:** Got it. But then the margin will come down, right, when we start diluting this extra inventory...
- Yogesh Malhotra:** No. Not much. We generally look at other options -- because freight cost is very important. So if we can somehow reduce that freight cost -- there may be some issue but increased volume will take care of that reduction in the prices or in the premium.
- Sunil Kansal:** Per ton will go down, yes, but absolute EBITDA margin will improve with the volumes.
- Parikshit Kabra:** Got it. Understood. Perfect, thanks a lot. Thank you, guys. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Khush Nahar from Electrum Portfolio Managers. Please go ahead.
- Khush Nahar:** Hi sir. Thank you for the opportunity. Sir, one question. What would be our domestic sourcing percentage for our Indian plants this quarter?
- Sunil Kansal:** Yes. So it is slightly reduced because the percentage is approximately 36% at this moment for this quarter.
- Khush Nahar:** 36%. Okay, sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Piyush Jain, an Individual Investor. Please go ahead.
- Piyush Jain:** Thank you for the opportunity. Sir, I just wanted to understand, we have this 2027 vision. So right now our largely sale is dominated by lead and our capacity utilization is 57% overall. So this 2027 and future growth, which product segment will be the driver of growth?
- Yogesh Malhotra:** So even in lead, we are considering a growth of around 15% to 20%, but others definitely including plastic probably will grow much faster. So our target is to bring down lead contribution to less than 75% and 25%-plus business would come from non-lead businesses.
- So out of that, of course, plastic would grow the fastest, if we -- I mean, sitting today, we can -- we are estimating that plastic to grow much faster, but aluminum also would grow faster than lead. And then we are also talking about other businesses -- rubber, paper, steel, lithium-ion battery recycling businesses would also contribute.

- Piyush Jain:** Then how much is non-lead business? What is the proportion of today non-lead business?
- Yogesh Malhotra:** Today, it's around 12% to 13%.
- Piyush Jain:** And we are targeting that we'll be able to achieve a 25% type of a lead business, correct?
- Yogesh Malhotra:** 15% to 20% increase in lead business.
- Piyush Jain:** No, no I'm saying non-lead business, we are giving a target of 25%, so it means...
- Yogesh Malhotra:** Yes, 25% plus. Yes, absolutely.
- Piyush Jain:** Okay. The next thing, sir, on -- I'm new to the company, the first thing I want to understand is we have plants in South Africa -- four, five plants in South Africa. So basically, these are the plants for sourcing of scrap and recycling there or it is -- these plants are also making the finished goods? Since all the plants are recycling as well as making a product, also finished goods, selling to a customer, or what? How...
- Yogesh Malhotra:** Yes. So all our plants overseas -- there are five plants in Africa and one in Sri Lanka, currently doing recycling of lead, aluminum and plastic. And almost all of that material is sold to third parties. We only bring that material to India whenever Indian markets are more conducive as compared to the global markets. But, otherwise, during normal operations, the entire product from these materials are sold to countries in Europe, the US, Asia Pacific, China, Japan, etcetera. So we're making finished products and then selling it to these countries.
- Piyush Jain:** How much is our export sales out of overall contribution?
- Sunil Kansal:** So total, we can say that international sales is currently 45%, which is used to 50% or 55% historically, slightly reduced because of this issue. So it's not export sales. We export certain goods from India also, but we can say that international sales, which is sold outside India. So that is 45% of this one.
- Piyush Jain:** Okay. Last thing, sir, we are also doing this recycling of rubber -- sir we are doing this rubber recycling also. So, this includes I believe in tyre also. So I have seen a few players who are making, let's say, 15%, 20% type of margin in rubber and tyre. So are our volume also in similar lines? Because fewer people are making sodium silicate, fuel oils, steel wires, so our product is also in same category and same margin and maybe we're not able to see the blended margin or something else?
- Yogesh Malhotra:** So currently, whatever tyre reselling we are doing, we are using it for captive consumption only. So you don't see any differentiated margins in tyre. So it's already incorporated in the margins of -- especially of lead and to some extent in aluminum recycling because it's for captive consumption only. But the new tyre plants that we are going to put up are going to show you a separate line for tyre verticals also. And the margins are definitely in the same line as you are mentioning.

- Piyush Jain:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Sharan, an Individual Investor.
- Sharan:** Yes. Thanks for the opportunity. I'd like to know the status of the Oman plant which is like 50% joint venture. What is the status? And by when it will get commissioned?
- Yogesh Malhotra:** So we have already established a company. We are a joint venture there. We've been allocated land by the Oman government, and the process is right. Now, we are waiting for them to give a go ahead to -- so the environmental study also has been submitted to the government. Now, we're waiting for them to give a clearance to set up a plant.
- The plant erection -- sorry, the fabrication of the plant has already started. We have already fabricated more than 50% of the total plant. So we are now just waiting for that go ahead in terms of clearances -- environmental clearances from the government. Once that happens, I think -- and we are estimating that by Q1 and/or Q2 of next year that plant will be operational.
- Sharan:** Okay. And what all the recycling will happen there? Overall...
- Yogesh Malhotra:** In the first stage, we are recycling lead, but we are going to recycle lead, plastic, aluminum, all three in Oman.
- Sharan:** Okay. And another question, so there are talks in the industries about solar panel and solar glass and other stuffs as solar is getting pace, so that recycling. Are you working with any of these solar companies -- related companies for doing a turnkey solution or any JVs for recycling related to that? Because solar contains many materials like not just glass, copper, aluminum, everything it contains, the whole panel. So...
- Yogesh Malhotra:** Yes, I understand. But we are not looking at solar currently as a recycling vertical because we already have our hands full. We are already thinking of too many lines. So as of now -- because in any case, the life of a solar panel is around 25 years, so it will take some time. Although we understand that some of the solar panels have started coming for recycling, but even currently, the volume is not that big.
- So probably eventually, we'll go into solar panel recycling also. But currently, it's not in the agenda.
- Sharan:** Sure. And one quick question. Do you have any inorganic plan of any acquisition or anything?
- Yogesh Malhotra:** Yes, yes. We keep looking at options of -- but there has to be some value in the sense that, as you know, we manufacture or we fabricate and design our own plants, so in India it is very difficult to find a plant that is of the same level as we desired. So we will not buy something in the existing verticals, wherever we are present. But if it is, say, for example, taking over our lithium-ion battery recycling plant or maybe a paper plant, then we are very open to those things.

- Sharan:** Okay. Because as we see a lot of small companies which are into recycling, but not in the same segment as you are, but different like, for example, mobile or laptops or any electronics recycling. So just wanted to know if you are looking...
- Yogesh Malhotra:** Yes, we constantly look at options -- opportunity to -- for mergers and acquisitions also. And so if there is a good opportunity, then we'll definitely be considering that as well.
- Sharan:** Okay. Can you throw some quick light on the turkey solution? How is that business going? And as India is -- everyone is talking about is a lot of manufacturing is coming here, so how is the turnkey solution you are seeing growth?
- Yogesh Malhotra:** So currently, the turnkey solution is only for the recycling verticals that we are into. So we only -- as of now, we are only making lead recycling plants and aluminum recycling plants, and to some extent, some plastic recycling products also, although not the complete plastic recycling line currently. And most of these -- it's basically a very -- it's more of an R&D for us. It's more of a thing to improve our operational efficiencies. So it helps us in putting our plant at a faster rate and at a cheaper rate as compared to competitors and also help us in improving our yield and efficiencies.
- But at the same time, we also sell it to customers who want recycling plants outside. So it's doing well as of now, giving us a revenue. But in terms of revenue, it's not -- I mean it's not a very big percentage of the total revenue, probably around -- only 1% to 2% of the total revenue comes from the turnkey projects. It's more of a strategical thing for us.
- Sharan:** Sure. Yes. Thanks for the time and the answers. Wish you all the best sir. Thank you.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Yogesh Malhotra for closing comments.
- Yogesh Malhotra:** Yes. Thank you, and thank you, everyone, for participating in this call. We trust that we have addressed all your inquiries during the session. However, if there is 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 today. Thank you, and have a great day.
- Moderator:** On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us. And now, you may disconnect your lines. Thank you.