"Gravita India Limited Q2 FY '23 Earnings Conference Call"

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MANAGEMENT: **MR. YOGESH MALHOTRA – CHIEF EXECUTIVE OFFICER AND WHOLE-TIME DIRECTOR – GRAVITA INDIA LIMITED**
MR. VIJAY KUMAR PAREEK – EXECUTIVE DIRECTOR – GRAVITA INDIA LIMITED
MR. SUNIL KANSAL – CHIEF FINANCIAL OFFICER – GRAVITA INDIA LIMITED

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

Moderator: Ladies and gentlemen, welcome to the Q2 FY '23 Results Conference Call of Gravita India Limited hosted by Emkay Global Financial Services. 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 touchtone telephone. 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: Yes. Good afternoon, ladies and gentlemen. So on behalf of Emkay Global, I welcome you all to the Q2 FY '23 Earnings Conference Call of Gravita India. We have the top management headed by; Mr. Yogesh Malhotra, CEO and Whole-Time Director; Mr. Vijay Kumar Pareek, Executive Director and Mr. Sunil Kansal, Chief Financial Officer. So now I would request management for their opening remarks, and then we can move over to the question and answer. Over to you, sir.

Yogesh Malhotra: Thank you, Mr. Hazarika. Good afternoon, ladies and gentlemen, and thank you for joining us on Q2 and H1 '23 earnings call today. I trust that you have had a look at the results and the earnings presentation uploaded on the exchanges. I will briefly discuss the results, and we can then have the Q&A. I'm very happy to share that Gravita India has shown strong results for Q2 and H1 FY '23.

Before starting with the results, first, let me share some strategic highlights and project updates. Company's step-down subsidiary has started aluminum recycling plant at Senegal, whose annual capacity is 4,000 metric ton per annum. An investment of INR 3.5 crores has been made for the same and this has been done through internal accruals. We are hopeful that this project will lead to additional revenues of approximately INR 60 crores and gross margin of around 20%. Company step-down subsidiary at Ghana has also started plastic recycling plant, whose annual capacity is 1,200 metric can ton per annum in Phase I.

Plan is to take the capacity to 2,700 metric ton per annum in Phase II. For this project, investment of INR 1.9 crores has been done and the same has been done through internal accruals only. The company is already having similar plastic recycling facilities in Senegal, Mozambique and Indian plants. Further, this is in line with the company's vision of replicating the recycling business in different geographies. Gravita has done capex of INR 44 crores in H1 financial year 2022 and the capex for the rest of the year is expected to be around INR 30 crores, INR 35 crores.

Let's now discuss the operational performance. Gravita has increased its lead capacity by about 6% in H1 FY '23 from around 159,000 metric tons to 168,000 metric tons. We are positive that we will reach a total capacity of 425,000 metric ton by 2026, including all the existing as well as new verticals.

Volume growth, the company has witnessed the volume growth of about 17% in Q2 FY '23 on a year-on-year basis. Mostly, all these segments showed positive growth in volumes. On a Q-on-Q basis, volumes of Lead grew by 26%, battery aluminum and plastic grew by 31% and 11%, respectively. EBITDA per ton for lead and plastic showed an increase of around 23% and 13% on a year-on-year basis, whereas we saw a slight decline of 6% in EBITDA per metric ton of aluminum.

Domestic scrap collection for Indian plants has increased to 47% in Q2, FY '23 compared to 39% in Q1 FY '23. We believe that with redefining of battery waste management rules, extended provisions, responsibility and stricter implementation of GST, the flat availability for these segment sector will increase and further grow.

I'm happy to share that we have managed to bring down our net working capital cycle from 95 days in March 2022 at 80 days in September 2022. Our aim is to bring it further down to 65 days by March 2026. This improvement has been possible due to more availability of domestic scrap and lower imports, which reduces transit inventory and due to retail scrap collection through OEMs, which has 0 working capital.

Consolidated revenue for the quarter is INR 683 crores, which is up 25% on a year-on-year basis. This increase in the revenue is supported by increase of 17% sales volume. Revenues from value-added products stayed at around 42%. Adjusted EBITDA has grown by 29% to INR 65 crores on a year-on-year basis. EBITDA margin stood at 9.9% and company continues to maintain resilient margins, despite increasing cost pressure across major raw materials during the quarter.

Gravita reported a strong consolidated PAT of INR 45 crores, up 21% on a Y-on-Y basis, out of this about 62% profit is from overseas business. PAT margins also stood strong at around 6.5%. Consolidated revenue increased to INR 1,262 crore from INR 993 crores, which is an increase of about 27%. Adjusted EBITDA for the first half stood at INR 130 crores, up 48% on a Y-o-Y basis. Consolidated PAT further have been showed a tremendous increase of 48% to INR 87 crores.

Gravita has achieved an ROCE of 30% in H1 FY '23, and it is strongly in line with our vision of 2026. I would also like to inform that we have reduced our debt by around INR 90 crores in H1 financial year '23. This has happened because of our focus on reducing our working capital cycle and we have a target to reducing further to around 65 days from current 80 days.

Thank you, everyone, for joining us for this call. As you all know, we have a clear vision for 2026 and are optimistic of going in the future by exploring new opportunities. So I would now like to open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen will wait for a moment while the question queue assembles. Reminder to the participants anyone who wishes to ask a question may press star and one at this time.

The first question is from the line of Rahul from Lucky Investment Managers.

Rahul: Thank you for taking my question. Sir first is by Q2, we have seen a 17% volume growth much better than Q1. We're still short on the 25% target that we have given out. So how do you see H2 panning out? And in general, FY '24, '25 are we still holding out that 25% volume growth story outlook?

Yogesh Malhotra: Yes. I mean actually, there are certain setbacks for us in this quarter. Number one is that our Sri Lanka plant was not working at full capacity because there were certain issues in the country itself. And apart from that, certain projects got delayed because of -- I mean like [inaudible 0:08:31] expansion, which were supposed to happen in Q2 this year, got delayed and would probably start functioning in Q3.

So that has delayed some of the volumes that we were expecting in Q2. But going forward, we believe that we are in line with our targets of getting 25% volume growth year-on-year in 2026.

Rahul: So sir, within the three segments, if you could just give us a sense like lead, first half, we have done about roughly INR 56,000 crores. The year target was about INR 120,000. Will we be that INR 120,000 targets since then?

Yogesh Malhotra: Yes. The volume growth of 25% Rahul may not be on a year-to-year basis, it may be 20% and 20% to 30% on a year-on-year basis. But on a three-year basis, 2026, definitely 25% volume growth on a CAGR basis. That will be there every -- considering this capacity expansion at different locations.

Rahul: Great. Sir, next question was on the gross margins. While Q1 was very high gross margin and you had clearly mentioned that those were not sustainable. Should we take this 20%, 21% range as the going range going ahead?

Yogesh Malhotra: Correct. Q2 gross margin is a sustainable one.

Rahul: So that's around the 20% mark.

Yogesh Malhotra: Correct.

Rahul: So even if -- as you go around -- as you go along and add more products to your portfolio, this number is not likely to change.

Yogesh Malhotra: No. It may be slightly positive because of more volumes, more value-added products and more contribution coming from like aluminum and the plastic one. So as soon as there will be more volumes on that. There may be some upside, but not downside.

Rahul: Okay. And sir, third before I join the queue back again. In the cost structure side, we saw both the employee expenses going down Q-on-Q and the miscellaneous also going down Q-on-Q, anything one-off out there? Or this is just normal?

Yogesh Malhotra: So employee costs in Q1 also reflected some incentives given -- I mean, based on the performance to employ for extraordinary performance of last year. So that was an exceptional part. But Q2 is normal one. Q2 is normal.

Rahul: And on the miscellaneous expenses side, that also seems to have gone down from INR 57 crores to INR 40 crores?

Yogesh Malhotra: Yes. So miscellaneous expenses improved sometimes from part of like hedging losses also sometimes. But this time, because it is on the other income side, whenever it is on the expense side, that is shown under the miscellaneous expense. And but this time, it is on the income side so miscellaneous expenses in Q2 is an actual one.

Rahul: It is the actual one. So this is the normal run rate that we are talking about, both the employee cost and the miscellaneous ones?

Yogesh Malhotra: Correct.

Moderator: The next question is from the line of Mitul Shah from Reliance Securities.

Mitul Shah: Thank you for giving the opportunity and congratulations for strong performance. Sir, I have first question on average realization as volume growth is 17% revenue growth 25% to roughly 7% to 8% increase in realization per ton. So is it because of the product mix change as overall plastic contribution has come down and other, lead, aluminum has increased or because of the price increase? So how much would be because of the product mix, how much would be because of the price increase?

Yogesh Malhotra: Yes, mostly Middle is because of the metal prices. It is -- the lead prices came down in this quarter. So it came down from the – like realization of our lead came down from -- so in case of lead, it is slightly improved other, but in case of.

Mitul Shah: My question is on Y-o-Y increase of 25% in revenue versus volume growth of 17%. So it indicates nearly 7% to 8% increase has come from realization per ton. So that is I'm trying to understand it is because of the price increase, how much and how much would it be because of the product mix?

Yogesh Malhotra: Yes, it is in terms of lead, it is mostly in case of product mix. But in case of aluminum, it is more on the price side.

Mitul Shah: Second question is on EBITDA margin as you are highlighting that Q2 would be considered as a stable margin. So are you indicating in terms of percentage margin or in terms of EBITDA per ton, which is given on your Slide number 6?

Yogesh Malhotra: So in terms of our EBITDA quarter margins, we are very clear that in lead, we are expecting around INR 16 to INR 17 per ton EBITDA margins for net and to the 17,000 -- INR 60,000 INR 70,000 per ton EBITDA margin for lead. And for aluminum, this figure is around INR 80,000 per ton. This was lower in this quarter for aluminum, specifically because the prices went down and we don't have a very over mechanism to hedge these changes in prices in aluminum and plastic. So some of the effect has been on aluminum business this quarter.

Mitul Shah: So your biggest segment is lead wherein you are indicating that current…

Yogesh Malhotra: Sustainable margins going forward also.

Mitul Shah: So current margin of INR 19,000 crore is also still too high even after correcting from Q2 level?

Yogesh Malhotra: 19,000 is basically because of Q1, where we have further arbitrage opportunities in India. Therefore, we diverted some of the goods from overseas markets into Indian market, which was giving us higher realization. So that was specifically because of the first quarter, whereas INR 17,000 that we got in Q2 is the sustainable realization – reliable volumes.

Mitul Shah: But sir, as per your presentation, Q2 year, margins are 19,000 and Q1 margins are 21,000 or almost 22,000, so that is why I'm asking that even Q2 margins are INR 19,214 you indicated in your PPT and in a call, you are indicating 17,000 is sustainable. So further 12%, 13% decline from current level you are expecting this, what you want to say?

Sunil Kansal: 21,000 is for H1 and 17,000 for Q2.

Yogesh Malhotra: I think very much is some mistake. I mean, let us see if

Sunil Kansal: We'll answer it.

Mitul Shah: Presentation slides which says…

Sunil Kansal: Actual margin is 17,000 and Q1 margin was 21,000.

Moderator: The next question is from the line of Vaibhav Chokhani from Enam Holdings.

Vaibhav Chokhani: So just a few questions. So, do you have any updates on the plastic recycling legislation?

Yogesh Malhotra: The legislation, EPR rules have been notified and people have started getting registration for under the regulations of EPR in case of plastics. And there is a particular penalty part where EPR is not done by the manufacturer or producers. That implementation is yet to be finalize. So, I hope in time to come, that will take place because they have created one portal at the central collision control board. So that portal is under collection of data, producers and recyclers. So it should take another three months in case of plastics.

Vaibhav Chokhani: Okay. And in terms of just currency impact, especially by seeing from the African countries, how has that been this past quarter? And do you see any major hiccups going forward?

Yogesh Malhotra: So we have very little or no impact on changes in currency in African market. simply because whatever we are buying in that country, it's bought in dollar terms only. So we price it at dollar terms, all the inventory that we buy in that country. And we don't consume any inventory locally. We export everything. And that again, is sold in dollar terms only. So any increase or decrease in the currency will not impact us as far as some local expenses or local visits that we give there.

Vaibhav Chokhani: Right. And with regards to the Indian OEM business, have you seen any changes in margins over that...

Yogesh Malhotra: No change in quarter-on-quarter basis that it will take time for these changes to happen. On a quarter-to-quarter basis, it's still in the same line actually.

Moderator: The next question is from the line of Kinjal from Quantum AMC.

Kinjal: Thank you for giving the opportunity and congratulations on this...

Moderator: Sorry to interrupt you, Ms. Kinjal, the audio is not clear from your line. Please increase the volume of a device.

Kinjal: All right. Sir, congratulations on strong results. My first question is on the part where you mentioned that we have successfully [inaudible 0:19:33] in Q1. So could you please share the strategy around it? And how would be reducing the debt further going forward?

Yogesh Malhotra: Yes. So Kinjal there was -- the strategy is that we are going to increase the volume from the domestic scrap, which a major part of scrap in domestic is coming from OEMs where we don't need to pay for that scrap through which we are getting from the OEM, which is coming from the retail automobile sector. So we are going to increase that share from our Indian business, Indian recycling business.

So as soon as we have that more volumes coming in from that sector, the working capital requirement for the incremental business is going to be not that much. So it will overall improve and that is going to replace the import scrap in India and imported scraps which is coming to India is going to be used in overseas plants for us. So, and then we have recently established the Mundra of facility where the earlier the scrap was moving to Jaipur and that was causing the higher working capital cycle of seven days coming in, seven days going out for exports.

So all these efforts have brought down this working capital requirement for us. And we came down from 95 days to 80 days closely, and it is going to be further down by another 15 days in the next two years to three years. This is the strategy and that is causing the lower requirement of funds and lower debt also that is calling. So we are going to reduce the requirement of debt, short-term debt further by reducing the working at the cycle.

Kinjal: All right. Thanks for answering that. A follow-up question on should be used for the increase in domestic sector…

Moderator: Sorry to interrupt your ma'am. Again, the audio is not clear. Please use the handset mode.

Kinjal: Yes, touching on the increasing domestic scrap from OEMs. Currently, how much percentage of this scrap that we are importing, what we are getting from the domestic OEMs? Or do we get everything from international OEMs tie-ups?

Yogesh Malhotra: Everything that we're getting in India is from domestic OEMs only. We're not importing anything from OEMs from outside India. So the 47% scrap that we are getting in India is mostly from OEMs in India.

Kinjal: My next question would be, if you could please explain on how the changes in the government policies are we looking at how will it impact Gravita? And how will it impact the for the verticals that we are going to come up with like e-waste and lithium-ion batteries. If you could throw some light on that?

Yogesh Malhotra: The current policy of particularly battery waste management rules, which were a draft stage has been notified by the government in the month of August 2022. So the new rule has notified all types of battery now. So lithium-ion also will become part of those batteries. Earlier rules are having only lead acid battery. And there is a part B, which is called EPR. So the committee for EPR has been constituted. And this committee has to make their reports or finding and put up the value of EPR within six months of time, and there will be a portal under CPCB in case of battery waste also. So the rules are in place, in case of battery use if we talk about. And the EPR will be in process in another six months' time.

So to answer your question further, all these rules basically are too I mean whether it is EPR or battery base management rules or, I mean, kind of life of vehicles, all these rules are basically to bring all the recycling in a proper manner in organized sector in India. So if we bring -- because most of these scrap generally is processed in the unorganized sector in India. And if we can shift this from unorganized to organized, that is going to help companies like Gravita.

Kinjal: And just last question from my side would be, if you could share your views on pricing of lead aluminium and plastics in the second half, and are we looking at hedging opportunities for materials other than lead?

Yogesh Malhotra: Basically, in lead it is very simple to hedge because it's available on commodity exchanges whether it is LME Exchange or MCX in India. So it's very easy to kind of hedge that metal. Whereas plastic is coming in various forms, it's not one standard plastic that we buy. We buy and PP, and PP also are of different grades, which is very difficult to hedge that because it's not sold on or it's not available on exchanges. Similarly, for aluminium also, we are not doing pure aluminium. We basically are into aluminium alloys, and that is also not currently available to be exchanged on exchanges. But we are putting in an effort to register alloy for aluminium in MCX also. It may take probably six to nine months going forward. But once that happens, then it would be very simple for us to hedge alloys also in India.

Moderator: Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Sir, firstly, are we keeping a tab on the new EU waste segment rules that might come in? And how it might affect the scrap movement going forward? And do we have an opinion on how we'll stand or might fare if they indeed go ahead with the proposals?

Yogesh Malhotra: Yes. As of now, that import from EU to India is very less, particularly in case of lag scrap. So our mostly volumes are coming from other than EU and US market. This is mainly coming from Africa, Middle East and other South Asian country. So that regulation won't affect us much. And our overseas plants are sourcing scrap locally. So that 40% volume will be affected almost nil, and this rather 60% has another 50% from overseas business, and we had hardly very much percentage of our risk scrap coming from EU market.

And on the sales side also, I mean, although we sell into European Union, but the thing is that we are only looking at from the demand point of view, but also in the supply side also, you must have seen that there are quite a few smelters that are closing down because of energy issues. So there will be disruptions on the supply side also. So we believe that this will give us opportunity to supply to EU, I mean, better opportunity to supply in EU going forward.

Keshav: Secondly, could you talk about what kind of opportunities we are working on in the rubber recycling space and what geographies?

Yogesh Malhotra: So Rubber recycling is a very new vertical. In the first phase, what we are doing is we are only doing it for our own captive consumption. Because all the three products that we are getting out of rubber basically carbon, iron and pyrolysis oil. All these three are used in our own smelting processes. So we are only increasing capacities to the extent, where we can use all this for our captive consumption. In future as and when we have additional capacities from rubber recycling in various locations, we would look at other avenues of -- or sales of some value-added products from rubber also.

Keshav: Sir, in the last call, you had mentioned that the EU and US battery market is managed by the battery manufacturers. So post EPR, is it not a possibility that a similar trend might happen in India as well?

Yogesh Malhotra: Absolutely. That is going to happen in India only. But all these battery companies do not recycle the batteries in US or Europe. They have partners like recyclers like us in those countries also who recycle on behalf of those battery companies. So that is what India is going towards in all the recycling verticals, especially in battery-based management rules, where it's environmentally, I mean, very critical. So if that happens, we believe that is going to happen. And if that happens, then the scrap availability for recyclers like us, in partnership with battery manufacturing companies would give us great opportunities going forward.

Moderator: Thank you. The next question is from the line of Pranay Roop Chatterjee from BCMPL. Please go ahead.

Pranay Chatterjee: So I had three questions. Firstly, on the recent battery management regulations. So I understand the point that because of that, you have to rely less on imports, which would firstly reduce your freight costs on the import side. And also to reduce our working capital requirement. That is absolutely clear. What I wanted to understand was the certificate got from the regulations is that the battery OEMs are now had responsible to collect it via the region network and then send it to the organized channel and then use the process lead back into their production, and that is the percentage number that is basically given. So if my understanding is correct, and let's say the regulations are successfully implemented in three to five years from now, would this regulation only increase the tolling portion of your revenue? Is that the case? Or is it that generally sourcing would improve and you can use the OEM-sourced batteries and then use the process lead for exports as well.

So my question is whether you would benefit from a sourcing perspective for both domestic and exports? Or is it just a one-to-one contract with either of the OEMs, where you have to supply it back to them?

Yogesh Malhotra: Yes. Your understanding on Part one is correct, that they have to collect. But there is a part two also, which is even they don't collect, in that case, or even they don't buy recycled lead in that case, they can buy certificate from the recyclers. So if I buy battery in domestic market and sell lead to export or some other applications, that much volume of certificate I can sell to them. So that will be another parallel market.

But certificate will have a value and that will be regulated on a portal. So both ways will go. Because if don't -- they do not have much collection center and tolling mechanism. They can buy even, so to answer your question, only bigger player would be able to have a partnership with recyclers and have their tolling arrangements, but smaller players would have to rely on certificates from recyclers to do it.

And that will create an opportunity for recyclers to buy from the market and either sell it to those recyclers or sorry, to the battery manufacturer or export it and give the certificates to the battery manufacturing company, the smaller meter manufacturing companies.

Pranay Chatterjee: That is absolutely here. My next question is on the growth potential in this market. Again, assuming that the regulations have successfully implemented over the next five years. Do you see a case where the organized volumes can actually exponentially increase like to the extent of 2-x to 3-x, probably in the next five years, number one. And given the fact that this technology for smelting is not extremely complicated, and there are hundreds of recyclers actually present, but who don't have any utilization at all because of raw material sourcing both sides would also come in. And do you see here, do you see that the Gravata's share, Gravita would also grow, but do you see the share slowly reducing as the market sort of becomes 2-x to 3-x. So two parts of the question is.

Yogesh Malhotra: So basically, we believe there is going to be consolidation in the sense, because if you want to do it in a proper manner, the number of players that are there currently will reduce dramatically. Most of the unorganized player will be out of question because currently, there are only advantage is that they are not doing it in a proper manner, and also, there is a tax benefit to the unorganized sector currently. But that goes away and that benefit is not there. We believe there would be consolidation and only maybe around 20-odd players in India would be there. And there would be enough opportunity for all of these recyclers to grow at the same rate of 2-x to 3-x. So it will not go down in fact, increase -- I mean, if the overall capacity in the organized sector grow by 2-x to 3-x, players who are there already who are -- I mean, like Gravita who has pan-India presence would grow much faster than the 2-x or 3-x that the market would grow by.

Pranay Chatterjee: All clear on the second part of my question. On the first part, do you at all see the market becoming 2-x to 3-x in the five years, and this basically ingest from the fact that this regulation was already present for the last 20 years, right, with and recently some additional parts have been added. But what do you see is different this time and you think that 2-x to 3-x is possible this time because…

Yogesh Malhotra: See, difference this time is that the owners has been put on the brand owners now. So it is now the owner. Earlier, it was own everybody. The retailers also were to find the returns and all those things, and it was not implementable. Now the owners of implementation is on the brand owners. So they are held responsible, if they are not able to buy back the batteries or get it recycled through organized recyclers. They are the ones who would be put responsible. Similarly, for EPR also. So once you do that, then it becomes more implemental. And we are looking at genuine parts only in the last month has these been notified now the rules, but we have seen the impact happening much before that. All the big players have started looking at ways to start collecting the batteries, and it has started. So we are in no doubt that the volumes will grow to 2-x, 3-x, whatever the number is. If the organized sector is able to increase their capacities in the same manner. So the only problem would come if whether the organized player can increase those capacities in time to do the recycling or not.

Pranay Chatterjee: Do I have time to slip in one more question? I just wanted to check. Last question for me, and this is more a strategic question. So whenever starting the business, I understand the definition wrong, broader lead products, aluminium products, plastic products, the overall global industry growth would not be very high, would be less probably in single digits itself. So when you are expanding our capacity from currently less than 200,000 to around 425,000, could you please spend some time talking about the demand side of the equation, in lead, aluminium, plastic. Are there any trends? Or do we have any material advantage over other competitors that we'll be able to grow that fast basis share gains, because the overall industry is not growing that first. So if you could just spend time and gives confidence on the demand side of the piece?

Yogesh Malhotra: Yes. So basically, I mean, I would go back again on the supply side. As I mentioned that there are, although, even if we consider that there is going to be no growth in the sector, for example, in battery segment. But the shift from unorganized to organized itself will give you a 2-x to 3-x growth. So even if nothing happens in the sector, all the Indian automobile sector is growing, and we believe that going forward, it will have impact on the battery manufacturing also.

But even if we agree to you that there is no growth like in the Western countries, the shift itself will give us growth itself. And the same is happening that is why if you look at all our expansions, all our I mean geographically wherever we are, we are in developing countries where we see there is a gap, there is no recycler available or there are the material, the scrap is not getting processed in the right manner.

Those are the countries that we are focusing geographically also. And third part is that currently, we are very small. So gaining market share is not a problem. We are early 1% of the total global market. So even if we go to 2% or 3%, it will hardly affect anybody. And at the same time, we will go 2-x to 3-x very easily.

Moderator: Thank you. Mr. Chatterjee, may we request that you return to the question queue, for follow-up questions. We'll take the next question from the line of Hardik Gori from Alpha Plus Capital Advisors. Please go ahead.

Hardik Gori: Thank you for the opportunity. Sir, you have an order book of about 60,000 metric tons. So can you give us a breakup of the order book? Or is it entirely lead only?

Yogesh Malhotra: Yes. So majorly, the order book consists of the orders for the lead vertical because we have some certain contracts with the OEMs also and certain contracts with that data traders like Trafigura Glencore and others. So the major part of 80% to 85% consists of lead and then some part of aluminium and plastic also. So basically, because we are not held in aluminium or plastic, we generally don't take orders beyond a particular period. Whereas in lead because we are hedged, we can take orders, we can have annual contracts with the customers.

Hardik Gori: And sir, in your presentation, you have mentioned that you'll expand the capacity to 4,25,000 metric ton per annum by 2026. So can you share the breakup of between the segment as in how much would be lead, how much would be aluminium and how much would be plastic that we are into?

Yogesh Malhotra: Yes, this capacity of 425,000 tons, so we target approximately lead should not be more than 70% to 75%. So that's the target. We are growing faster than the lead for aluminium and plastics.

Moderator: Thank you. The next question is from the line of Tushar from Athena Investments. Please go ahead.

Tushar: Yes. I just wanted to understand your business model. I was looking at the presentation, and you seem to have a lot of turnover out of India, but profits you're showing is from overseas. So can you just explain how you do sourcing and how processing happens and where do you sell.

Second related to that question is, I want to understand what is the impact of this rupee depreciation on your business? Is it beneficial? Or is it negative for you?

Yogesh Malhotra: To answer your first part, actually, it all depends on sourcing of raw material. In all the overseas territories, wherever we are we are using local domestic scrap, whereas the model in India was to import scrap into India and then process it. So a lot of value was getting diluted in logistic cost itself. Whereas what now we have started doing after this battery as management tools coming into picture is that we have started sourcing more local scrap and that will probably increase the profitability of Indian plants also.

But at the same time, the scrap is cheaper per se overseas as compared to India. So the profitability of overseas centers would always going to be higher than Indian plants. So that is the first part. And also, wherever we are geographically present they enjoy certain benefits, for example, Ghana and Senegal plants have certain times with European market where they are exempt of import duties. So that also gives you additional benefit if you sell your material from these countries to Europe or US.

So following all these things makeover these territories more profitable. Also, there is no tax because most of these are fleeted companies, and we have 0% tax in most of the overseas companies. So that also gives you additional data. That is the first quarter. What was the second part, sir?

Tushar: Is the rupee depreciation beneficial for you or is it negative, since you're importing scrap?

Yogesh Malhotra: So it does not impact us, because when we import scrap, we also export equivalent amount of lead -- so it's in volatile only. But there are times when we see that Indian market is better being those times is there an additional data we get by selling into Indian market, we make use of that and collect some orders the way. But otherwise, we can always sell it back in dollar terms. So there is no impact of rupee depreciation.

Tushar: So, you sold scrap internationally bring it to India, process it and then sell it, right? I also saw that you set up now processing plant abroad and the investment doesn't seem to be much. So I mean, is that the model going forward that you would set up processing plants there only and then…

Sunil Kansal: Because it's a recycled material it can sold anywhere.

Yogesh Malhotra: So no, we have our own plant in other countries also, and we are increasing the capacities also. And we keep on putting new plants also. For example, we are putting up a new aluminum resettling planting Togo in this quarter also. So we are increasing our capacity is overseas. So but to answer your question, we can't put out all the plants in all the countries, because certain countries, there is not enough scrap available. So from those countries, we would like to bring it to India.

And in other countries were the scrap availability there and we get some advantage in processing the material in those countries. We put up our own plant. So...

Tushar: But you would put up a larger plant in Africa, for example, in Ghana or something also...

Yogesh Malhotra: We have done the Ghana plant currently is one of our biggest plant, because we can source scrap from adjoining countries in Ghana. So that is why we've increased the capacity in Ghana. And it's currently around 16,000 tonnes per annum plants for lead. And we are also putting our capacity of aluminum in that plant.

Moderator: Thank you. The next question is from the line of Manav Singh from Auralis Capital. Please go ahead.

Manav Singh: Yes. So what I wanted to understand, see, we are geographically very diversified, and it has always been a focus. But when I see some of the competitors, they are very consolidated in one geography, so could you explain why would that be the case? And why would they not go outside India to overseas similar to Ghana and Senegal?

Yogesh Malhotra: Sir, I think in scrap business, it's always better if you can be as close to the scrap generation as possible, because logistic costs mitigate the scope of increasing capacities, so it's a given case. But I think having numerous recycling plants across geographies is always going to be a better option. Sometimes, maybe getting management budget to run all those plants is not there in most of the companies in recycling, because we are not professionally managed. That can be one of the reasons why they don't go and expand in various geographies.

Manav Singh: So because of investment, because of similar reason, our inventory would also be higher, right?

Yogesh Malhotra: No, it's basically not higher because of that, it's only higher if you import that scrap from all across the world to one location, that then it will be higher. If you are putting the various parts in various locations, and you can -- I mean, there is no transit period where we are entire line in project. So in fact, I think many plants will reduce our inventory levels and not increase the inventory levels.

Manav Singh: Yes. But that is the case. That's not the case with them. They have consolidated and they have -- they carry a lower inventory as well compared to their sale. So I don't understand what am I missing? Why do we carry so much inventory?

Yogesh Malhotra: So I'll give you an example. There are two things. I mean if you look at our overseas plants, the inventory levels are lower as compared to our Indian plants. In Indian plants the inventory levels are higher, because we are importing that battery scrap from overseas markets. And it generally takes around 1.5 to 2 months from that scrap to reach the Indian plants.

So whatever amount of inventory is in transit, increases the overall inventory levels. So consolidating will always increase the inventory levels because you are bringing in inventories from all across the globe. I don't think there are many people who are doing this. Most of the people are only -- they are not consolidating. They're just using the local scrap as they're not going beyond a point. If you want to go on in one geographical location, beyond the point, it will be counterproductive.

Manav Singh: And here, you mentioned that a battery OEMs in the Western nations in the US, developed nations are partnering with us. As recycler as in, so do we import scrap from to US as well?

Yogesh Malhotra: No, we don't -- we import other kind of scrap from US, less scrap from US, we also import aluminum scrap, but we don't import battery scrap from US.

Manav Singh: And we do import lead scrap?

Yogesh Malhotra: Yes, we do import lead scrap.

Moderator: Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to two per participant. Should you have a follow-up question, we would request you to re-join the question queue. The next question is from the line of Dhiral from PhillipCapital. Please go ahead.

Dhiral: Sir, in order to launch the overall capacity of...

Moderator: Mr. Dhiral, sorry to interrupt you, please use the handset.

Dhiral: I just wanted to ask you, so in order to reach the overall capacity of 4,25,000 by FY '26, what would be the capex guidance for the same?

Yogesh Malhotra: Yes. So the total capex for this capacity expansion by 2026 is going to be approximately INR 70 crores to INR 80 crores per year till 2026. And there will be certain new verticals also. So INR 70 crores to INR 80 crores for the existing verticals lead, aluminum, plastic and including the rubber also, which is also the current vertical. And then we have certain new verticals, which is -- which is also have a capex of approximately INR 200 crores, INR 250 crores in the next three year total.

Dhiral: How are we looking to…

Moderator: Sorry to interrupt you, Mr. Dhiral, the audio is not clear from your line.

Dhiral: Sir, how are we looking to fund the capex?

Yogesh Malhotra: Yes. So major part of this capex will be internally funded. So for this journey from 2022 to 2026. We need an incremental capital of approximately INR 1,300 crores, including the working capital requirement. So considering this capex also and so out of this INR 1,300 crores, INR 900 crores will be funded from internal works and INR 300 crores to INR 400 crores will be funded from taking off additional debt or we can raise some money from equity also at the right time.

Dhiral: And sir, lastly, when the is almost 50% mix of the value-added quota and let's say, if you achieve that mark. So what could be the improvement in the EBITDA margin...

Yogesh Malhotra: Yes. So EBITDA margin will -- as we can see that more volumes and more lighted products is improving the margins from 8% to 9%. We have already reached to 9%, close to 9% now. And with the more volumes again and more value-added products in future, we can improve this from 9% to 10% in the range of around 10%. So that's -- and we are also improving certain other operational efficiencies, the recovery part also, which is taking us to this 10% on a sustainable basis.

Moderator: Thank you. Mr. Dhiral may we request that you return to question queue for follow-up questions. We'll take the next question from the line of Chirag from RatnaTraya Capital. Please go ahead.

Chirag: Just one question on the EBITDA per ton side. We understand that more sustainable ranges in the INR 16 to INR 17 per kg or the -- between INR 16,000 to INR 17,000 per tonne. Can you help us understand, sir, right now with the numbers that you're sitting on, which is around INR 18 to INR 19, which a 20% delta. Once they're fully hedged, what are the other factors that still move EBITDA per ton? Clearly, we are above, and I'm sure there will be cases where we've been probably a little bit below what we are targeting. But what are those factors that once you are fully hedged also still affect EBITDA per ton in that range?

Yogesh Malhotra: There are two, three factors. One is more volume because there are certain costs which is fixed cost in nature. So that is also part of this that is also reduced from this EBITDA per ton. So if that was cost remaining same and we have more volumes. So that's the one factor. And another factor is the more value-added products. So because in case of value-added products, we get slightly better margins, better EBITDA margins, better realization of 2% to 3%.

And the third factor is that the more volume, which is coming up, like we are adding some more verticals also. So that's also sharing certain fixed cost was in case of different verticals is sharing the fixed cost. So that's also improving the overall EBITDA per ton. So these are the factors.

Chirag: Understood, very clear. And when you say INR 16 to INR 17 kg, which is what we can be sustainable as of now. What kind of percentage or value addition are you assuming when you say that? Is it around 40%, 45% value-added product? Is that what you're assuming to compare the 16, 17 number?

Yogesh Malhotra: So general -- it's around 42% is the value-added products currently.

Chirag: And when you say 16 to 17 is sustainable in the current environment, that means that if 42 were to remain, 16, 17, would be sustainable if 42 goes up, then probably some part of that will slow down again to EBITDA per ton, right?

Yogesh Malhotra: Right. So what happens is that whenever we are creating a new center or we are increasing capacity overseas, then it does not translate to value products immediately, because in value-added product, you have to get that plant also certified from the OEMs. So it generally takes some time for you to register a new plant -- I mean, same product from Marine front also. So generally, there is a lag between -- setting up the capacity and then getting approval for value-products for that plant.

So it will take some time for us to reach 50% to value-added products because we have included quite a few capacities in the last year. So therefore --although the volume of value-added products has grown, but the percentage wise it is still at around 40%, 45%.

Moderator: Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Sir, in the rubber recycling value chain, you have mentioned that you're doing a little bit of pyrolysis for captive consumption. Indicatively, when we expand our business going forward, would we be focused only on more value-added business such as retained rubber, crumb rubber and the like instead of pyrolysis -- or would pyrolysis also be your focus?

Yogesh Malhotra: So we would be going in -- by the way, crumb rubber is not as -- it does not add value as much as pyrolysis oil does. But definitely, going forward, we would go into other usages of other rubber recycling, I mean other products coming out of rubber recycling, because pyrolysis oil has a limitation in the sense that we can only use as much as we can consume. Beyond a particular point, we'll have to go and look for other opportunities in rubber recycling. Part of it would be crumb rubber, but then maybe other usages also we are looking at like carbon black also.

Chirag: Sure sir. And lastly, sir, you mentioned some time back about having incentives, say, when you export to EU from Ghana due to the duty structures. But would that not come under threat with EU waste segment rules? Or would the demand side be fairly insulated in the point of scrap – point origin is not EU?

Yogesh Malhotra: As I mentioned, I think you're talking about demand from EU, right?

Chirag: Yes.

Yogesh Malhotra: So as I mentioned earlier also that from the supply side also, the production of metals in EU has come down because quite a few smelting units have shut down in the past few months of lack of fuel. So overall, if you look at the demand-supply gap, there is still higher demand than supply in those regions. So -- and going forward also, we believe that -- and because there is no entry tax from countries like Ghana and Senegal, so we quite competitive in supplying to these markets.

Moderator: Thank you. We'll take the next question from the line of Kinjal from Quantum AMC. Please go ahead.

Kinjal: I just have one small question. While we are looking at expanding to other verticals, what would be the eventual product mix that we are looking at? And with these verticals are you also looking at increasing our value-added product space?

Yogesh Malhotra: Sorry, can you come up again? I mean, I can't hear you properly.

Kinjal: So my question was, so if you are looking at the increasing the other verticals and adding onto the new verticals as well. What would be an eventual product mix once the capex is done, which is, I think, by 2026. And are we also looking at increasing the base for our value-added products pertaining to these verticals?

Yogesh Malhotra: Yes. So going forward, we believe that by 2026, 25% of our business -- at least 25% of the business would come from non-lead verticals. So that includes aluminum and plastic and also the new verticals that we would bring in -- that includes eras, lithium, copper, paper. So by 2025, '26, 75% atoms would come from that balance would come from other verticals. That is first part.

And definitely, in all these products, we keep on focusing on regulatory products, end products, and we are not only doing basic recycling. We are going and doing value-added products. For example, in plastic also we make food-grade plastic, which gives you better margins than compared to normal plastics. So definitely value-added product is for all the verticals, not only for lead.

Kinjal: So just to clarify currently, 80% of our revenues, you have 80% of the portfolio in red was the capex can…

Moderator: Sorry, to interrupt you, Ms. Kinjal the audio is breaking from your line. I would request you to repeat your last question.

Kinjal: Is it better now?

Yogesh Malhotra: Yes, it is better.

Kinjal: Yes. So just to clarify, currently, we have 80% of our portfolio in lead and you are saying that by 2026, it will reduce down to 75%?

Yogesh Malhotra: So it's currently at 83%, not 80% by 2025, it would be as per math, 75% stability, we target higher. But some of the vertical new verticals that would come in probably would not start giving revenue in 2025. So we believe that at the maximum level, lead would be 75%, and that too when lead is also growing at a healthy rate of 15% to 20%.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Yogesh Malhotra: Yes. Thank you very much for participating in the earnings conference call. It has been a pleasure interacting with you all. We expect better operational performance, coupled with volume growth in the upcoming quarters. We hope that we have answered all your queries. Please feel free to reach out to our Investor Relations team Go India Advisors in any of your queries remained unanswered. Thank you once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.