Gravita India Limited

Q1FY27 Earnings Conference Call

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MODERATOR: **MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Gravita India Limited Q1 FY27 Earnings Conference Call hosted by Antique Stockbroking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Manish Mahawar from Antique Stockbroking. Thank you, and over to you, sir.

Manish Mahawar: Thank you. A warm welcome to all the participants on the 1QFY27 Earnings Call of Gravita India. Today, we have with us leadership team represented by Mr. Yogesh Malhotra:, Whole-Time Director and CEO; Mr. Sunil Kansal, Whole-Time Director and CFO; Mr. Naveen Sharma, Executive Director, non-Board member; and Mr. Anant Jain, Investor Relations on the call.

Without any delay, I would like to hand over the call to Mr. Malhotra for opening remarks, post which we will open the floor for Q&A. Thank you. Over to you, Yogeshji.

Yogesh Malhotra: Thank you, Mr. Manish. Good afternoon, everyone, and welcome to our Q1 FY27 Earnings Call. Thank you for joining us today. I hope you've had the opportunity to review our financial results and investor presentation, which have been uploaded to the stock exchanges.

During today's call, I will take you through the key business developments, strategic initiatives, operational highlights and financial performance for the quarter. Following my remarks, we will be happy to take your questions.

Building on the momentum of the previous year, even as geopolitical uncertainties persisted globally, during Q1 FY27, our strategic capacity additions, richer value-added product mix and consistent operational execution translated into another quarter of robust financial performance with 4% growth in volumes, 42% in revenue, 29% in EBITDA and 14% in PAT on a year-on-year basis. This performance underscores the resilience of our diversified recycling platform and our disciplined approach to execution.

As we navigate an evolving global environment, we remain committed to operational excellence, portfolio diversification, prudent capital allocation and sustainable growth, enabling us to capitalize on the expanding circular economy opportunity while delivering long-term value to our stakeholders.

Before discussing our financial performance in detail, let me first walk you through the key strategic developments during the quarter that continued to strengthen our growth trajectory.

I'm pleased to share that Gravita has achieved a significant global milestone with the London Metal Exchange Brand Listing for lead metal produced at our division -- at our lead division at Mundra, Gujarat under the brand name GRAVITA M. This recognition places Gravita among a select group of Indian secondary lead recyclers whose products are approved by the LME.

The accreditation is one of the most stringent global quality benchmarks for lead metal and reinforces our commitment to world-class manufacturing standards, product consistency and operational excellence. With this listing, our lead products are now eligible for delivery across all LME-approved warehouses worldwide in addition to our existing deliverability on MCX.

We believe this achievement will further enhance our credibility and acceptance with the global OEM customers, strengthen our international presence and create new opportunities in export markets. Our manufacturing facility at Chittoor, Mundra and Phagi continue to remain in panel with MCX, reflecting our consistent adherence to stringent quality standards.

During the quarter, we continued to strengthen our manufacturing footprint in line with our long-term growth road map. Our total installed capacity now stands at 4.97 lakh metric tons per annum, and we firmly remain on track to achieve our target for scaling this to over 8 lakh metric tons per annum by FY29.

A key milestone during the quarter was the successful expansion of our Phagi, Jaipur lead facility, where we commissioned an additional 40,500 metric ton per annum of lead recycling capacity, taking the plant's total capacity to 75,819 metric tons per annum. This expansion was completed with an investment of approximately INR30 crores, entirely funded through internal accruals, reflecting our disciplined capital allocation approach.

As part of the company's ongoing efforts to enhance operational efficiency and optimize resource utilization, the management has decided to consolidate the operations of the Kathua manufacturing unit with the company's Jaipur manufacturing facility, where the same line of business can be carried out more efficiently. This strategic consolidation is expected to strengthen operational effectiveness, improve cost efficiencies and enable better utilization of the group's resources.

Our strategic diversification into copper continues to progress well. Following the acquisition of Rashtriya Metal Industries Limited, the integration process is advancing as planned with operational synergies gradually being realized across procurement, manufacturing, logistics and sales. We have also made steady progress on the development of our 29,400 metric ton per annum copper recycling facility at Gujarat, which is being set up with an estimated investment of approximately INR160 crores.

The project remains on track for commissioning within the next 12 months, as previously guided. The project will continue to be funded through internal accruals and will further strengthen our backward integration, expand our value-added product portfolio and support long-term profitable growth.

The company has earmarked a total capex of INR1,680 crores through FY29, with INR850 crores allocated towards strengthening the existing businesses, while the balance will support entry into new recycling verticals, including lithium-ion batteries, copper and steel.

ICRA upgraded Gravita's long-term credit rating from AA- to AA. This upgrade reflects the company's consistently improving financial profile, prudent capital allocation, robust cash flow generation and disciplined balance sheet management.

Coming to operational and financial performance. Revenue for Q1 FY27 stood at INR1,475 crores, registering a year-on-year growth of 42%, driven by higher capacity utilization across key segments and continued operational efficiencies. Value-added products accounted for 63% of consolidated revenue during the quarter. Adjusted EBITDA for Q1 FY27 stood at INR145 crores, up 29% year-on-year, with EBITDA margins remaining healthy at over 9.80%.

Consolidated PAT came in at INR106.39 crores, reflecting a year-on-year growth of 14%, while PAT margins remained over 7.21%. Operational performance remained steady during Q1 FY27 with total volumes increasing 4% year-on-year to 55,455 metric tons per annum. The copper segment operated at 50% capacity utilization during Q1 FY27, contributing INR376 crores in revenue.

As the subsidiary continues to ramp up capacity utilization, the segment is expected to progressively scale its operations and make a meaningful contribution to Gravitas's top line. In Q1 FY27, EBITDA per ton for the lead, aluminum, plastic and copper segment stood at INR24,181, INR25,175, INR10,197 and INR55,151, respectively, supported by better realization and improved operational efficiency.

We remain confident in our long-term growth outlook and our ability to deliver on Vision 2030 with a strong pipeline of capacity expansions, continued business diversification and increasing share of value-added products, and unwavering focus on operational excellence and capital discipline, we are well positioned to achieve our strategic objective and create sustainable long-term value while capitalizing on the growing global circular economy opportunity.

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 Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: Sir, my first question is on the volumes. So I think this is one of the first quarter where we've seen a year-on-year decline in lead volumes. So if you could explain what is the reason? And how are we planning to recover the lost opportunity and some guidance for FY27 and '28 in terms of lead volumes?

And secondly, on the copper division, what is our expectation in terms of ramp-up and margins? Are these levels of margins sustainable? And if you could just update on our capex and expansion plans with respect to copper?

Yogesh Malhotra: So there was a little decline in the volumes of lead, which was primarily because of supply chain disruptions because of this Middle East war. Because as I mentioned probably last quarter also that around 15% to 20% of our import comes from the Gulf territory. And even the imports that come from other territories part of it comes through this route only.

So a lot of our material is struck and a lot of material cannot come to India because of this, we cannot utilize our capacities completely in the last quarter. Things are improving a little, but still it's not to the normal. And we are expecting that in Q2 also there may be some impact of this. Although, we are using this opportunity because there is a scrap shortage in India and because of there is a demand supply change and because of this we are using this opportunity to increase the profit margins.

So although there may be some impact in terms of top line growth, but we are expecting similar kind of bottom line or EBITDA margins in the next quarter also, as far as lead is concerned. But the overall growth would probably come -- revenue growth would come from the addition of copper. So you can expect the long-term growth to be in line with the FY 2030 vision plan that we already mentioned many times. And what was your second question?

Sumangal Nevatia: Yes. I just wanted to know your volume guidance for FY27 across the divisions. And what sort of EBITDA per ton can we expect in copper as volumes ramp up?

Yogesh Malhotra: So it's extremely difficult to talk about on a division-wise volume growth, especially in a very short-term period because, as I mentioned, there is some disruption, which is still not back to normal. So you may see some volume -- I mean, we may not be able to achieve the same volume growth that we were expecting earlier on a quarter-to-quarter basis.

But as I mentioned, in the long-term, that growth story still remains because the capacity expansion is already in place. The only thing is that the supply chain disruption as soon as we can recover from this we would be able to grow.

And what we are doing is to take care of this now we are -- and also because we have now copper in our kitty, we are expanding our yard network or our procurement network in developed economies also like U.S. and which will ease pressure in the future coming from such disruptions from geographies. So that is why when I say that in the longer run, the growth volumes would continue in the same manner.

Your second question about copper is that -- so it will remain in the same region of around INR55,000 per ton. There may be some slight increase. So you can expect some slight increases because of some economies of scale as we -- and we will ramp up the production level also and then some would come from some optimization of the product mix going forward.

Sumangal Nevatia: Got it. Just one last question. If Kansal sir is there on the call, if you can get net debt and working capital as on 1Q?

Sunil Kansal: Okay. So net debt is close to INR150 crores at this moment. And working capital cycle is also close to, again, 95 days at this moment because we have significant inventory is increased for copper also and working capital cycle is also increased for copper. And still, we have significant inventory under transit also. So this is also the reason where the working capital is slightly higher at this moment.

Moderator: We take the next question from Amit Dixit from Goldman Sachs.

Amit Dixit: A couple of questions from my side. The first one is again on copper division. While you mentioned in your prepared remarks that the capacity utilization is 50%. Now when are we -- when are we going to ramp it up to 100%? And currently, if you look at the margins, I mean, I'm talking about EBITDA margins here, it's like 5.2%-odd in this quarter, while the company delivered 8%-odd, I mean, in last year. So how do we bridge this gap?

And thirdly, on copper itself, what different we are doing what -- how differently we are sourcing copper scrap or in terms of our selling strategy to make sure that we get the optimal utilization of this particular asset? That is the first question, sir.

Yogesh Malhotra: So first of all, in terms of using more capacity -- increasing the capacity utilization, we are working on certain bottlenecks in the manufacturing stream itself, so which will probably be up and running by the end of this financial year. So it will take at least this financial year. So there will be some ramping up that will take up by making a better product mix. But a major increase will come only by the end of this year when we have already set up some plant and machinery, which is required to debottleneck the whole operations.

As far as the overall EBITDA margins are concerned, it would -- as I mentioned that it would remain in the same vicinity of around INR55,000 per ton. There would be some slight increase. Last year, if you look at the total EBITDA per ton, it also included some -- some of it came because of increase in copper prices. So -- but because Gravita remains 100% hedged, so generally, you would not see certain upsides from copper commodity increase in Gravita.

But there will be a sustainable EBITDA margin of around INR55, which will slowly increase. And then when we do some backward integration with our systems, then in that case, eventually and when better capacity utilization is there, then you can expect around INR65,000 to INR70,000 per ton, but that will take around 2 to 2.5 years.

Anant Jain: Also, just to add to this, the percentage because of -- last year, the LME was around -- roughly average was around $9,000, this time, the average LME of copper is around $13,500. And the percentage terms, it would be diluted. But however, you should look upon us on EBITDA per ton.

Amit Dixit: Got it, sir. Again, a follow-up from here. You mentioned about putting in some equipment. So will our turnkey division be involved in that? Or will it be external procurement?

Sunil Kansal: Most likely, it would be external procurement only at the moment.

Amit Dixit: Okay. The second question is on aluminum inclusion on MCX, sir. Any progress over there?

Yogesh Malhotra: Aluminum inclusion?

Amit Dixit: I'm talking about AOC alloy, Yes, Yes. The A0C12 alloy.

Yogesh Malhotra: ADC12 alloy.

Amit Dixit: ADC12 alloy. Yes.

Yogesh Malhotra: Yes. This is still pending at the MCX level because that is their internal decisions at MCX, which commodity they want to add because all other formalities are done. So it lies with them only as of now. It is not possible to comment on this. But still, we had -- we are following with them and had one of the meeting last month. And they plan to keep it in their -- one of the agenda item because this will also give them good volume as an exchange. So hopefully, they will do it within this year, as explained by MCX.

Moderator: The next question is from Vikas Singh from ICICI Securities.

Vikas Singh: Sir, just wanted to understand that these lead aluminum plastic everywhere, our EBITDA per ton was pretty high. So what was the inventory gains or the INR component in that? And what should we take as a steady-state EBITDA per ton for this division ex of the external batteries?

Yogesh Malhotra: So in plastic, I think our EBITDA per ton was around INR10. And the -- I mean this is the range in which we are working. There was some gain last quarter because of this disruption, the local prices had gone up. I mean, this disruption, the local prices have gone up of plastic. So we could have some gain.

But on a sustainable basis, you can expect around INR10 to INR12 per kg in plastic. Similarly in aluminum also, we've got some gains because of increase in prices. But on a sustainable basis, you can take around INR15 to INR17 as currently all of our operations are overseas, which is a little more profitable than the Indian operations.

So if -- and when the Indian operations are running, during those times, you can expect around INR13 to INR14 of EBITDA. But when only overseas operations are running, you can expect around INR15 to INR17 per kg margins on a sustainable basis.

Vikas Singh: Noted, sir. Sir, my second question pertains to our commentary that we would be shifting to the new sources in terms of procurement. So just wanted to understand, since we are setting up an entirely new supply line, would that mean that for the initial few months or year, we would have a higher cost for establishing this line, including the logistics, etcetera? And how should it impact our margin for the near-term perspective?

Yogesh Malhotra: So the idea is that generally, initially when we set up this copper recycling, we generally buy through arbitrate in between agents which is the normal course most of the buyers are doing. So we would want to do what we do best, and that is having our own procurement network. And that is why we are expanding into the developed economies because most of the copper scrap comes from developed nations only.

So it's something that we've been doing in other verticals of aluminum, lead and plastic. So we are just expanding the same for copper in other geographies. So it will not -- it will be an incremental cost and that -- because it's not the operations that we are setting up in U.S., we are just setting up our own yard procurement network. So it will, in fact, reduce the overall procurement cost for us and not increase it even initially also.

Vikas Singh: And this should also allow you to improve the sourcing for lead as well or lead would continue with the current channels?

Yogesh Malhotra: No, no, it would -- because earlier, when we were doing only lead, it did not make sense for us to set up our own yards in U.S. because it was not a viable proposition. But now that we are talking about copper also, which is going to be a huge part of it. So now it makes sense for us to go and set up our own yards. And that is why we are setting up our own procurement network in developed nations also.

Vikas Singh: And sir, just one clarification, if I may squeeze one more question. In terms of lithium-ion, are we looking for the entire value chain or only till the black mass because up till black mass, there would not be much of the value addition or the profitability.

Yogesh Malhotra: I agree. So our goal is very clear that we do not want to get into a normal product or a plain Manila product as we call it. So we want to go into value-added products. And we are currently doing R&D to set up our own processing unit for black mass.

But right now, the quantity of black mass is also less. So I think by the time the black mass availability improves in India, we would have already set up our refining unit for lithium. So we would be expecting all the valuable material from lithium car batteries in future.

Moderator: The next question is from Dheeraj Ram from 360 ONE Capital.

Dheeraj Ram: Can you let me know what is the capacity utilization of this new Gujarat facility that has come up? And what is the one for the Phagi facility, total of 1.3 lakh tons during the quarter?

Yogesh Malhotra: Current last quarter, it was only around 45% for lead in Jaipur where we expanded the capacity. But overall capacity utilization is close to 52% for the entire group for the Q1 with the expanded capacity at Jaipur and Mundra.

Dheeraj Ram: Got it. And how much do you expect this new capacity as an overall Phagi and Gujarat to run it in FY27, sir?

Yogesh Malhotra: On a sustainable basis, generally, it's around 70% -- but it all depends on the scrap availability. As I mentioned that because of this Middle East war, the supply chain was disrupted. So we could not get enough scrap in the last quarter. As it improves, we will reach around 70% levels.

Dheeraj Ram: Okay. okay, fine. And on scrap yards, in past 3 quarters, in your presentation, at least you have increased the scrap yards from 33% to 39% plus. So are these scrap yards more linked towards lead? Or is it some other metal?

Yogesh Malhotra: So mostly all metals, but we -- but most of these scrap yards were in developing nations. So copper was not part of it. There was only a small part of copper that used to come from these scrap yards. So that is why now we are going to set up our own yards in developed nations also from where most of the copper scrap comes.

Dheeraj Ram: And the last question...

Yogesh Malhotra: Those yards will also include lead and other products, other aluminum and plastic products also. Yes.

Dheeraj Ram: Okay. And last question is, however, we have increased scrap yards, still we are seeing challenges in sourcing. However, that is due to logistic disruption. But is there any work around for this?

Yogesh Malhotra: Yes, there's a huge logistic disruption. I mean the entire gulf from where we used to get around 15% to 20% of our total scrap, we've hardly got anything. I mean -- and some of the material that used to come from other countries also outside Gulf, it used to come through Gulf. So even some of that material is also stuck in some of those ports in the Gulf. So we are expecting things to improve.

But till the time things don't improve, we have started developing new geographies so that we can start getting more material from them. But 20% is a huge chunk. So you cannot just expect to find other sources that can compensate for those 20%. So it may take some time. But we are very confident that we'll find a way out and set up new yards, maybe go into different geographies to compensate for this. But at the same, our focus would remain on the overall profitability.

So during these situations, when there is a supply chain -- sorry, demand and supply mismatch, we -- whatever losses we make in terms of volumes, we compensate for them from getting better realization from all our plants. So if you look at it, even though we've lost some volumes here, but the overall profitability has improved.

So we will try to compensate in future also such revenue losses from higher profitability. But eventually, by the end of this year, definitely, we would have set up more yards and the overall scrap sourcing would improve.

Dheeraj Ram: Okay. And your LME, the ingot that got listed on LME, is it because there is some pushback from customers or you see any demand slowdown so that we got our ingot listed on LME? Or is it just a hedge for OEM sales?

Yogesh Malhotra: We don't sell our product on LME. We've not sold any product on LME because it's not a very profitable proposition. The only thing is because we favor developing new OEMs. Generally, if you have an LME brand, then it gives you -- it's an easier path to an OEM approval. So that is the primary reason we have taken this.

And then, of course, during some difficult times, it also gives you better liquidity because the product is acceptable everywhere. So both you want to crack new OEMs internationally and also have more liquidity for your product in the future. But there is no -- there's not been any pushback from any existing customer.

Moderator: The next question is from Sagar Shah from Spark PWM.

Sagar Shah: Now I have some few questions for the management. My first question was we -- in the month of February, actually, we expanded our lead capacity by 80,300 tons in Mundra, Gujarat. So I wanted to, first of all, get the number what is the utilization of that new capacity? Is it -- was it utilized in Q1 or due to the geopolitical disruptions, we weren't able to utilize this incremental capacity? That is my first question.

Management: Yes. So capacity utilization at Mundra was around 50%, including the capacity expansion, which happened in February. So as Yogesh mentioned that there was some disruption because of availability of scrap because of this supply chain disruptions.

So the capacity utilization was lower than the expected. So we hope that things will improve, and we are finding other sources also for scrap sourcing, including sourcing from India, sourcing from other countries. So that will hopefully, in coming quarters, it will improve.

So if you talk about the overall capacity utilization, you may say that we've not been able to utilize the additional capacity. But generally, it's not a linear system. So there were times when we had scrap and during those times, we utilized the additional capacity to some extent. But overall, if you look at the capacity utilization, you can say that we've not been able to utilize the new capacities.

Sagar Shah: Incrementally, basically, you are referring to. Okay, fine. So sir, I understand you're not giving any guidance basically. So now my second question is related to our inventory actually, and that is related to your overall margins also. First of all, I wanted to understand what is the inventories as on 30th June 2026.

And related to that only that you highlighted in the previous con calls that you will be replacing the pyrolysis oil with the furnace oil to enhance margins, especially in Mundra. So have we started that actually by utilizing the rubber capacity in Eastern Europe?

Yogesh Malhotra: I think there is some confusion in the sense that we are already using pyrolysis oil at our Mundra capacity and the East European plant is not supplying any product to India. It's basically supplying those materials into Europe only. The rubber capacity that was expected to come up is not coming up immediately.

We have put the rubber capacities on hold right now, and we are fast tracking copper - in the -- I think there is some disturbance here. So what we have done is that whatever capacity -- sorry, the plant and machinery was earmarked for rubber. Now we are fast tracking copper expansion in that area because we see it as a better opportunity right now, especially because the logistic cost has gone up.

And in a commodity of lower price is a very important part, whereas in a commodity like copper, it's quite a substantial amount. So we are now -- what we are doing is we are fast tracking our copper expansion and putting the rubber capacity on hold temporarily.

Sagar Shah: Then why it hasn't actually incrementally affected our margins on the positive side, sir, if we are using pyrolysis oil then?

Yogesh Malhotra: So no, we were already using pyrolysis oil. It was never that we were not using pyrolysis oil in our Mundra facility.

Sagar Shah: Okay. And what is the inventory as on 30th June 2026?

Yogesh Malhotra: So inventory value is close to INR1,040 crores, which is almost similar at March level, March '26 level.

Moderator: Next question is from Bharat Shah from BCS Capital Ideas.

Bharat Shah: First and foremost, we -- there have been some challenges internal and external that we have been facing for last 3 to 4 quarters. Earlier, we had an unfortunate delay in ramping up our internal capacity and that kind of affected our volumes. Clearly, the situation in the Gulf is affecting in many major ways in last quarter as well as, as you mentioned, it will continue in the current quarter.

While we are attempting to mitigate that by improving profitability, at what stage do you think all of these issues will be behind and we'll be back to the kind of growth rate that we aspire to, that we look forward to and that we have more than delivered in the past. At what stage do you think all of these issues can be kind of taken in the stride and we move ahead with the kind of numbers and the performance that we've been talking about?

Yogesh Malhotra: Yes, sir, I get your point. But if you -- I mean, so that is part of the reason why we were insisting -- I mean, why we were thinking about diversification into different commodities because we understand that something can go wrong in one of those commodities, which will impact the overall profitability and revenue growth. And that is why we've gone into copper and are continuously trying to go into and setting up different verticals.

So even in this quarter, although the lead sales have dipped, but if you look at the overall revenue numbers, they have grown by around more than 40%. So there would always be external circumstances, which will impact one of these commodities. But if you -- and that is why we are continuously looking into and to see how we can manage those volatilities because of this external environment.

Part of it, as I mentioned, that we have diversified into copper. The other thing that we are doing is focusing on profitability. So even though lead has -- the revenue from lead or the volumes from lead have come down, we have tried to compensate it by getting better margins because of this shortage in supplies in India.

The third thing that we are doing now is to improve our procurement network in countries where we were not earlier present. And part of it was because we were not having the complete kitty and setting up our own yard because U.S. is very expensive. So setting up our own yards when we had majority of material requirement of lead was not viable.

But now with copper in place and going forward, other commodities also in place, we would be able to set up these yards in U.S., which will create more scrap material for us -- availability of more scrap material for us. So we are continuously trying to find out solutions as we find these disruptions coming out of global problems.

And if you look at the record also, sir, even because even in spite of all these problems in the past 5 years, our PAT has increased by 48%. Although our guidance has always been -- and that is CAGR in the past 5 years, even though our guidance has been to get a bottom line of around 25% to 30% CAGR.

Even in the past 3 years, when -- as you rightly mentioned that we've been going through a very tough phase, the CAGR of PAT has been 24%. And we are very confident of increasing it to around 25% to 30% even in this year and going forward for the next 4, 5 years also.

And as and when these things will happen, and we are sure that these things will continue to happen, but we'll try to find out ways we'll, in fact, improve our operational efficiencies, we'll improve our network so that these disruptions in future will not impact us as much as they are impacting us now.

Bharat Shah: No. Surely, Yogeshji noted, I think diversification into alternate materials is a very wise one that we have done. And we have also taken other mitigating steps like alternate yards and alternate sourcing. But do you believe that in current times when wars are never ending kind of a phase, you never know how long the conflict in the Gulf will go on.

Therefore, assuming that we do not know anything about when it will stop or if at all, it will stop, when by current year-end, do you think we would have sorted out most of the alternate raw material supply sources?

Yogesh Malhotra: Yes, sir. Yes, sir. So we are setting up -- as we speak, we are setting up our own yard operations in the U.S. and we are very sure that by the end of this year, we'll have set up our own procurement network in the developed nations, so which will more than take care of this Gulf disruptions if it keeps on continuing.

But we are very confident that -- because some of the material have started coming in from those geographies also, although it's still a little costlier because of this increase in logistic cost, but we are very confident of coming back to normal and in fact, increasing the overall procurement by the year-end.

Bharat Shah: Okay. But just one last thing. On the copper, if I had understood earlier, we were looking at a profit of about INR65 per kg. So while INR55 is much higher than our competition, but I still thought it was -- we were aiming at about INR65 kg unless I'm mistaken about it.

Yogesh Malhotra: Yes. So what we -- so initially, we mentioned that it will slowly go up from around INR55 to around INR70 to INR75, but that will take around 2 to 3 years. By the end of this year, we believe that it will go up to around INR60. So what we are doing is we are increasing our capacity utilization currently and trying to debottleneck the whole operation so that we improve some profitability from that.

And then, of course, there is some optimization in terms of procurement also that will happen. And then eventually, when we set up our own backward integration, when we integrated the current operations with the Gravita operations, then we'll take some more benefit out of that. And the overall profitability in that case would be around INR70 to INR75 -- sorry, INR75,000 per ton. It will happen in stages.

Moderator: The next question is from Khush Nahar from Electrum PMS.

Khush Nahar: Yes. So a couple of questions. So first, on the copper business, since we are doing some debottlenecking and we'll slowly ramp up, what would be an approx utilization exit rate that we can see in Q4 FY27, which will then normalize and become the new normal for '28?

And similarly, considering the ROCE levels of the company in general has been around 20%. So after the addition of copper, do we see the company level ROCs to go towards that or it will be a bit dilutive in nature?

Yogesh Malhotra: So see, the current utilization is around 50% in copper. By the end of this year, we are expecting it to go up to around 60% plus, by just debottlenecking and trying to change the product mix, it will go up to around 50%. That is the first part.

And this 20% ROCE is including the copper business right now. Future, there will be some improvement in the EBITDA numbers of copper. And slowly, we believe that in the next 3 years, we would come back to around 25% plus CAGR because the copper business would also start giving us around 25% ROCE.

Khush Nahar: So as of now, it is lower than 20%, right?

Yogesh Malhotra: Yes. It's 20% currently. So it will improve from here. There are various reasons why this is less than 20% -- around 20% in this quarter. And part of it is that we've not been able to utilize our own capacities in lead, aluminum and -- sorry, lead basically. So that has also contributed to a little lower ROCE.

When the capacities in lead would also start -- I mean, when we start utilizing lead capacities also, then there will be slight improvement overall in the total combined ROCE. And then we can expect some improvement in the copper business also going forward. So we have recently done this equation where we have already paid some premium for acquiring this company. And that was the plan only that we will ramp up this acquisition and get the better ROCE.

Khush Nahar: Yes. And so secondly…

Yogesh Malhotra: Yes. Please go ahead.

Khush Nahar: Yes. So secondly, what would be the operational income, which is included in the other income that we normally disclose?

Yogesh Malhotra: So operational income is -- so the total other income, which is reflected in is INR47 crores, which is reported. Out of that INR35 crores is operational and INR13 crores is non-operational.

Khush Nahar: And sir, lastly, if you could mention what would be our domestic sourcing percentage in Q1 for our India plants?

Yogesh Malhotra: So domestic is almost 35%.

Moderator: The next question is from Dhirendra Kumar Patro from Spark PMS.

Dhirendra Patro: My question is regarding a follow-up on other income. Of the INR47 crores, you said INR35 crores is operational income and INR13 crores is unoperational. So how sustainable is this INR47 crores or INR35 crores of operational income going ahead in the future quarters?

Yogesh Malhotra: This operational income is part of the overall operational. As I mentioned earlier also that the entire volume of lead and copper. So what we gain on one hand is operational gain on the hedging part, where it shows in other expenses. When we gain on the hedging part and lose on the operational part, it's seen as operational income.

So whenever this operational income is lower, the income from the business would be higher. So there will be no change in the overall profitability, whether the operational income is there or not. It eventually nullifies.

Moderator: The next question is from Netra Deshpande from Mirae Asset Sharekhan.

Netra Deshpande: Just my first question is pertaining with the 45,000 of additional capacity of lead that was about to get to commission in Q1 FY27, and it was remained for the pending for some government permissions. So with the installations have already completed, as you said in the last call. So what would be the incremental value contribution, which is expected out of this? And what's the status about additional capacity? Hello. Am I audible?

Yogesh Malhotra: Okay. So out of this 40,000, I think you can expect a 70% utilization at an optimal level, which will contribute to around INR50 crores additional revenue.

Yogesh Malhotra: Yes, it is. So as I mentioned that around INR50 crores per month additional revenue.

Netra Deshpande: Okay. And over what ramp-up period like it would be?

Yogesh Malhotra: The production capacity is ramped up, but there is some logistic disruption, the scrap is not available right now. So at the moment the scrap is normalized, we'll start ramping up the operations immediately, probably by the end of this year.

Netra Deshpande: Sir, my second question is about the road map for the time line, as you have already said about the copper margins targeted 25% of ROIC as the RMIL segment margin, which is approximately -- I mean, currently, which is trading around more than 4.2%.

So any other -- is the product mix and the structural issue with the copper alloy business? And what would be the guidance for this capacity for the overall product mix, if you can spell it about the scale issue and what are the road map and the time line for this increasing the copper margin?

Yogesh Malhotra: There is some noise. Can you please repeat the question once more?

Netra Deshpande: Yes. Yes, sure. Sir, as you -- there is the road map and the time line which I'm asking for the copper margins as the group company which has targeted 25% plus ROIC about this RMIL segment margin, which is currently approx going around 4.2%. So what would be the mix? And what would be the scale issue for the -- just getting the structural issue with this copper alloy business? And what are the guidance for the capacity for this major copper business?

Yogesh Malhotra: Yes. So in the copper business, on a sustainable basis, this is the margin that is going to remain this year. But as I mentioned earlier that you can expect it to go up to around INR75 -- sorry, INR75,000 per ton going forward, but that will take place in the next 2 to 2.5 years. And by that time, the improvement in ROIC will also take -- it will slowly go up and reach around 25% overall in the next 2.5 years only.

Netra Deshpande: Okay. Okay. And what would be the capacity like 31,000 metric tons that was expected. So what would be the further forward guidance for the copper segment specifically? Because aluminum...

Yogesh Malhotra: In the next 3 years, for copper, we would double the total capacity to around 60,000 metric ton per annum.

Moderator: The next question is from Pratham Kankariya from Quantum Asset Management.

Pratham Kankariya: Yes. Sir, just one thing on this copper alloy pricing. So it differs from the pure copper. So how should we assess the realization in the business? And also, how do you hedge with this exposure to the underlying copper prices?

Yogesh Malhotra: See, hedging mechanism is very similar to what we do in lead. We have generally contract based on monthly or fortnightly averages. So the customer gives you an order based on the prices of copper -- average prices of copper from 1 to 15 or maybe 1 to 30. So based on that, we'll do our procurement and supply to the customer. It's a more straightforward because it's not scrap that we are buying in copper.

So generally, because in lead, what we are doing is currently, we are buying 100% scrap. So scrap does not as and when you want. Whereas in copper generally, you can buy copper cathode as and when you require it. So there is very little requirement of that.

Pratham Kankariya: Yes. Just wanted to understand this on the alloy one. So like since copper is more than 50%, 60% is value-added. So how do you hedge this exposure to the pure copper prices? You mentioned that you have some contracts on monthly and fortnightly basis. So if you can just explain that how you are mismatching this exposure? Hello.

Yogesh Malhotra: So what was the question again, please?

Pratham Kankariya: Okay. So just wanted to understand since copper alloy is more value added -- its value added and it has more alloy composition. And what we trade on -- what we hedge basically the pure copper. So how are we trying to mitigate this? How are we trying to hedge, I just want to understand this perspective.

Yogesh Malhotra: So when we make alloy, we -- I mean, it is made out of copper and other elements, so like zinc, nickel, etcetera. So we buy all these 3 separately and put them together. So whatever we buy, we hedge that same metal.1

So when we -- if we are buying copper, we hedge copper. If we're buying other metals, we hedge the other metals also proportionately. So for example, when we make brass, we use 70% copper and 30% zinc. So we hedge based on the metal input.

Yogesh Malhotra: Yes. We hope that the question is answered.

Pratham Kankariya: Yes. So, just second this. So, our VAT contribution has increased from 45 to 63. So, what is the reason? Is it solely the copper division which has led to this increase?

Yogesh Malhotra: Yes. So copper because copper is 100% value-added content. So this is where we improved this value-added content. But other than that also, because we are more focused on -- and the volumes were lower, so we focused on selling more value-added products for other segments also like lead also. So because of that and without copper also, the value-added content we used to be 40%, 42% has increased to 50% in this quarter.

So with the focus on bottom line and better realization on the value-added products, we focus selling more on value-added content other than copper. So other than copper has also increased and copper also was 100% value added. So that is the reason it is showing a 63% value-added content with better margins.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Yogesh Malhotra: Yes. Thank you, everyone, for participating in this call. We trust that we have addressed all your queries during this session. However, if there is anything remaining questions, please feel free to reach out to our Investor Relations team. Once again, we extend our gratitude to all participants for joining us today. Thank you, and have a great day.

Moderator: Thank you very much. On behalf of Antique Stockbroking, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.