

“Gravita India Limited  
Q3 FY '23 Earnings Conference Call”  
January 24, 2023



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

**Moderator:** Ladies and gentlemen, welcome to the Q3 FY '23 Earnings 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. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Sabri Hazarika:** Thanks, Dorian. So good afternoon, ladies and gentlemen. On behalf of Emkay Global, I welcome you all to the Q3 FY '23 post earnings conference call of Gravita India Limited. We are pleased to have the senior management led by Mr. Yogesh Malhotra, CEO, Mr. Vijay Pareekh, Executive Director, Mr. Naveen Sharma, Executive Director, and Sunil Kansal, CFO.

So today's session would be a brief on the company's results and outlook by the management, and then we'll move to the question answer round. So without any further delay, now I request Mr. Malhotra for the opening comments. Over to you, sir.

**Yogesh Malhotra:** Thank you, Mr. Sabri. Good afternoon, ladies and gentlemen, and welcome to our Q3 earnings call. I believe you have read the earnings presentation and press release that was uploaded on the exchanges. I will now briefly discuss the results before opening the floor for questions.

I'm delighted to report that Gravita India delivered outstanding results for Q3 and 9 months financial year '23. Before we continue with the results, let's discuss some strategic highlights and project updates.

A step-down subsidiary of the company located in Togo, West Africa began commercial production of aluminum cast alloys from a recycling plant, having an annual capacity of about 4,000 metric ton per annum during Phase 1. The company anticipates that the expanded capacity would provide an additional revenue of about INR 60 crores per annum with a gross margin of approximately 26%.

The group has invested around INR 11 crores on the procurement and commissioning of the new recycling plant, which is funded by the company's internal accruals. Gravita spent INR 88 crores on capex in the 9 months for financial year '23. Capex is anticipated to be about INR 20 crores for the remainder of the year. Capex is being done to expand the existing as well as establish new capacities.

Let's now discuss the operational performance. In 9 months financial year '23, Gravita boosted its capacity to 228,000 metric ton per annum. We are certain that by 2026, we will attain our total capacity of 425,000 metric ton per annum, encompassing all our existing and future verticals. The company has witnessed a volume growth of about 34% in Q3 financial year '23 on a year-on-year basis. Net volume increased by 33% and aluminum grew by 83% on a year-on-year basis.

In Q3 financial year '23 EBITDA per metric ton for lead and aluminum stood at INR 17,000 per ton and for plastic at approximately INR 9,500 per ton. Domestic scrap collection for Indian plant witnessed a jump of 12% in Q3 financial year '23 versus Q2 financial year '23. We believe that redefining of Battery Waste Management Rules, extended producers responsibility and stricter implementation of GST have boosted the -- and will continue to enhance scrap availability for the formal recycling industry in India.

Coming to Q3 financial year '23 financial results. Consolidated revenue for the quarter was reported at INR 789 crores, which was up by 42% on a year-on-year basis. This rise in revenue can be attributed to a 34%-plus increase in sales volume. Revenue from value-added products stayed strong at 45%. On a year-on-year basis, adjusted EBITDA increased by 31% to INR 71 crores. EBITDA margins stood at 9%, and the company continued to maintain strong margins despite rising costs in major raw materials throughout the quarter.

Gravita reported a strong consolidated PAT of INR 50 crores with a 28% growth year-on-year. Out of this, around 65% of profit is from overseas business. PAT margins also stood strong at about 6.4%. Coming to 9 months financial year '23 financial results. Consolidated revenue increased by 32% from INR 1,549 crores to INR 2,052 crores. Adjusted EBITDA for 9 months financial year '23 stood at INR 201 crores, up 41% on a year-on-year basis. And consolidated PAT increased by over 40% to INR 137 crores.

Thank you very much. And now I would like to open the floor for questions.

**Moderator:**

The first question is from the line of Keshav from RakSan Investors.

**Keshav:**

Congrats for a great quarter. Sir, recently, I was reading that a US based recycling technology company, which claims to have an efficient and emission-free process is setting up huge lead and lithium ion capacities in India, and they have a very large facility planned in Mundra itself that will come up in 2024, '25. So do you see a raw material sourcing risk going forward?

**Yogesh Malhotra:**

Actually, as we have mentioned that in India, there is a shift taking place from informal to formal sector. And the overall capacities available for organized players is much more than the total capacities available currently. So we don't believe that there is going to be any shortage of raw material, even if all the stakeholders currently who are there in this business increase their capacities. But it will take time for anybody to start building capacities. This is one factor.

The other factor is existing relationship with the OEMs that we enjoy currently and our pan-India presence. Because you cannot set up one plant in one location and then we've been saying this that in this scrap business you need to have plant at multiple locations and operations in multiple locations, if you want to enjoy benefits in terms of reduced logistics cost and service to the customer.

So of course, I mean, there would be competitors coming in for -- I mean, it's an open market, and we have so far stayed relevant because of our model, and we will continue to stay relevant.

**Keshav:** And sir, secondly, lastly, so of the two business, in India and ex-India business, would it be possible to give the ROCEs, which we enjoy in ex-India bit?

**Yogesh Malhotra:** Yes. Actually, the current ROCEs, we've been saying that the current EBITDA margins as well as ROCE is sustainable. If anything, because the model of Indian business is shifting towards tolling business where working capital requirement is either zero or very less, so that ROCE from this Indian business would continue to be better from the current levels.

In any case, wherever we are going in new businesses, we have a target of at least 25% ROCE. So we don't think that the ROCE would come down to anything less than 25% anytime in the near future.

**Moderator:** We have the next question from Fidelity Ventures.

**Muthukumar:** I have three questions, sir. First question is what are the steps have been taken to grab the EV trend and lithium recycling market? And second one is, what is the total quantum of amount that is proposed in rubber, copper, paper, e-waste and lithium and aluminum recycling? That is capex for next two to three years, total quantum, I'm just talking.

And third one is five years earning at the topline and bottom line that you have already mentioned in your Annual Report, that is the revenue CARR would be 25,000 and profitability would be 35,000 and our ROCE would be 25,000. Could you please reconfirm it, the three with the updated numbers?

**Yogesh Malhotra:** Yes. Thank you very much. So I mean, for lithium-ion batteries recycling, we believe that for the volume of scrap to start coming to the market it will take around five to seven years from now. Whatever products are coming today, the scraps on those, whether it is EVs or scooters, etcetera, EV scooters, etcetera, the scrap from those would start coming into the market around five to seven years from now. So we are already tying up with some technology company to set up a pilot project of lithium ion batteries in India at our Mundra location and we'll see how things work out from there on.

In terms of total capex, we are planning to do a capex of around INR 80 crores year-on-year for our existing verticals for the next three years and around INR 200 crores to INR 250 crores for the new verticals, which include lithium-ion, copper, steel, paper, etcetera, that again in the next three years. So that is the capacity expansion.

And yes, our target is to grow at around 35% in volume terms, not in revenue number, but in volume terms on a year-on-year basis in the next three years, 25%, sorry, and the profitability would increase to around 35% on a year-on-year basis. Is that okay?

**Moderator:** The next question is from the line of Rahul Bhangadia from Lucky Investment Managers.

**Rahul Bhangadia:** Congratulations on a great set of numbers. See, two, three things here, sir. In this quarter, we had gross margin of about 18%. Generally, our range has been of the order of anywhere between

20% to 22%. Anything that we should read into this, are there some specific things out here in the quarter?

**Management:**

Yes. So Rahul, the gross margin is dependent on the sales price also. So sometimes when the metal prices are higher, so then the gross margin is reduced. So on a profitability terms, we focus on the, part one, EBITDA, which is very stable in our case. Like, we focus on lead in the range of INR 16 to INR 17 per ton. And in case of aluminum, because it's more business outside India, so it is approximately INR 18 per kg. And in case of plastic it is INR 10 per kg. So we are very close to these numbers. So we focus on these numbers.

The per ton -- the percentage gross margin is also dependent on the business from overseas or business from India. So slightly when the Indian business is higher, so then this number is also lower. But overall basis we focus on this EBITDA per ton numbers.

**Rahul Bhangadia:**

Yes. So you have always emphasized that it's an EBITDA per ton that you focus on. So I just wanted to confirm that it's about the -- it's just basically the pricing at the revenue level that makes the gross margin go up or down in this case?

**Management:**

Correct.

**Rahul Bhangadia:**

Sir, the second question I had is, now this year on an overall basis, including the three verticals that we report right now, lead, aluminum, plastic, you'll probably do about 1.5-1.6 lakh tons of volumes this year. We've already done about 1.15 lakh tons. We'll probably close 1.6 lakh tons. What do you think will be the volumes next year? You have given a 25% guidance, but I just wanted to understand what will lead it? Will it be lead driven again? Or will it be kind of driven by aluminum, plastic and maybe some of the other new verticals that we have?

**Yogesh Malhotra:**

So, lead would continue to grow, because we have added some capacities in lead, and we are also in process of adding certain more capacities in Mundra and Chittoor for lead, so it will continue to grow. But, of course, as you've seen that, aluminum has started growing much faster than the lead. And going forward, we believe that the plastic would also grow at a similar numbers.

So the overall, if you see, the growth from lead would be around 15% to 20%, but the overall growth would be around 25%, which means that the overall contribution from lead will come down to around 75% in the next year.

**Rahul Bhangadia:**

In FY '24, that is?

**Yogesh Malhotra:**

In '24, yes.

**Rahul Bhangadia:**

So when do we expect then new verticals, like, copper, rubber or -- when do we expect that to contribute meaningful to either volumes or the numbers?

- Yogesh Malhotra:** Yes. So in lithium, as we mentioned that we are not in a hurry. We want to first have a good technology partner with us, because we still believe there is still time. So it will probably take some time maybe in the latter half of next year or maybe a year later also.
- Rahul Bhangadia:** No, sir, I was talking about the other -- maybe you were talking about rubber, copper, that side...
- Yogesh Malhotra:** Yes. So rubber, in any case, we have started, I mean, putting a plant, but that is mainly for our internal requirements initially. Once we've done that, in the second phase we would start selling it externally also the products. And we are doing a feasibility study for paper plant, and it's almost final now. So probably we'll start the process in the first quarter of next year. But it will take, because it's a huge plant, so it will take around one year, 1.5 years to establish the first plant. So again, it will come in probably '24, '25 financial year.
- Management:** In case of copper also, we have decided to start a pilot project in Senegal to start with. And once it is successful, then we start replicating. So that the Senegal plant should start somewhere around seven to eight months from now. So after that, we'll start replicating that to other locations also.
- Rahul Bhangadia:** So essentially FY '24 will still be led by the three existing verticals with aluminum and plastic growing faster than lead you can say?
- Yogesh Malhotra:** And to some extent, maybe rubber would start.
- Rahul Bhangadia:** To some extent. So 25% would roughly mean about 2 lakh tons of volumes next year, '24?
- Yogesh Malhotra:** Yes.
- Rahul Bhangadia:** All put together, I'm saying.
- Yogesh Malhotra:** Yes.
- Rahul Bhangadia:** And sir, the final question before I come back. You have mentioned your target of getting the working capital down to 65 days by March '26. There is a -- the working capital and the balance sheet situation keeps fluctuating every quarter. So are we on track for that or do you still think 65 days is what you -- where do you think we'll start seeing this trend moving towards 65?
- Management:** Yes. So current working capital cycle is approximately 80 days. Definitely, we look for bring it down to 65 days in next two years. The major driver be the more sourcing from domestic markets, so we are continuously driving the growth. In this quarter also, we have grown domestic sourcing by 12%. So we are focused on, but there are certain times when the Indian market is more favorable and we source from international market and bring to India. So that times, the working capital cycle is more.
- But working capital also dependent on the metal prices. So this time, metal prices were higher, so the working capital requirement was more. But on an average basis, we focus it to be around 65 days in next two years, definitely.

- Moderator:** The next question is from the line of Romil Jain from Electrum PMS.
- Romil Jain:** Sir, first of all, congrats for a good set of numbers. Sir, first question is the incremental capacities that will come over the next two, three years, about 2 lakh tons, can you just give some more information and color about where will maximum capacity come? Is it lead or is it aluminum or plastic? That is one question. And maybe bifurcation of the capex cost as well?
- Yogesh Malhotra:** So some of the capacities have already been installed. If you look at the Senegal aluminum and Togo aluminum has just come up in December itself. We will start giving full results from this quarter onwards. And some of the capacities that we are planning to bring is Chittoor and Ghana lead and also aluminum Ghana.
- So for the overall capacity increase in the next three years from current 228,000 metric ton, we are planning to reach to around 425,000 metric ton. This includes capacities for paper recycling also.
- Romil Jain:** Paper is also included?
- Yogesh Malhotra:** Yes. Paper is also included in this 427...
- Romil Jain:** And sir, what would be the capex for paper? Because as you mentioned, it takes a little bit longer time to establish the plant. So is the capex cost also bit make more higher there?
- Yogesh Malhotra:** It's around INR 75 crores to INR 85 crores of capex would be required for that plant.
- Romil Jain:** And sir, next question is on the operating cash flows. If you can just give some number of how much operating cash flow you generated in the first 9 months. And the capex for the next two years, how that will be funded?
- Management:** So majorly, all the capex is being funded from the internal accruals, because we are generating enough cash now from the business to fund the entire capex. So the only thing is that in case of the increased requirement of the working capital, so that is being slightly funded from the debt. Otherwise, all the capex is being funded from the internal accruals. So whatever capex we are doing for the existing verticals, INR 70 crores to INR 80 crores per year and our capex in new verticals, which is approximately INR 200 crores to INR 250 crores in next three years. So all this, we are planning to -- so we are not increasing any debt because of this capex. So we are doing it internally.
- Romil Jain:** And lastly, on the procurement of the raw material, of the scrap that you mentioned has increased by 12% this quarter. So can you give a number how much proportion is the total domestic scrap right now in the overall scheme?
- Yogesh Malhotra:** So domestic scrap is currently 42%, 43% of the total scrap requirement in India. So that is being sourced from India at this moment. But, so this is because whenever we see the capacity also in India, so that is also slightly percentage proportional is sometimes reduced. But on an absolute basis, it is continuously increasing.

- Romil Jain:** So that will increase to how much in the next two years?
- Yogesh Malhotra:** So, like, we are just 5% of the total Indian scrap, which is available in Asia, so, which should be close to 3x from now, in next two to three years, it should be close to 3x whatever we are sourcing approximately 60,000 tons per year. So that should be approximately 180,000 tons in the next three years.
- Moderator:** The next question is from the line of Abhijit Sinha from Pi Square Investments.
- Abhijit Sinha:** So our plastic segment has come down this quarter. Are we expecting it to be one of our growing ones, or is just a supplementary segment for us?
- Yogesh Malhotra:** So actually the plastic has faced certain, I mean the American market or the US market is currently not performing up to the mark and most of our capacities are there in the Central America, so because of that we have faced certain problems in getting enough raw material for our plastic plants in that region. But we believe this is a temporary phase. And eventually, as US market is recovering, we will start performing better in plastic in that market.
- And also, the effect of EPR has yet to take place in India, which has already taken place in lead recycling, but it is yet to start in the Indian market for the plastic recycling. Once that starts happening, probably the volumes will increase much faster in the future.
- Abhijit Sinha:** Going forward, do we expect this to be about 5% to 6% of our net revenues?
- Yogesh Malhotra:** No, I mean, in the near quarters, probably next two quarters, yes, around 7% to 8%. But going forward, probably if you ask me, one year from now it will grow at double-digit numbers, minimum.
- Abhijit Sinha:** And sir, over here the margins have also increased substantially. So though we've got INR 10 crores less, but our EBIT revenue that has come from the segment has been higher. So is there any particular reason for the margin increase?
- Yogesh Malhotra:** Margin? Margin increase in...
- Abhijit Sinha:** In the plastic segment?
- Yogesh Malhotra:** Yes. It is still the same. I mean the margins have not increased. It is the same as previous margins.
- Abhijit Sinha:** Because it's certainly about INR 5 crores we've got in the EBIT segment -- in the EBIT level, we've got plastics INR 5 crores versus last quarter was about INR 2 crores. That's the reason there. And so now with the aluminum prices going down further, what kind of margins are you expecting in the next quarter and going forward?
- Yogesh Malhotra:** So aluminum, I mean, in the last year, there were exceptional margins because of higher price and because we are not held in aluminum. So we reaped some benefits out of that. But aluminum would keep on giving INR 18,000 to INR 19,000 per ton of margins going forward also. That is



sustainable margins. So we stick by that number, and we will continue to get that number. Because most of the volumes in aluminum comes from overseas markets, which gives us higher EBITDA margins.

**Abhijit Sinha:** Sir, now if the prices further correct in aluminum, so where will it show? It will show in the other income segment, going forward?

**Yogesh Malhotra:** So other income shows the profit that we get, profit or loss that we get from hedging metal. So most of that is for the lead segment, because we are hedging most in lead segment and only partially in aluminum segment. So most of that is -- so around INR 66 crores from other income is on account of gain from hedging, which is mostly in the lead segment.

**Moderator:** The next question is from the line of Deepanshu Jain from HEM Securities Limited.

**Deepanshu Jain:** First of all, congratulations for great set of numbers. My first question is, it is expected that government may announce a policy of INR 3,500 crores for recycling lithium-ion in the Union Budget. So what are our expectations from Union Budget that may be beneficial for the company?

**Management:** Okay. So this lithium-ion battery manufacturing PLI has been announced at this stage. So in our country, as of now, there is no manufacturer of lithium-ion cell. The government has announced manufacturing of cells. As of now, whosoever claims to be manufacturer, they are basically assemblers and collecting lithium-ion cells and then assembling them and converting into battery. So battery complete manufacturing from cell to battery that is part of PLI. So recycling has not been given any incentive as of now, though the industry is asking.

**Deepanshu Jain:** And sir, my second question is, what are debt reduction plans?

**Management:** So currently, the debt is approximately INR 315 crores, but going forward, we already told that there will be no increase in debt because of the capex. So there may be some increase of debt because of the increased requirement of the working capital. But we are consciously taking the debt within the parameters of debt-equity of 0.75 and the debt-EBITDA of 1.5.

So within these parameters, whatever we are very comfortable on taking some short-term debt for our increased requirement of the working capital due to the increase in business. But going forward, we are open to take some additional capital by way of QIB also. But in case of debt also, the short-term debt is 100% hedged because the -- it is against the inventory and inventory is 100% hedged in our case. So it is not -- we don't consider it as a risk of taking any additional debt. But we are very cautious on taking incremental debt within these parameters.

**Deepanshu Jain:** Sir, can you share your view on lead, aluminum and plastic prices for near term?

**Yogesh Malhotra:** It's a very difficult question actually. It depends on a lot of issues. And I think if the China opens up, there are chances of the prices increasing. But in any case, we try to remain neutral in terms of metal prices. So it will not impact us that much.

- Moderator:** The next question is from the line of Astha Sundarka from Niveshaay.
- Astha Sundarka:** Congratulations on good set of numbers. So my first question is that the scrap procured outside is much cheaper than the domestic scrap. So what is the reason behind it? And if you could also tell me the price difference for the same?
- Yogesh Malhotra:** Yes. So actually, what happens in India is that there is a tax, GST on scrap. So most of the scrap goes to the unorganized sector, and therefore, the prices of scrap has gone up. Because this informal sector does not pay those taxes, so that is why they are much more competitive than the formal sector. That is one reason of price going up in the Indian market.
- But with this new policy of Battery Waste Management Rules, now the government has put the onus on the -- brand onus to start collecting the scrap. So this will make it easier for formal companies to set up their own yards in India and then collect on behalf of those battery manufacturers, which will reduce the prices of scrap to the former sector in India going forward.
- Astha Sundarka:** And next question is that, Amara Raja setting up its own recycling facility, Exide also has its own plant, and likewise other battery manufacturers been also backward integrated. So how this is going to affect your business?
- Yogesh Malhotra:** So basically, Exide always had this recycling plants for the past so many years. And as I've mentioned that, if you look at the gap between the capacities available in the organized sector and the total potential for the organized sector, there is a huge gap. So even if they bring up their own factories, there still will be huge opportunities for organized recyclers like Gravita. That is one part.
- And the second part is that, you still cannot manage the entire Indian subcontinent by putting up just a single plant. So you need to have plant across India on pan-India basis, because taking scrap from one place to another has huge logistic cost. So it will be very difficult for any backward, I mean, any company to backward integrate these plants, because eventually they have a battery plant at one location.
- So for example, for Amara Raja to source batteries in the North and then bring it back to their own plant would be very difficult. So they would need recyclers who have plants in North, where we can source on their behalf, process it in the factory in North and then supply it to some other customers. And similarly, we can have a plant in South where we collect that battery in South and give it to Amara Raja. So that equation will always help recyclers will pan-India presence.
- Astha Sundarka:** And one last question. Sir, you said that paper recycling that is going to come up later. So how much of asset turnover can we expect on that?
- Yogesh Malhotra:** Yes. Asset turnover is approximately 7x to 8x in case of paper.
- Moderator:** The next question is from the line of Piyush Mehta from Caprize Investments.

**Piyush Mehta:** Congratulation Sunilji, Yogeshji and the team for, again, a very steady set of numbers. Glad to see that you've been walking the talk over the last six to eight quarters. So quickly on the question. So of course, we've discussed the aluminum EBITDA per ton, etcetera, and you mentioned that lead contribution will be falling to 75%. And I believe since we've expanded capacity on aluminum side in international business, that portion will go higher. And the EBITDA per ton for aluminum is far more volatile than it is for lead. So how do we keep that volatility in check?

**Yogesh Malhotra:** So what we are doing is that, actually, there are two parts to the aluminum business that we do. One part is where we are trading in pure aluminum derivatives like aluminum can scrap, etcetera. So there the hedging can be done, and we are doing hedging on that part. The other business is for alloys for aluminum, alloys of aluminum where currently there is no -- I mean, system in place or a process in place where we can hedge that.

But we have already applied for a derivative of those alloys to be registered in MCX, and it is still under process at the SEBI level. So hopefully, in future, probably in a couple of quarters, we would start trading those derivatives also. That will then kind of has the risk of volatility in aluminum also.

**Piyush Mehta:** And on the Mundra plant side, how is the capacity expansion or utilization shaping up? Because I believe there was some delay in terms of setting up in terms of our execution time line because of rains or whatever the issues we had. So how is the Mundra part shaping up?

**Yogesh Malhotra:** Yes. So Mundra's capacity is almost 96% utilization we are doing at this moment. And we have just expanded the capacities in Mundra, where we are waiting for the license to start from the relevant authorities. And after that, we will start using that capacities, which we have expanded in Mundra. So there is two parts of expansion. One is the expansion which we have shifted from Gandhidham to Mundra, so that is one. And in addition to that, we have also expanded the capacities in Mundra where we are waiting for the license for both the things.

**Piyush Mehta:** Of course, the entire -- getting new licenses plus current, what will be the total capacity for Mundra?

**Yogesh Malhotra:** So the total capacity at Mundra will be 60,000 tons per annum. This includes the capacities that would be shifted from -- so 19,000 capacity will be shifted from Gandhidham to Mundra and then additional 20,000 tons for...

**Piyush Mehta:** This was completely exports?

**Yogesh Malhotra:** Yes. So majorly it is import of scrap and export.

**Piyush Mehta:** And last question. On the competitive landscape side, within India on the organized side, I'm sure everybody is trying, I think what you guys have cracked as sourcing of the scrap at least and I'm sure everybody is trying to do the same. So within the Indian organized lead recycling

space, who are the top two, three players or how has the competition shaped up over the last couple of years? Or how do you see it shaping up over the next two years as well?

**Management:** In fact, in informal sector, Gravita is the only company who has the pan-India base across India. But there are three, four other recycling companies are there, those are operating into the regional basis. That is one of the Pondy Oxides, second is the Nile and third is Pilot Industries. So these are the regional companies those are having the manufacturing base in South and North and few small companies in the Eastern part of India.

**Piyush Mehta:** But when we look at organized, are we one of the largest or top 3, because not all will be listed though?

**Management:** Like, among other than Gravita, Nile and Pondy Oxides is a listed company and a Pilot Industries is not the listed company. But they are the only five, six companies. Those are operating in full sense of a formal operations.

**Piyush Mehta:** Both of them have also announced capex capacity expansion, right?

**Management:** Not yet. Like Pondy and Nile, they are the listed company. So they have not done any kind of capex in case of lead recycling. Nile has not done any kind of capex since last five to six years. It is stagnant on that particular phase.

**Moderator:** We have the next question from the line of Tushar Sarda from Athena Investments.

**Tushar Sarda:** I just needed a small clarification. Your EBITDA per ton, which you have mentioned in this quarter's presentation for the previous quarter, doesn't match with the EBITDA per ton which was even in the previous quarter. For example, on lead, last quarter, you reported INR 19,214. And this quarter, you are saying INR 17,213 is Q2. So if you can just clarify why this difference in the number.

**Yogesh Malhotra:** Yes. So this was clarified in the last call also. So there was some printing mistake of Q2 EBITDA per ton number. So that was printed erroneously. But the Q2 number was for lead it was INR 17,200 instead of INR 19,000. So...

**Tushar Sarda:** So I should take what you reported this quarter as the correct number, right?

**Yogesh Malhotra:** Yes, definitely. So in last quarter also we have clarified this mistake.

**Tushar Sarda:** Maybe I missed it.

**Moderator:** The next question is from the line of Mohammad Sufiyan Lakdawala form Lalkar Securities.

**Mohammad Lakdawala:** So what capacity you're expanding the 425,000 metric tons by 2026. So what will be the peak level you can do from this capacity?

- Yogesh Malhotra:** So the peak level utilization, we can go up to 75% to 80%, close to 80% on a consistent level. So maybe in a quarter, probably even achieve a higher capacity utilization of, say, 90% also sometimes. But on a sustainable level, around 75% to 80%.
- Mohammad Lakdawala:** What revenue potential from the same?
- Yogesh Malhotra:** Revenues are 9x of the total capex that we do. So like we are planning to do a capex of approximately INR 500 crores in the next two to three years, so which can generate revenue of 8x to 9x out of this capex, additional revenue.
- Mohammad Lakdawala:** And right now you have the capacity of around 28,000 metric tons right?
- Yogesh Malhotra:** 228,000.
- Management:** 228,000 tons.
- Mohammad Lakdawala:** So I guess, what the volume growth guidance you have given of 25%?
- Yogesh Malhotra:** 25%, yes.
- Mohammad Lakdawala:** So I guess for FY '24 you won't require the new capacity...
- Yogesh Malhotra:** So 25% volume growth is for the existing verticals. And then there is an additional growth in terms of new verticals, like paper recycling, steel recycling, copper recycling, rubber resetting. So all these new verticals will add to this 25% growth.
- Mohammad Lakdawala:** And is this margin sustainable? Or likely...
- Management:** Yes, margins are sustainable.
- Yogesh Malhotra:** Yes, margin is currently 9%. So although we are focused on per ton EBITDA basis, but yes, it should be close to 9%.
- Moderator:** The next question is from the line of Tushar Raghatate from Kamakhya Wealth Management Private Limited.
- Tushar Raghatate:** Congratulations for your great set of numbers. Sir, my question on the three division of yours. So what will be the capacity utilization of all the three divisions? And you're doing capex on all the three divisions, what would be the payback period for the same?
- Yogesh Malhotra:** Yes. So payback period for us is dependent on the geography we are doing the capacity expansion. So like in case of overseas, we focus it to be less than two years. But in case of India, we focused it to be less than three years. So and the capacity utilization on a global basis for the 9 months, it is approximately 65%. But if you on a division basis, it is 70% in case of lead, approximately 45% in case of aluminum and 45% in case of plastic.

**Tushar Raghatate:** Sir, on the lithium-ion again, so basically, I understand it will take time for the lithium-ion batteries to come for recycling. So are we looking for any technical collaboration for the same in future?

**Yogesh Malhotra:** Yes. We've already mentioned that we are looking for a technical collaboration, because currently there is no technology in India, nobody is recycling lithium-ion batteries as it should be recycled. So they're only making, partially doing some process and making black mass out of that. But a consolidated complete technology is still not there in India. So we are in discussion with certain technology providers from Europe, from Japan and from Israel. And we will try to finalize one of these in the near future.

**Moderator:** We will take the next question from the line of Keshav from RakSan Investors.

**Keshav:** So sir, as we are projecting 25% kind of ROCEs, I guess a big part is because we have a 10x kind of asset turn and our overall working capital cycle also should come down with more organized shift. But when I look at a peer of ours, which is a PET bottle recycler, their ROCEs can be volatile because of a sizable fixed asset contribution.

So I can understand that lead is asset light for us and even if there are corrections in lead prices we are hedged and decent ROCEs should be there even at lower prices as your inventory cost also comes down. But directionally, when we scale and lead contributions go down, do we still believe that the ex-lead business would have as sustainable ROCEs as the lead business?

**Yogesh Malhotra:** So basically, if you look at our ROCE is coming from different verticals like lead, aluminum and plastic, it's on the similar line. So all three of them are asset-light, partially because we also provide turnkey solutions. So we have our project divisions where we develop design and segregate these recycling plants.

So for these verticals and also for rubber, we have seen that it's on similar lines. But of course, when we go into other technologies like lithium-ion and paper, there it would be a little different. But there, again, we are looking at probably higher revenues coming from per ton or higher margins coming from -- on per ton basis to cover for the lower -- I mean, revenues coming from per crore of capex.

So for example, for paper, although the revenue would not be 8x or 9x, it would be lower, but the margins would be higher.

**Keshav:** So basically, sir, we are choosing the asset-light subsection of a particular vertical. So wherever in, say, plastics, we would not go into PET flakes, but we will choose something that can have very high asset turns?

**Yogesh Malhotra:** No. So PET flakes also will go wherever there is an opportunity of going in volume terms. So wherever we have certainty in terms of availability of raw material, we would go in for PET flakes also. And we are in PET flakes business for the past three, four years. So it's also on a similar line.

- Moderator:** The next question is from the line of Bhavin Chheda from ENAM Holdings.
- Bhavin Chheda:** Congrats on a good set of numbers. This INR 500 crores capex you mentioned would be from '24 to '26, right, over and above the current year capex?
- Management:** Yes. Over and above.
- Yogesh Malhotra:** So current year capex is around INR 80 crores so far, and we expect it to spend around INR 25 crores more in the next three months.
- Bhavin Chheda:** And INR 500 crores will be from next year onwards till '26 to reach capacity of 425,000?
- Management:** Correct.
- Yogesh Malhotra:** Out of which around INR 250 crores would be for existing verticals and another INR 200 crores to INR 250 crores will be for new verticals.
- Bhavin Chheda:** And so for new and existing both will start simultaneously or the new verticals is back ended and existing verticals, which is more simpler for you is front-ended?
- Yogesh Malhotra:** The existing verticals will happen in a phased manner throughout these three years, whereas for new verticals, of course, it will be dependent on when we put up a new plant. So for example, as I mentioned that for lithium-ion probably, it will be after we tie up a pilot -- for a pilot project and then when we want to scale it up, it would probably come at the end of the second year or third year. Whereas, if we talk about paper, it will probably come next year itself.
- So, it will not be in a phased of manner. It will be dependent on the project that we undertake. Whereas the existing would be in a phased manner over these three years. Almost consistently across these three years.
- Moderator:** The next question is from the line of Gunjan Kabra from Niveshaay.
- Gunjan Kabra:** Sir wanted to understand the industry working, how does this work from the point of view that we are expanding into a lot of products in recycling, so like copper, steel, paper, apart from the core business, which is lead and plastics. Are we like trying, what is the outlook for next three to four years or five years, because recycling as theme pretty interesting. Sir, do we get any synergy benefit because we have a large sourcing network, because technicalities and working capital requirements for different orders would be different. So how does that work? Are we trying to become a [inaudible 0:51:01] of different kind of recycling unit works? How is it? That is what I wanted to ask.
- Yogesh Malhotra:** So what we are looking at is – there should be synergies in the supply chain or probably at the customer end, consumer end. When you look at our current three, four verticals like plastic, aluminum and lead and in future, we are planning to go into copper. So there are synergies in terms of operations also and also from the supply chain point of view there are synergies, which we have started tracking since we started going into verticals other than lead. And we believe

that, that will help us in putting up other sectors also. Because, again, it's a capex-light model, and we are into these project divisions where we design and develop these products. So there is not much difference when you go into different verticals.

And then different synergies in terms of the geographies that we are present in. So for example, we are present in Africa where we have sourcing yard, entrapped countries which are landlocked. There they generate a lot of scrap, but all that scrap goes out of those countries and they import a lot of finished [products 0:52:11] into those countries. So when we are sitting there we see these opportunities and then strategically, we work on those strategies.

So both steel and paper come out of that synergy, because we are present in those geographies and we see the opportunities there. So all-in-all, it's not something that is just out of the blue that we are talking about. We work on these, so what exactly we do is, we setup a plant -- we set a yard first, which start collecting those materials, we start looking at the market level. And whether we will be able to market those product and would it be profitable in the long run, only after we realize that that, yes, that makes a sense and we can [inaudible 0:52:55] as much material as we want to recycle. And we have a market for that recycle we go into that segment. So we started like this for plastic also and like this for aluminum also. And currently, we're working on paper and steel in the same manner. So currently we see huge opportunities in this segment.

**Moderator:** The next question is from the line of Astha Sundarka from Niveshaay.

**Astha Sundarka:** My question to you is that increasing demand in EVs would lead to increase in the usage of lithium-ion batteries. Although, lead-acid batteries would also be used, but they will be in smaller sizes. So don't you think that this will reduce the demand for recycled lead in future, because more than 60% of the demand comes from the automotive industry?

**Yogesh Malhotra:** Yes. So actually, as I mentioned, especially in India, I mean, so first of all, it will take some time for this demand to go down, especially in the developing world that we are working in. If you look at the areas where our operation is mostly in Africa and to some extent in India.

Even in India, as I mentioned that around 75% of the -- all the market is currently in the unorganized sector. If you talk about that shift from unorganized to organized sector, that itself gives you a huge impetus to start recycling. I mean so there is enough market size available for us. Even if in future, the lead-acid battery requirements will go down if we assume that everything will be converted into EVs, which is probably a little difficult. And that said, that is why we are going into other verticals like aluminum and plastic, so to reduce our -- reliance on recycling of lead-acid batteries only.

The third part is that, currently, the ecosystem for lithium-ion batteries would be similar to the ecosystem that is there for lead-acid battery. So what will happen is that this will give us opportunity to go into lithium-ion batteries also. So because the collection system would be similar, the OEMs would be similar. So it's just an extension of what we are doing. Only the technologies is different. So once we acquire that technology, we would, in fact, enjoy growth from lithium and battery recycling also.



**Management:** And further to add this, there will be shift in applications, means if auto sector use more of EV battery and less of lead-acid battery, the purchasing power of people is increasing in the country. And as of now, we have very less penetration of inverter or UPS in each household. So as of now, we have all gadgets where we need uninterpreted power, Wi-Fi and all. So everybody will be having on battery backup at all homes. If you see that number, that shift will be going to automotive to such applications.

**Astha Sundarka:** But you will see, know that automotive -- in automotive demand can decrease in future if EVs are adopted, comparatively?

**Management:** In every automotive, there is already a battery is there. So it is not going to make it zero. But as soon as, as of now, there is a shortage. So the other applications are not affordable. See, as of now, each household doesn't have power backup. But in time to come when we have everything dependent on Internet of Things, so there has to be uninterrupted power to each home down the villages. As of now, even in cities also, nobody uses these backup power. So shift will be there on industrial or back up power usage. They won't be shifted by lithium-ion batteries.

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

**Yogesh Malhotra:** Thank you, everyone, for participating in this call. We are certain that by pursuing new opportunities, we will continue to expand in the future and achieve our clear vision for 2026.

We hope that we have answered all your queries. In case of any unanswered queries, please feel free to reach out to our Investor Relations team. Thank you all once again.

**Moderator:** Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines.