



# “Gravita India Limited Q4 FY'23 Earnings Conference Call”

**May 03, 2023**



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

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



**Moderator:** Ladies and gentlemen, good day, and welcome to Gravita India Limited Q4 and FY'23 Earnings Conference Call.

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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

**Sabri Hazarika:** Good afternoon, ladies and gentlemen, and on behalf of Emkay Global Financial Services, I welcome you all to the Q4 FY'23 Post Earnings Conference Call of Gravita India Limited. We are pleased to have the Senior Management of Gravita India, led by Mr. Yogesh Malhotra – CEO and Whole-Time Director; Mr. Sunil Kansal – Chief Financial Officer; and Mr. Vijay Pareek – Executive Director.

So, today's session will be a brief on the company results and corporate developments by the management. And then we will follow it up with the question-and-answer round. So, now I request Mr. Yogesh Malhotra for the opening comments. Over to you, sir.

**Yogesh Malhotra:** Good afternoon, ladies and gentlemen, and welcome to our Q4 and FY'23 Earnings Call. I believe you have had an opportunity to review the earnings presentation and financial results that were uploaded on the stock exchanges.

Before opening the floor for questions, I will provide a brief overview of the major highlights of FY'23. I am delighted to share that Gravita India has delivered stellar results for Q4 and FY'23.

#### **Strategic Highlights and Project Updates**

It gives me great pleasure to announce that Gravita has step-down subsidiary, Gravita Netherlands has been granted a €34 million ESG loan by European Development Financial Institutions. This facility was approved after detailed due diligence on environmental, social and governance aspects. This would enable Gravita's offshore businesses to gain financial independence in terms of their CAPEX and working capital needs. The facility is guaranteed by the parent Gravita India Limited. This loan is a testament to the company's continued efforts to build a more sustainable future and commitment to its motto of "We Recycle to Save Environment".

I am also pleased to announce that the Board has approved a final dividend of Rs. 4.35 per share, making Gravita a consistent dividend payer with a 12 years long track record of sustainable dividend payouts.



Gravita has signed an MoU to develop a battery recycling plant via JV in Oman with a annual capacity of 6000 metric ton per annum in Phase I. With the establishment of this plant, Gravita would expand its entry into the Middle East.

The Company has also expanded the lead recycling capacity at the Mundra facility to 60,000 metric ton per annum. In addition, value-added production of red lead with the capacity of 4800 metric ton per annum and plastic recycling capacity of 7500 metric ton per annum has also begun at Mundra.

The Company also began recycling aluminum in Togo and Senegal and plastic in Ghana, this year.

Additionally, the Company will start stored 1300-kilowatt capacity of solar energy generation, which is anticipated to produce 2-million-kilowatt hour of energy annually. This **(Inaudible)** **30.43** goal to minimize its carbon footprint by lowering carbon emissions by 1550 tons annually.

### **Operational Performance**

In Financial Year '23 Gravita has shown a growth in capacity to 251,000 metric ton per annum. We anticipate expanding each year in realizing our goal of reaching 425,000 metric ton per annum plus capacity by the Financial Year '26 for our existing verticals.

The Company has witnessed a volume growth of about 11% in Q4 Financial Year '23 on a year-on-year basis. Lead volume increase by 13% and aluminum volume grew by 31% on a YoY basis.

Gravita has incurred a CAPEX of Rs. 108 crore up 50% from Financial Year '22. This Company is committed to expanding its capacity and hence is expecting to incur a CAPEX of more than Rs. 600 crore by Financial Year '26 for its existing as well as new verticals.

The PAT collection for Indian plants -- 46% in Q4 Financial Year '23 compared to 40% in the last quarter. We believe that redefining Battery Waste Management Rules extended producer's responsibility and sector implementation of GST have boosted and will continue to enhance PAT availability for the formal recycling industry. As a result of this the battery scrap collection in India grew by 23% to 13,100 metric ton in Q4 from 10,700 tons in Q4, 2022.

### **Financial Results**

Consolidated revenue for the quarter is Rs. 749 crore, up by 12% on a year-on-year basis. This rise in revenue can be attributed to an 11% increase in sales volume. Revenue from value-added products stays at 45%. On a year-on-year basis, adjusted EBITDA increased by 17% to Rs. 85 crore, EBITDA margins improved to 11% as the company continued to maintain strong margins. Gravita reported a strong consolidated PAT of Rs. 65 crore with a 40% growth year-on-year. PAT margins also improved to about 8.5% compared to 6.2% in the last quarter.



Going forward with the Financial Year '23 Financial Results consolidated revenue increase by 26% from Rs. 2,216 crore to Rs. 2,801 crore. The five year CAGR growth stood at 22% and the company is committed to achieve 35% sales volume, CAGR by Financial Year '27.

Adjusted EBITDA including other income for Financial Year '23 stood at Rs. 286 crore which is up 33% on a year-on-year basis. Consolidated PAT increased by over 44% to Rs. 201 crore. PAT margin for the year improved to 7.18% compared to 6.29% in the last financial year. The five-year PAT CAGR stood at 35%, which is in line with the company's vision. Additionally, I would like to inform you that the company has reduced its debt by Rs. 40 crore plus in Financial Year '23, and is committed to reducing it even further, going forward.

The company's ROC stands strong at 29% compared to 12% in Financial Year '19. The company has managed to improve its net working capital cycle from 95 days in March '22, to 83 days in March '23. The company aims to reach the target of 65 days by Financial Year '26.

Over to you, Sabri, I am through with my opening remarks.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Keshav from RakSan Investors. Please go ahead.

**Keshav:** Our planned capacity expansion for the next two years are pretty substantial. So, do you think we should grow at a much higher clip through FY'25 so FY'24 and FY'25, two years?

**Management:** So, there are two portion of this growth in the next two years. Basically, one is expansion of the capacities at our existing plants in our exiting verticals, which is expected at 25% year-on-year basis volume growth of 25%. Then the second growth is coming from the new verticals, we have plant like rubber, we have already started one plant at Ghana, but we are replicating that rubber recycling at other locations also, shortly in next two quarters we will be replicating it to other locations. And then we are also adding new verticals of steel recycling, paper recycling and lithium ion recycling, in next two to three years. So, this will help us to grow faster than the growth earlier we did of 22% in last five years.

**Keshav:** And the Rs. 600 crore planned CAPEX, how much of it would be India centric and how much would be ex-India roughly?

**Management:** Yes, so basically again Rs. 600 crore includes the new vertical CAPEX of approximately Rs. 250 crore. So, the remaining CAPEX of around Rs. 350 crore, the CAPEX will be in the similar ratio like 40% should be overseas and 60% in India. But for the new verticals, approximately 80% to 90% CAPEX is outside India.

**Keshav:** So, post the CSG loan facility where do you see our consol cost of debt going forward?

**Management:** The existing cost of debt is approximately 8.5% and with this new facility, we are going down to approximately 6.5%, saving of approximately 2%.



- Keshav:** That's on a consol basis, right?
- Management:** Yes, consol basis, yes.
- Moderator:** Thank you. The next question is from the line of Vikash Vijayvargiya from AcornTree. Please go ahead.
- Vikash Vijayvargiya:** One thing is there in the last Q4 presentation in FY'22 whatever the Vision Statement is there, it is the same there and you mentioned this is a Vision Statement of 2026. But again, in this Q4 you mentioned the same line the Vision 2027. Any specific reason is that repeated and the year has changed.
- Management:** Yes, sure. So, basically what we are doing is that we are giving a visibility of next four years. So, when we were 2022, then we gave a four-year visibility of the numbers in next four year. So, the visibility of the next four year is similar to visibility of last four years. So, the numbers are same but then it is one year extended for the similar numbers, like 25% growth will be continued till 2027, instead of 2026 earlier and it's a rolling basis, visibility of next four years.
- Vikash Vijayvargiya:** So, then the visibility in the next four years is the same thing is there.
- Management:** Yes.
- Vikash Vijayvargiya:** Apart from that, because right now our value-added product is at 35% is there, and our target is at 50% is there whether it is the same, will be achieved in the FY'26, FY'27.
- Management:** Yes, the same will be achieved in '25.
- Management:** Current number is 43%, we target it to 50%.
- Vikash Vijayvargiya:** Yes, this is 43% and 50% we will achieve in FY'26 or FY'27.
- Management:** Yes, because in the two to three years we are expanding value-added production in our overseas facilities also. And also, we are starting like we have started red lead production in our Mundra facility. So, currently value-added production of red lead and lead sheet was only to the extent of Jaipur plant, but now we are replicating this model to other locations also.
- Vikash Vijayvargiya:** In which other location apart from Jaipur?
- Management:** Like Mundra we have just started, so that is added. So, Ghana we are starting and also we are starting like allies we are starting in other locations like Senegal and Mozambique.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.



**Dhaval Shah:** Just two broad questions, so first is, taking the lead of about the current profitability and the total capacity which you are guiding by FY'26, is it safe to assume that -- utilization we will do around Rs. 900 crore of EBITDA, at the company level?

**Management:** Yes, EBITDA is growing by 35% every year, so other than the volume growth visibility, we have also given the visibility of the bottom-line like EBITDA terms and the PAT terms. So, it will be 35% growth on profitability, EBITDA side. But we are more focusing on the return on capital, because there are certain businesses where the working capital cycle is lower, but at the same time, the margin is also lower. So, rather than only focusing on the EBITDA per ton or EBITDA percentage we focus on return on capital. So, idea is to keep the return on capital minimum or so around 25% plus, and so that is a more focused area for the company with the volume growth.

**Dhaval Shah:** So, for 4<sup>th</sup> Quarter our EBITDA per ton has been around Rs. 20,500. And by FY'26 we are going to do 434,000 tons, 434,300 tons. So, between today and FY'26 full utilization, will our product mix be significantly different, which will lead to a change in this Rs. 20,500 EBITDA per ton?

**Management:** So, Rs. 20,500 per tons is only for the lead. So, there are different per ton EBITDA for different products. So, Rs. 20,000 is for lead and Rs. 17,000 for aluminum and plastic is approximately Rs. 10,000 per ton. So, the product mix in the next two to three years will be changing because we will be more doing the other products will be like aluminum and plastic will be growing faster. And there will be some more verticals coming in. So, we see always the EBITDA per ton of the different products individually. So, we don't see on an average basis. But yes, going forward, with the more volumes coming in there will be economy of scale benefit also be there and EBITDA percentage terms we will be better compared to what it is today.

**Dhaval Shah:** Do we receive any sort of subsidy or any sort of grant from the government?

**Management:** We don't get grant on a regular basis but yes, there was only one grant we got is for establishment of Chittoor plant in Andhra Pradesh. So, that was there but other than that there is no specific grant for any product or business.

**Management:** It's not a grant for manufacturing or for processing basically it's a grant to setup a industry in that state. So, it's only a one-time subsidy that the government has given in establishing our manufacturing unit in that state. Apart from that there is no grant on recycling or anything like that.

**Dhaval Shah:** And we are planning around Rs. 650 crore to Rs. 700 crore CAPEX till FY'26, so how is this going to be financed?

**Management:** Yes, so majorly, this will be financed from the internal accruals. But considering the upcoming requirement of working capital also so we will be taking consciously some debt also, approximately Rs. 200 crore to Rs. 300 crore of additional debt in the next two to three years. But on the debt side we are very comfortable and we are very consciously taking the debt in



terms of like debt EBITDA should be below 0.75 debt equity should be below 1.5. So, considering all these numbers we are very comfortable, debt EBITDA, we are 1.2 and debt equity we are 0.6. So, we are consciously taking debt, but yes it will be more funded from the internal accruals, majorly funded from the internal accruals.

**Dhaval Shah:** Okay, maximum it will take is around Rs. 300 crores debt. So, by the time the CAPEX cycle is over, our balance sheet in FY'27 might have a total debt of around Rs. 700 crore. We are at Rs. 350 crore today, so around Rs. 650 crore.

**Management:** So, that is one way of looking at it, then the second alternative for us is to dilute at the right time by raising some equity from that capital market also. That is another option to --

**Dhaval Shah:** And could you give some examples of similar business model at the global scale where the companies have grown big in size to which you look forward to in terms of the business model and scale what they have achieved?

**Management:** So, basically, I think the model that we are in, where we are doing across geographies and also into different verticals there is no other company in our knowledge that is doing something similar. But if you talk about, I mean there are, in different fields in aluminum there are different companies who are recycling, similarly in lead also there are companies that are doing battery recycling. But mostly are only in one particular field and doing only one product categories, you will not find company that are into many other vertical, I mean which are doing recycling in different verticals.

**Moderator:** Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

**Nikhil Rungta:** Couple of questions from my side, to start with on the debt side itself, if you can just, I mean you highlighted that you might come to the market for raising either equity or debt as well. So, if I have to put in this way, what's the maximum leverage that you will be comfortable with, that would be helpful?

**Management:** Yes, so current leverage, if you see that current leverage is approximately one, but we can go up to maximum of 1.2.

**Nikhil Rungta:** So, beyond 1.2 will go for equity raising only, right --?

**Management:** Correct.

**Nikhil Rungta:** Second is on CAPEX of this Rs. 650 crore over next three years. So, when is it that we will start seeing the result of this CAPEX in our numbers?



**Management:** Yes whatever CAPEX we do in the year one so 8x to 9x of revenue generation happens in the next year. So, it is rolling CAPEX, so every year whatever like this year we did CAPEX of around Rs. 108 crore, so next year we can see the 8x revenue generation from that number.

**Nikhil Rungta:** And even from the new verticals which we are planning Rs. 4,500 and Rs. 105 crore. So, very next year we will get that or it would be after two to three years once the entire --?

**Management:** Yes, new verticals may take slightly more time to be stable on the results coming in. So, like we expect instead of one year it maybe one and a half year to two years in case of paper recycling and steel recycling the new verticals.

**Nikhil Rungta:** But there also we will get asset turn of eight to nine times, right.

**Management:** Yes, asset turn will be the same.

**Nikhil Rungta:** Last question from my side, we are also into aluminum recycling, I mean there are concerns that because of EV -- lead recycling might come under pressure, but aluminum recycling would be a big opportunity going forward. So, your plans, I mean if you can slightly elaborate on the aluminum recycling?

**Management:** Yes, so basically to answer your question, first of all, we have already, I mentioned this many times at with the EV, lead recycling would not, I mean it is not a threat to lead recycling because even in the EV you would require a lead-acid battery because it's basically to do the starting lighting and ignitions and auxiliary function. So, with the EV also, the lead-acid battery would not go away, but of course it will give you an opportunity to recycle lithium ion batteries also which is replacing the IC engines so that is the first part.

The second part of course is the aluminum recycling, of course when with now most of the car bodies etc., are using more and more material which is lighter earlier they were using steel etc., now aluminum frames are very common. Apart from engine, other, I mean total capacity or the total requirement for aluminum is increasing every day. So, we believe that there is bigger opportunity for aluminum, even at current levels aluminum is around --

**Management:** Once this IC engine is replaced, so but lot of battery casings and other extrusions will come in the picture. So, there is a adjusting aluminum consumption in a car will be going at least 1.2x, 1.3x.

**Nikhil Rungta:** And the current aluminum recycling which we are into that's primarily the car bodies itself or other aluminums?

**Management:** Currently, we are into cast aluminum recycling. So, those are mainly engine, piston, any castings which uses for the cast purpose. And alloy wheel also is cast part, so these are the two parts. The body is mainly of steel, that is mainly sheets and extrusions, but in time to come, we can recycle that as well.





**Nikhil Rungta:** And currently the scrap for aluminum would be coming from outside only, it would be import?

**Management:** Currently, it is mostly imported, we talk about Indian recycling, but in overseas we are recycling locally scrap generated, because India doesn't have any specific policies, the cars which were using, which are now redundant maybe 25 years old car they are not having much of aluminum. But with this policy of old vehicle policy, initially scrapping policy that trucks and buses will come commercial vehicle. They are mainly of iron, steel, cast iron. But once the new age car come for recycling, but that will take time in India. So, then there will be more of aluminum availability there.

**Nikhil Rungta:** Last question from my side, We have got this ESG funding which you have just announced today morning so this €34 million ESG loan, if you can give some, I mean not the exact numbers but how is it compared to the existing borrowing for us? Will it benefit us significantly and cut down our cost of funding or how is it?

**Management:** Yes, so there are two aspects to this, one is that it will be improving the liquidity for our overseas business and India business so that is one. And second is the cost saving for our business, because the current borrowing cost is approximately 8.5%, which will come down to 6.5% after this new borrowings. So, and, another part is that because they have done the detailed due diligence on the environmental and social and governance aspects for the overseas business, especially Ghana and Senegal, which is the bigger subsidiaries for us. So, it is also, basically certification for us too that we are following all the environmental standards at the IFC standards globally at all our overseas plant. So, this way it is going to help us in different terms.

**Moderator:** Thank you. The next question is from the line of John Shepherd from Batteries International. Please go ahead.

**John Shepherd:** About the loan that's been announced today --. I appreciate you said it will help reduce overall borrowing cost and so on, but will it also be used to support the project in Oman with the Gravita Netherland which you are associated with the recycling project there?

**Management:** The new funding is only for the African business at this moment. And Oman will be majorly funded from the internal accruals, for the group.

**John Shepherd:** I see, so that means then, will you be expanding lead recycling in Africa as a result of this loan?

**Management:** Not only lead recycling, aluminum, plastic recycling also and probably we will set up a steel recycling plant also in Africa, so it's not only for lead recycling. And as far as Oman is concerned, I think in Oman we have option for cheaper fund availability also.

**John Shepherd:** Last and final question if I may cheekily who are your partners in Oman?

**Management:** So, they are local Omanis partners that we are working with, who are already in the trade of scrap there.



**Moderator:** Thank you. The next question is from the line of Vaibhav from Enam Holdings. Please go ahead.

**Vaibhav:** I think two questions, one if you could please give us some more color on this new CAPEX and the new verticals on the Rs. 200 crore that you all are spending just, I know you guys obviously are very clear on capital allocation and obviously you must be seeing some strong opportunity there. So, if you could just give us some color on what this is and how you are all thinking of, what you are seeing?

**Management:** So, in the existing verticals which is lead, aluminum, plastic and rubber, we would be spending around Rs. 70 crore to Rs. 80 crore in the next four years which will be approximately Rs. 300 crore in the existing verticals. And another Rs. 250 crore to Rs. 300 crore of CAPEX would be done for new verticals which is as we mentioned, we are planning to have a steel recycling project in Africa, we are also planning to put up a paper recycling facility in Central America and apart from that pilot project for lithium recycling in India. So, these are the three major project which we are considering right now. But apart from that, we have enough surplus money available to look for some mergers and acquisitions opportunities if it may come across or maybe a smaller project for any other vertical also.

**Vaibhav:** And my second question on plastics that, what is sort of happening over there in terms of the CAPEX, the growth, the opportunity and especially the regulations that we were expecting to kind of help formalize the sector?

**Management:** See plastic EPR we are not involved much because we are into the plastic recycling which is mostly of our own recycling of batteries. But when it comes to other areas the similar grade of polypropylene, we can certainly see that we can fulfill the EPR targets from the paint industry.

**Management:** So, this EPR policy is still not -- plastic has come but the registration is currently going on for the recycling industry. So, once that finishes off then probably that push that is required for the EPR to start happening in India would happen so that is where we are focusing on. And then also the Scrappage Policy probably will be a source for raw plastic that is going to be available for us, going forward. So, these are the two areas which will give you the push going forward in plastic recycling in India.

So, it is still to take off, the lead recycling has taken off, but we are expecting because right now because if you talk about lead recycling, it is directly affecting the companies that buy lead, whereas in plastic recycling what is happening is that most of the companies that are affected are companies that use plastic as a packaging material. So, for them to understand it completely is taking a little longer. But once that starts happening probably we will see a lot of opportunity in plastic recycling also.

**Moderator:** Thank you. The next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.



**Abhijit Sinha:** Could you just take us through how you plan to add these different verticals that we have in mind in the next three to four years in our Vision for '27. And what will be the different yields between these segments?

**Management:** So, I mean generally the major sectors for us to put up any new recycling vertical is to see whether there is enough availability of raw material at the right price for us. So, because we are present in many locations, we have our own procurement yards in many locations across the globe we can see some opportunities. We are currently seeing some opportunities in steel recycling in Africa and paper recycling in Central America.

So, what we do initially is we just try to first of all understand the whole market scenario of any particular vertical of wherever we want to go into. And in the second phase, we just try to trade some material to see whether what is the depth of the total available material in that geography and what price we would be able to sell and all those things. So, in steel and in paper recycling, we are in the second phase where we are now understanding the whole business mechanism of recycling in those regions, specific regions basically. Probably it will take us six more months to understand it completely. And once we are through with our feasibility then we will setup a plant in both these locations for steel and paper, if that is what you are asking. And in terms of, I mean we have our targets of EBITDA margins and ROC to see whether it matches with our philosophy of going forward with 25% ROC or not?

**Abhijit Sinha:** So, what I actually meant was that let's say we are talking about lithium recycling, e-waste recycling, all these kind of segments that we are even thinking about adding into our portfolio, right. So, in what stages are we actually looking maybe in '25, we might start with e-waste or lithium --?

**Management:** So, lithium ion is a little different, because we believe that the raw material for lithium ion will not be available for recycling in India for the next six to seven years, but at the same time, even in lithium ion, right now there is no proven technology also. So, we are putting up a pilot project to understand how lithium recycling would work. So, it's just a pilot project, it's not a full-scale project which will give you a --, it's more of a strategic business unit that we will be putting in where probably profitability will not be that important, but what we want to understand is, to setup a technology that will suit lithium-ion recycling in India. So, it's in a very nascent stage currently, it's not something that we have done complete homework on in terms of profitability and all. But for the other two steel and paper, it's basically a simple project because the technology is proven, I mean it's not rocket science, and it's very similar to what we are doing in lead or aluminum or plastic recycling.

**Abhijit Sinha:** Is it difficult to do the steel and paper over here in India as well?

**Management:** So, I mentioned that it basically depends on the raw material prices available and the opportunities available from which you can make more money. So, even in India if you look at steel recycling or paper recycling most of the raw material comes from overseas. So, a lot of value get wasted in the logistic cost. So, if you put up the plant overseas itself from where we



are importing those materials you save on those logistic costs also. And at the same time, all these countries wherever we put up those plants also require finished products.

So, for example, a country in Central America would be exporting a lot of scrap paper out of that country, but at the same time they will be importing a lot of finished products, I mean corrugated paper also into the country. So, by putting up the plant itself in that country itself you will save on a lot of logistic cost. So, that is the idea behind having those operations overseas rather than having it in India.

**Abhijit Sinha:** There are lot of e-waste recycling companies here in India and I think 85% is unorganized. So, how does that look for India segment that you are interested in?

**Management:** So, again, I mean till the time, India can find out a solution to separate these things in an organized, I mean take this recycling into the organized sector, probably it will be very difficult to compete with the unorganized sector, because what is happening in e-waste mostly is that people are refurbishing rather than recycling it. So, you cannot compete with the unorganized sector, because again, then paying GST etc. everything else, you don't become competitive enough to compete with this unorganized sector. So, till the time, e-waste start happening in the organized sector, probably it will be very difficult to compete.

**Abhijit Sinha:** Is it difficult for us to lead the change at present?

**Management:** Yes, it is, for anyone company it would be very difficult.

**Abhijit Sinha:** So, then we require the other --?

**Management:** It needs to be supported by the policy. So, we are not asking for any subsidy or anything else. What we are asking is basically a level playing field where all of the companies whether they are organized or unorganized, they are treated in the same manner. So, unless and until it is there, probably it will be very difficult.

**Abhijit Sinha:** So, at the moment, the government is supporting primarily lead recycling, if I am not wrong?

**Management:** No, it's not, the government is trying to support recycling in an organized manner for all the sectors. So, they are bringing in policy, changing policies because you know there are loopholes in some of the policies. So, the government is trying to fill those loopholes, but it will probably take some time for the e-waste policy so that people cannot misuse that policy currently. Currently because most of the people who are doing that e-waste recycling are generally, it's basically refurbishing it so it's only a I wash they are actually not recycling it.

**Abhijit Sinha:** And due to this recycling that we are doing, it would require lot of power consumptions, right. So, then I was just checking the financial, this accounts to only about 1% of our top line. So, how do we do the accounting for the power cost?



**Management:** So, in metal recycling generally it's not the power cost, it's basically the fuel cost that is, I mean the biggest component of process. So, power actually it's a very small cost, but fuel cost is a little higher than power cost for us.

**Management:** And fuel cost is accounted for in the material cost, basically.

**Moderator:** Thank you. The next question is from the line of Khush Nahar from Electrum PMS. Please go ahead.

**Khush Nahar:** So, I had two questions, one was how is the progress on the shift that is going on from the unorganized to organized segment? And second is, any particular reason for a volume growth, year-on-year to be 12% which seems a bit lower than our other quarters? And next expected volume growth in the next two to three years?

**Management:** The shift from the informal to formal sectors, the new regulation which is known as BWMR that has come. And under that BWMR, there will be an EPR on battery, lead-acid battery rather all battery will come under EPR which were not there in earlier rule which were known as BMHR. So, this EPR is in process, all registration from the manufacturer site are done, it means battery manufacturer and importer. And next is with the recycler will be registered on this, and it's a three, the manufacturer has to fulfill the EPR targets, and if they don't fulfill then there will be some penalty. So, this entire process will shift the existing informal volumes which is almost 65%. So, we foresee that from this 65%, 30% to 35% volume should shift to the formal sector. So, there is huge growth potential in the formal sector.

**Khush Nahar:** My next question was regarding the volume growth expectation over the next two years.

**Management:** This growth expectations for us in volume terms is around 25% year-on-year for the next two years, for the next four years actually. So, there may be a slight change on a quarter-to-quarter basis or sometimes even in a year-to-year basis. And also, what we do, because we have our own capacities in India as well as overseas. So, sometimes what we do is, we bring that material into India so you don't see the volume growth as such, because then we process it in India and then it gets eliminated in the consolidated figure, whenever there is an opportunity, where we can take advantage of the arbitrage in Indian prices and overseas prices. So, for us, what is more important is the profitability growth. So, in volume terms also, we have grown more than 12%, but only 12% get reflected in the consolidated figures.

**Moderator:** Thank you. The next question is from the line of Abhijeet Bora from Sharekhan by BNP Paribas. Please go ahead.

**Abhijeet Bora:** In the segmental things there is item called turnkey projects, the earnings in that segment has a higher growth in this quarter around Rs. 9.6 crore, historically --?

**Management:** Yes, so basically what was happening, because of COVID in the past two years there were not many new projects coming up in the lead recycling across the globe. But now that has started so



that this year we have sold some projects outside and that is why we have got in our this fifth vertical of projects around Rs. 9 crore. Going forward, also you can expect something like this, because we have an order book of around Rs. 25 crore to Rs. 30 crore and generally it gives you a 40% gross margin. So, going forward also you can expect something similar, in numbers here from the projects department also.

**Abhijeet Bora:** And secondly in the other income parts like is there any one-off in that Rs. 23 crore you need to exclude something from there to arrive at this PAT number?

**Management:** Yes, so there is other income part, there is majorly a hedging income which is part of the operational income. So, we consider it as part of EBITDA because it's a hedging strategy for the company like whatever metal price risk we cover from the hedging, so that is reflected here other than that there is no significant one-off item which is there in this, so which can be only to the extent of some interest on the fixed deposits which is recurring in nature. So, there is no one-off case of in other income.

**Abhijeet Bora:** What is the hedging amount --?

**Management:** So, in this year, FY'23, out of Rs. 93 crore of other income, Rs. 88 crore was related to the hedging part. So, remaining only Rs. 5 crore was related to the interest on the other fixed deposits and etc. So, this Rs. 88 crore is considered in the EBITDA calculation because it's a part of the operational income.

**Abhijeet Bora:** Couple of more questions any guidance on the taxes for the full year?

**Management:** Yes, tax rate currently is 11% for the group, but going forward it should be in the same range, 11% to 12%.

**Abhijeet Bora:** Lastly, last quarter it was mentioned that the CAPEX would be around Rs. 500 crore and it was revised upward by Rs. 100 crore. So, is there any change in the cost structure that any of the plants?

**Management:** Yes, so there is no significant thing, but other than the CAPEX opportunity for the existing vertical and new verticals, so like new verticals we have considered, there is more visibility on the new vertical, so that is why we have kept this target of Rs. 600 crore of CAPEX in next four years --

**Abhijeet Bora:** So, but there has been no corresponding change in the capacity expansion in guidance, it remains at the same level. So, I was wondering like Rs. 100 crore jump is quite significant in the CAPEX?

**Management:** Yes, but there will be no significant change in the next four year at least.

**Moderator:** Thank you. The next question is from the line of Chirag from RatnaTraya Capital Partners. Please go ahead.



**Chirag:** Just I wanted to just clarify the volume growth again a little bit, this quarter has been a little slower than average. Are there any one-off for any particular reasons here. And also on an ongoing basis, I understand that pricing can change the profitability, the headline number is --; but can the volume growth also be a lot more volatile and if that is the case, why would that be?

**Management:** Yes, so volume growth target is 25% on year-on-year basis next three to four years. So, this volume growth, like this year it was 17% as compared to the FY'22. This volume growth is slightly changing because there are certain times when we get some additional margins by selling the goods of the overseas units in the Indian market, because sometimes Indian market gives the better realization because of the Indian demand of the metal in India. So, at those times, the volume gets reduce but because we import that overseas material to Indi and utilize the Indian capacities to process that goods to get that additional margins. But overall, if we compromise on the volume growth, definitely we are focused to have more growth on the bottom-line side. So, bottom-line growth of more than 35% is more important than volume growth like this so we compromise sometimes on the volume growth to get the more bottom-line growth. So, that is the idea and with that more bottom-line growth, we get to more ROC. So, overall, the focus on from the return on capital.

**Chirag:** This quarter was something like that then --

**Management:** If you see the per ton EBITDA of lead, normally it should be in the range of Rs. 16 to Rs. 17 per kg, but this time it is Rs. 20 per kg, so we got this additional and EBITDA margin is also 11% which is not in general it is not there. So, but at those times, we compromise on the volumes.

**Chirag:** And by compromising on volume what you mean is that both plants, the overseas plant and the Indian plants could have processed good, but instead of that what you are doing is, you have directed metal from outside, scrap from outside to the Indian plants where the processing is happening in the Indian plant and that offsetting is increasing the volume, is that the right understanding?

**Management:** Correct. Yes.

**Chirag:** One more question, just on page 26 of the Investor Presentations, this time we have started to give a quarterly breakup of the domestic scrap collected. So, is it inclusive of the tolling business also or is this just the outright scrap that you collect?

**Management:** Yes, so this is including the total scrap collection in India. So, this is including both, tolling also and other corporates also.

**Chirag:** So, this comes out to be around 43000 tons if my math is broadly correct. What was the similar number for last year, what would have been the number for last year?

**Management:** So, number was 41000 approximately, yes.



**Chirag:** Which is currently 43 odd approximately.

**Management:** Yes.

**Chirag:** The Nicaragua divestment, could you just give us a little bit more brief on that, what was the thinking there, and is there any learning from that sort of venture, the Nicaragua plant that just got divested, if you can just give a few comments on that.

**Management:** Yes, basically Nicaragua plant where we were processing this PET flakes PET recycling we were doing in Nicaragua, that was exclusive plant for this type of recycling. So, we started Nicaragua plant with, more potential we saw is that we can get volumes more in those geographies. And we can expand two other verticals also. But later on when we realized that there are no such potential and the volumes are not coming up to that extent, because of certain geography reasons and there was some management bandwidth also consuming, this was also consuming, the bottom-line return on capital target of 25% we were not able to achieve that. So, then we decided to exit from Nicaragua and invest that money which we realized in two other geographies where like their nearest geography is Dominican Republic, where we can plan for a bigger facility for similar kind of plastic recycling. And along with paper recycling, there is another potential of lead recycling in those geographies. So, we are very focused on the return on capital with a target of 25%. So, wherever we see that there is no such potential to grow to that number, to that extent, we brutally exit from that location. So, Nicaragua was among one of the investments.

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

**Gunjan Kabra:** I wanted to understand how much capacity are we expecting in the rubber recycling, how much capacity are we planning to install by FY'26 also? And what kind of EBITDA per ton, do we see in this segment, in rubber recycling. And also, in the new segments that we are targeting which is steel, papers, and lithium is of course earning was high, but steel and paper also, how much are we targeting EBITDA per ton?

**Management:** So, EBITDA per ton for different verticals is like lead is approximately Rs. 16 to Rs. 17 per kg, Rs. 16,000 per ton. And aluminum because of this overseas business 90% overseas business so it is Rs. 18 to Rs. 19 per kg. And plastic is approximately in the normal case it is Rs. 10 per kg. So, the capacity expansion for plastics is expected to reach to approximately 80,000 tons in next four years. So, that's the target for plastic.

And also, for rubber, we are currently at 6,000 tons, and then we reach approximately 16,000 tons in the next four years. So, basically in rubber, the current capacity is around 6,000 metric ton per annum, which we are expecting to increase it to 15,000 metric ton to 60,000 metric ton in the next four years. But that is basically for captive consumption only. In addition to this, we are also planning to put up other standalone rubber recycling projects, which will be in addition to this capacity of 15,000 metric ton per annum.





**Gunjan Kabra:** So, rubber is basically used for captive consumption, so where is it used in our products?

**Management:** So, out of rubber we get pyrolysis oil, we also get steel and carbon. All these three things are used for our smelting processes in lead and aluminum. So, I mean pyrolysis oil replaces fossil fuel, similarly carbon replaces wood charcoal, so all these things basically is also a major component in creating sustainability for our operations.

**Gunjan Kabra:** For steel and paper what is the EBITDA per ton, are we targeting? -- Steel and paper, where we plan to expand, so we must be thinking of some EBITDA per ton, right. So, what will be that when we start recycling steel and paper?

**Management:** So, I will tell you that EBITDA per ton would be different for different verticals, based on different geographies -- it is very dynamic thing. So, eventually which geographies are we going to put in, because you must understand that for example, paper is a very small so per ton paper would be around I mean \$50 to \$80 per ton, as compared to lead being \$2,000 per ton. So, there is a huge difference in terms of that. But at the same time the total CAPEX cost is very high in these things.

So, based on these two things, the EBITDA margins would be different. But if we talk about on a benchmark figure for say for example in future around 18% to 20% EBITDA margins would be there for steel. And around 30% to 35% EBITDA margins would be there for paper. But it will be in terms of percentages; in terms of absolute number, it would be much lower, because the price of the commodity is very less compared to the steel -- compared to the lead or aluminum prices that we hear.

**Moderator:** Thank you. The next question is from the line of Rohit from Viji Global. Please go ahead.

**Rohit:** My question was major overseas operations are from African countries like Ghana, Senegal, Mozambique, and Tanzania. Are there any specific reasons to it, and what are your plans for expansion in these locations?

**Management:** Yes, so basically there are two to three options to expand in the geographies. One is, like wherever we are in these existing verticals, so we are already at the 60% to 70% market share of those verticals in those geographies. So, another opportunity is to expand into other verticals like we are already replicating the new verticals like earlier we added aluminum, so now we are in the process of replicating aluminum recycling at all the locations like Senegal, this year we have started Senegal. And we are also adding new verticals, rubber recycling at all the locations, plastic recycling at all the locations.

So, whatever we start new, we replicate at these existing locations, because it is very difficult from 60% to 70% to reach to 90%. But it is very easy as compared to add new verticals instead of going in that --. So, just gets us more economy of scale. So, we are growing by two things, one is existing location with the new verticals and new locations with the new verticals and that existing vertical also.



**Rohit:** Thank you. The next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.

**Abhijit Sinha:** I just wanted to understand what is the demand for these value-added products that we are currently having? And also how do we sustain this 25% to 30% growth for the next three years, because it's quite a substantial growth rate?

**Management:** Yes, in fact if you see the value-added products we are diversifying not only to the lead-acid battery industry, but also we are targeting to power cable industry, chemicals and pigment industry, and radiation production industry. So, in each and every locations like India, earlier we were having the value-add capacity in Phagi only, now we have added the capacity in Mundra and also expanding this capacity at Mundra location. Till date, we were not having value add capacity in Africans center so we are putting up the value-added capacity in Ghana center also so that European and its year by in British market can be covered.

So, we are pretty sure that whatever we are targeting for 50% of our volume should go to the value-added industry, it will be reached. Moreover like the cost of production existing in Europe vis-à-vis Indian, it's a much different. So, it will be a good opportunity for supply from India to meet the increased demand of the European market.

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

**Sabri Hazarika:** Just wanted to know that this new debt facility, you have already drawn it or it is right now it's a facility now?

**Management:** Yes so currently we have just signed the document, loan document from this European Development Financial Institution, but in the next one or two months we will be drawing this money and using this money to release the liquidity for our Indian facilities.

**Sabri Hazarika:** Right now, this money will replace some debt right or it will be like on fresh CAPEX only.

**Management:** Yes, partly, approximately, four to five million is for the fresh CAPEX and the remaining is going to replace our working capital requirement of the overseas business. So, it will be used in overseas business, but it will release the working capital, currently Indian money is used for the overseas working capital so that will be released from that overseas market. So, overseas business will be self-dependent from this money.

**Sabri Hazarika:** And so, with this we have come to the end of this call. And I request you for the closing comments, sir. Thank you.

**Management:** Financial Year '23 was a tremendous year for our company across all fronts. And we are confident that by pursuing new opportunities we will continue to grow and fulfill our clear vision for 2027.



*Gravita India Limited*  
*May 03, 2023*

We hope that we have addressed all of your questions, if you have any unanswered queries please do not hesitate to contact our Investor Relations team at Go India Advisors. I would like to express my gratitude to all of the participants who are joining us on this call and listening to our updates. Thank you all, once again. Thanks.

**Moderator:**

Thank you very much. On behalf of Gravita India Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.