

## GRP Ltd

Analyst Recommendation: BUY

BSE Code: 509152

NSE: GRPLTD

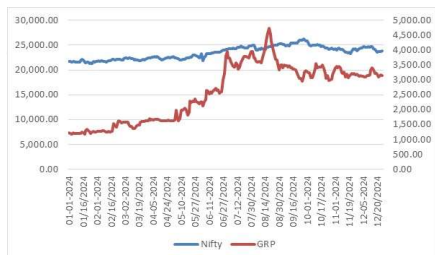
**CMP:** Rs 3,153  
**Target -** Rs 4,874

Face Value	10.00
Market Cap (Rs Billion)	16.9
52 week high/low	4,840/1,136
Dividend Yield	0.29
Shares O/S (Cr)	0.53
Book Value per Share (Rs)	313
Nifty	23,645

### Investor's Rationale

- GRP operates across five vertical products, with its flagship Reclaim Rubber (RR) vertical product contributing to ~85% of its revenue and holding a ~20% share of the domestic market.
- In addition to these businesses, GRP is also generating revenue through the sale of Extended Producer Responsibility (EPR) credits, supported by government regulations to promote recycling.
- Leveraging its industry leadership, GRP is making a strategic investment of ~Rs 2.5 bn in tyre pyrolysis to produce high-value derivatives such as Tyre Pyrolysis Oil (TPO) and Recovered Carbon Black (RCB), along with expanding into plastic recycling.
- The tyre pyrolysis venture is expected to achieve a RoCE of ~25%, establishing it as a high-return and promising business opportunity.
- At this juncture, quantifying outcomes is challenging, as it is difficult to account for all the potential opportunities and optionalities available (for example plastic recycling is at a very nascent stage). However, based on our conservative analysis, the company has the potential to grow its earnings at ~44% CAGR over the next three years (FY25-28E)

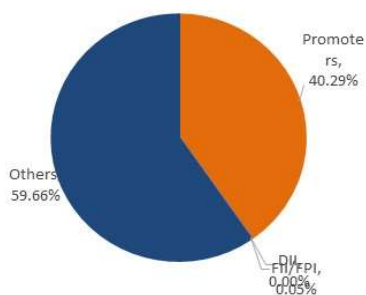
### 1 yr. Price Chart of Stock and Nifty



### Valuation

We also believe that the growth will be value accretive with an expected RoCE expansion from 15.8% in FY25E to 22.5% in FY28E, without impacting the Net Debt/Equity (Net Debt/Equity to remain below 1x), which should support valuations. We arrive at a target price of Rs 4,874 by assigning a multiple of 30x PE for FY28E earnings.

### Shareholding pattern as on 30<sup>th</sup> Sep 2024

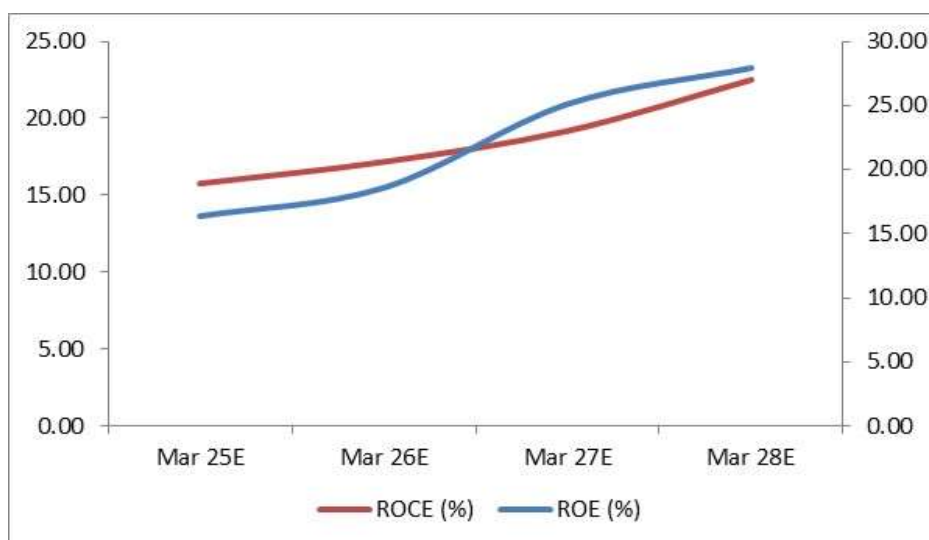


(Rs Million)	Mar 25E	Mar 26E	Mar 27E	Mar 28E
Revenue	5,405.0	6,800.0	8,687.0	10,496.0
EBITDA	644.0	858.0	1,244.0	1,581.0
Adj. profit	291.0	382.0	620.0	861.0
Adj. EPS (Rs.)	55.0	72.0	117.0	162.5
P/E (x)	57.3	43.8	26.9	19.4
ROE (%)	16.40	18.60	25.10	27.90
ROCE (%)	15.80	17.20	19.20	22.50

**Investment Rationale**

- Expanding addressable market- by adding new value-added product vertical & expected higher use of RR. In the waste tyre value chain, currently the company manufactures products only from T&B (Truck and Bus) Bias Tyres. Now, through the usage of EoL- T&B/OTR/Passenger Radial tyres, GRP is expanding its portfolio by setting up a pyrolysis plant & creating capacities in both existing & new products (Crumb Rubber, Tyre Pyrolysis Oil (TPO), Char, Recovered Carbon Black (rCB)).
- Company has planned a total capex of Rs 2.5bn (for FY25E-FY27E) for expanding capacities in RR & also setting up new capacities in Crumb Rubber (CR), Char, TPO & RCB. Capacity expansion is expected to be in 2 phases.
- In Phase I, the company is expected to spend Rs 1.5bn by Dec 2025 for expanding capacities in its Solapur Plant. In Phase II, the company is expected to spend the balance funds of Rs 1.0bn by Dec 2026. The capex is expected to be funded by internal accruals, debt (ECB from French Financial Institution - Proparco, with a proposed line of credit of upto 15 million euros) & QIP upto Rs 1.5bn.
- In addition to the entry into new product verticals, the company is also expected to benefit from higher mix of RR to be used in tyres. Currently Indian tyre players are using 2-3% of RR in their tyres whereas MNC's are using 6-7% of RR in their tyres. RR is available at approximately ~30% of virgin rubber (NR) prices and with 50% rubber content, is the best alternative to counter the supply constraints of virgin rubbers. With improvement in tyre technology (which are allowing for increased use of such materials), Indian tyre companies could move to higher share of RR mix in tyres. GRP has 20% market share domestically and is poised to benefit from this theme. The company is also strengthening the leadership position by increasing wallet share with key global customers. Additionally, the company is moving towards advancement in technology for manufacturing of high-performance RR (company's focus shifting from commodity grades to high performance grades of Reclaim Rubber).
- Beneficiary of government push on recycling theme: EPR Norm: The company has started selling EPR Credits from 4QFY24 & recorded Rs 150mn in that quarter and Rs 60mn in 1QFY25(total Rs 210mn). Based on our estimates, the company is expected to have an EPR backlog of Rs 300mn to be received on account of sale of RR since the implementation of EPR Norms, i.e from FY23. With improvement in utilizations of RR and addition of new capacities, we expect the company to receive an average of Rs 240mn of EPR credit per year for the next 4 years (including the expected benefits of EPR from RCB and TPO from FY27E onwards)
- Plastic Recycling Norm: Expected to be announced in FY26E/FY27E: Under the regulation slated to be enforced from April 1, 2024 (still not implemented due to delay), brand owners are liable to recycle and ensure incorporation of recycled polymers in their packaging medium. The plastic EPR mandates packaging companies to use a certain level of recycled content back in the material. Rigid Polypropylene (RP) market size is 950k MT, of which 400k MT is paint and lubricant pales, 200k MT is battery cover and auto components, 150k MT is consumer durable products and balance is others. In this overall market, anecdotal evidence suggests that minimum 30% recycled content to be used of the RP market, which implies a market of 285k MT for recyclers. The opportunity size in this industry is huge and GRP is prepared to tap this opportunity. Repurposed Polyolefin (RP) market size is ~4-5x of RR.

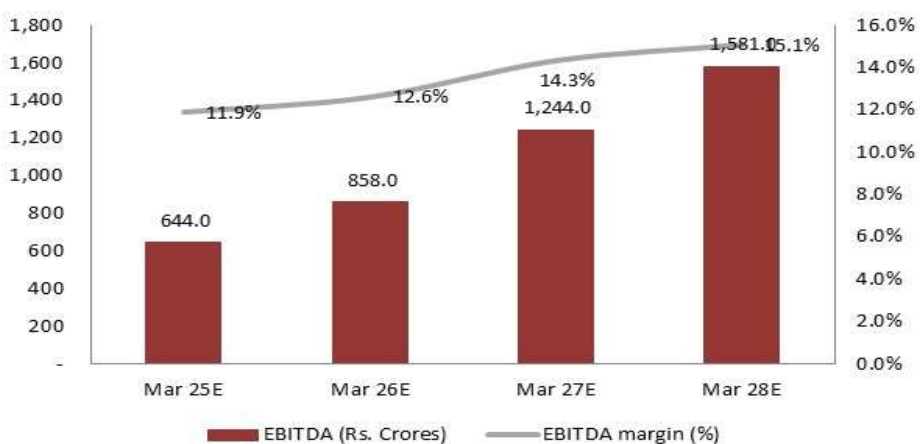
### Return ratios to show growth



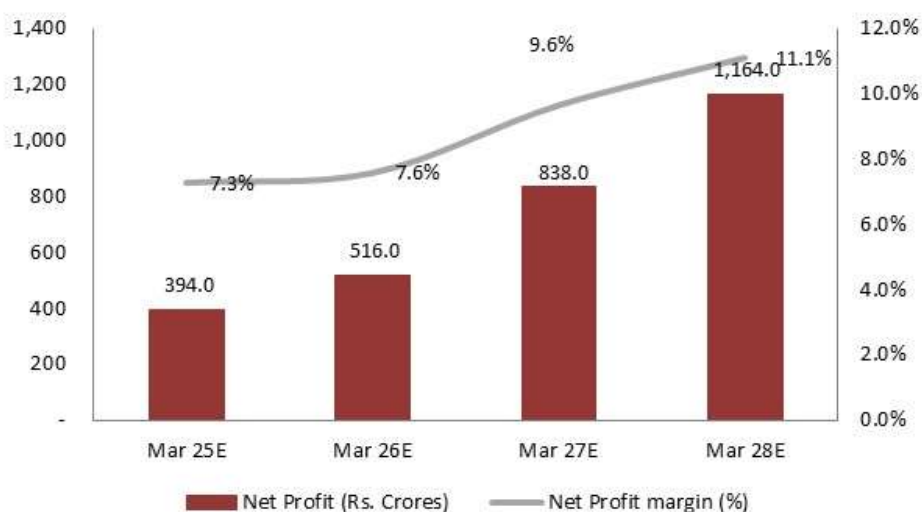
### Revenue growth will be strong



### EBITDA will maintain strong growth



### Net profit will maintain strong growth



### Outlook and Valuation

Considering expansion of addressable market size through entry into new downstream products like Carbon Black & TPO, opportunity size for acceptance of RR products in both tyre and non-tyre applications, large market size for recycled plastics, we believe there is a huge opportunity in terms of market size available for the company. Company being a market leader in India and already having long term relationships with customers, is expected to gain market share significantly over the next few years. Additionally, EPR norms have created an incremental recurring source of income for the company. The company is expected to report a Revenue CAGR of ~25% & PAT CAGR of strong ~44% from FY25E-FY28E.

The company is expected to fund the ongoing capex plans via internal accruals, debt & fundraise. Despite capex plans, the peak net Debt/Equity is expected to remain below 1x. At the current price of Rs 3,153, GRP is trading at 19.4x FY28E EPS of Rs 162.5. We remain positive on the long-term potential of the company. We expect the company to give ~55% return in the next 2 years (Target Price- Rs 4,874 based on 30x FY28E EPS)

### GRP - Company Overview

GRP Ltd, established in 1974, is a manufacturer of reclaimed rubber from used tyres, upscaled polyamide from nylon waste and engineered products die-cut from end-of- life tyres. Reclaim Rubber - It produces high-quality reclaim rubber from end-of-life tires, tread peelings, natural rubber, and butyl tubes, molded rubber products for use in both, tire and non-tire rubber products.

Engineering plastics - It is a sustainable material solution provider for challenging engineering applications. Its sustainable solutions are based on unfilled, and glass-reinforced Polyamide 6, Polyamide 66, and Polybutylene terephthalate. Polymer composite- It is produced using 100% recycled rubber and plastic. The products are eco-friendly and are stronger and more durable than wood. The products are well suited for application in logistics, construction, oil & gas, aviation, marine, industrial, and agriculture sectors.



## Balance sheet (Consolidated)

Rs In Million	Mar 25E	Mar 26E	Mar 27E	Mar 28E
Share capital	53	53	53	53
Reserves & surplus	1842	2160	2674	3403
Shareholders' funds	1895	2213	2727	3456
Non-current liabilities	681	1381	1781	1681
Long-term borrowings	519	1219	1619	1519
Other non-current liabilities	162	162	162	162
Current liabilities	1371	1432	1514	1594
ST borrowings, Curr maturity	907	907	907	907
Other current liabilities	464	525	608	687
<b>Total (Equity and Liabilities)</b>	<b>3947</b>	<b>5026</b>	<b>6023</b>	<b>6731</b>
Non-current assets	2236	2948	3528	3788
Fixed assets (Net block)	2144	2856	3436	3696
Non-current Investments	11	11	11	11
Other non-current assets	81	81	81	81
Current assets	1711	2078	2495	2943
Cash & current investment	64	87	68	45
Other current assets	1646	1991	2426	2897
<b>Total (Assets)</b>	<b>3947</b>	<b>5026</b>	<b>6023</b>	<b>6731</b>

## Profit & Loss Account (Consolidated)

Rs In Million	Mar 25E	Mar 26E	Mar 27E	Mar 28E
Net sales	5405	6800	8687	10496
Growth (%)	17.1	25.8	27.8	20.8
Operating expenses	-4761	-5942	-7443	-8915
<b>Operating profit</b>	<b>644</b>	<b>858</b>	<b>1244</b>	<b>1581</b>
EBITDA	644	858	1244	1581
Growth (%)	26.9	33.2	45	27.1
Depreciation	-152	-188	-220	-240
Other income	16	16	16	16
<b>EBIT</b>	<b>508</b>	<b>686</b>	<b>1040</b>	<b>1358</b>
Finance cost	-114	-170	-202	-194
<b>Profit before tax</b>	<b>394</b>	<b>516</b>	<b>838</b>	<b>1164</b>
Tax (current + deferred)	-102	-134	-218	-303
<b>Profit / (Loss) for the period</b>	<b>291</b>	<b>382</b>	<b>620</b>	<b>861</b>
<b>Reported Profit / (Loss)</b>	<b>291</b>	<b>382</b>	<b>620</b>	<b>861</b>
<b>Adjusted net profit</b>	<b>291</b>	<b>382</b>	<b>620</b>	<b>861</b>
Growth (%)	16.3	31.1	62.5	38.8

## Cash Flow (Consolidated)

Rs In Million	Mar 25E	Mar 26E	Mar 27E	Mar 28E
Profit before tax	394	516	838	1164
Depreciation	152	188	220	240
Change in working capital	66	-284	-353	-392
Total tax paid	-102	-134	-218	-303
Others	98	154	186	178
<b>Cash flow from oper. (a)</b>	<b>608</b>	<b>440</b>	<b>674</b>	<b>887</b>
Capital expenditure	-700	-900	-800	-500
Change in investments	16	-	-	-
Others	16	16	16	16
<b>Cash flow from inv. (b)</b>	<b>-668</b>	<b>-884</b>	<b>-784</b>	<b>-484</b>
Free cash flow (a+b)	-60	-444	-110	403
Equity raised/(repaid)	40	-	-	-
Debt raised/(repaid)	300	700	400	-100
Dividend (incl. tax)	64	64	106	133
Others	-281	-297	-414	-459
<b>Cash flow from fin. (c)</b>	<b>122</b>	<b>466</b>	<b>92</b>	<b>-427</b>
<b>Net chg in cash (a+b+c)</b>	<b>62</b>	<b>23</b>	<b>-18</b>	<b>-23</b>

## Key Ratios & Valuations (Consolidated)

Year to March	Mar 25E	Mar 26E	Mar 27E	Mar 28E
Adjusted EPS (Rs)	55	72	117	162.5
Growth	16.3	31.1	62.5	38.8
CEPS (Rs)	83.7	107.5	158.5	207.7
Book NAV/share (Rs)	357.5	417.5	514.5	652
Dividend/share (Rs)-Adj	12	12	20	25
Dividend payout ratio	21.8	16.7	17.1	15.4
EBITDA margin	11.9	12.6	14.3	15.1
EBIT margin	9.4	10.1	12	12.9
Tax rate	26	26	26	26
RoCE	15.8	17.2	19.2	22.5
Total debt/Equity (x)	0.8	1	0.9	0.7
Net debt/Equity (x)	0.7	0.9	0.9	0.7
Du Pont Analysis - ROE	0	0	0	0
Net margin	5.4	5.6	7.1	8.2
Asset turnover (x)	1.5	1.5	1.4	1.6
Leverage factor (x)	2.1	2.2	2.4	2.2
Return on equity	16.4	18.6	25.1	27.9



## Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



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**Reg. office:** PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai-400001, Maharashtra, India

**Corp Office:** 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai-400001, Maharashtra India

**Tel:** 91-22-67378001 **Fax:** 91-22-22646410

**Dealing:** 91-22-67378011 **Institutional Dealing:** 91-22-6737833

**Email:** [research@mjpgdirect.com](mailto:research@mjpgdirect.com) **Website:** [www.mjpgdirect.com](http://www.mjpgdirect.com)

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