

BUY Gravita India**Steady earnings growth continues; maintain BUY**Others ▶ Result Update ▶ **November 2, 2023****TARGET PRICE (Rs): 1,300**

For Q2, Gravita India (GRAV) reported consol. adj. revenue/EBITDA/PAT of Rs8.4bn/Rs798mn/Rs579mn, up 23%/24%/30% YoY, led by 25% YoY lead volume growth. Consol. vol. grew by 14% YoY, as AL was impacted by macros, while plastics are ex-Nicaragua now. Mgmt. has reiterated its growth targets, besides awaiting approvals to set up a Li-ion recycling plant in Mundra, while paper is on the cards in the next 1-2 years. GRAV's balance sheet remains healthy with credible ESG funding being received. We revise FY25E EPS upwards by 10%, assuming better margin profile. We raise our TP to Rs1,300 from Rs915 due to rollover to Sep-25 (adding Rs214 incl. EPS hike) and building better target P/E of 23x (vs. 20x, adding Rs170) led by consistent performance. Our FY24E EPS is down 5% due to higher net finance cost. Retain BUY.

Gravita India: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	22,159	28,886	36,240	46,396	58,486
EBITDA	2,109	2,856	3,523	4,840	6,055
Adj. PAT	1,394	2,011	2,482	3,481	4,322
Adj. EPS (Rs)	20.2	29.1	35.9	50.4	62.6
EBITDA margin (%)	9.5	9.9	9.7	10.4	10.4
EBITDA growth (%)	88.5	35.4	23.3	37.4	25.1
Adj. EPS growth (%)	165.7	44.3	23.4	40.3	24.2
RoE (%)	42.5	41.2	35.7	36.7	33.8
RoIC (%)	28.6	30.4	28.5	29.2	28.8
P/E (x)	52.6	36.5	29.6	21.1	17.0
EV/EBITDA (x)	36.4	26.7	21.8	16.0	12.7
P/B (x)	19.0	12.5	9.2	6.7	5.0
FCFF yield (%)	(0.8)	1.2	(0.1)	0.2	1.8

Source: Company, Emkay Research

Key Result Highlights

Lead volumes rose 25% YoY to 38.8kt, while aluminum (AL)/plastics fell 21/27% YoY to 3.4/3.0kt. Overall EBITDA/kg was up 9% YoY/down 15% QoQ to Rs17.7. Reported lead EBITDA/kg was flat YoY/down 16% QoQ at Rs17.6. AL EBITDA/kg rose 26% YoY/2% QoQ to Rs14.8, while plastic EBITDA/kg was flat QoQ at Rs10.2, down 8% YoY. Opex/kg rose 4% YoY to Rs18.4, down 9% QoQ. Turnkey EBIT rose 2.5x YoY but was down 64% QoQ to Rs36mn. D/A rose 8% QoQ to Rs86mn, while finance cost fell 12% QoQ to Rs112mn. Net debt rose by 2% QoQ to Rs3.8bn. Net working capital cycle rose to 80 days in H1 vs. 72 days in FY23, which is reflective of a 26% increase in net debt HoH. Hence, H1 OCF was weak at Rs258mn in H1FY24 vs. Rs1.5bn YoY due to working capital impact, mainly receivables, which have, however, normalized in Oct-23.

Concall Key Takeaways

GRAV is working on hedging mechanism for AL and plastics, besides developing OEM relationships, and estimates steady-state AL EBITDA of Rs16-17/kg. VAP share stood at 44%/48% in Q2FY24/H1FY24. Domestic sourcing formed 20%/27% of the total in Q2FY24/H1FY24. It utilized arbitrage opportunities, in terms of favorable spreads resulting in sourcing in Africa and sale from India in Q2. GRAV expects stability in the AL market by FY24-end, while closure of Nicaragua facility resulted in ~1kt per quarter of lower plastic volumes. More details on the paper recycling plant in Central America will be shared by Q3-Q4FY24. The price of imported battery scrap is 50-55% of LME, while domestic sourcing is 58-60%. Every ton of lead recycled requires ~50 liters of FO, while pyrolysis oil from rubber recycling is also being used. GRAV's share in the Indian organized lead recycling market is 15-17%.

Valuation

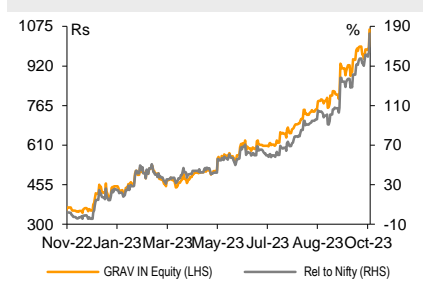
We value GRAV at Sep-25E P/E-based TP of Rs1,300, building a steady outlook and its position in the circular economy. We have trimmed FY24E EPS by 5% (EBITDA unchanged) to build higher finance costs and lower Other Income. Key risks: Highly adverse commodity prices, shutdowns/project delays, competition, & country risks.

Target Price – 12M	Sep-24
Change in TP (%)	42.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	22.3
CMP (01-Nov-23) (Rs)	1,062.4

Stock Data	Ticker
52-week High (Rs)	1,080
52-week Low (Rs)	342
Shares outstanding (mn)	69.0
Market-cap (Rs bn)	73
Market-cap (USD mn)	881
Net-debt, FY24E (Rs mn)	3,553
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	260.3
ADTV-3M (USD mn)	3.1
Free float (%)	32.0
Nifty-50	18,989
INR/USD	83.3
Shareholding, Jun-23	
Promoters (%)	66.5
FPIs/MFs (%)	9.3/0.4

Price Performance

(%)	1M	3M	12M
Absolute	16.7	57.6	194.1
Rel. to Nifty	20.7	63.7	181.1

1-Year share price trend (Rs)**Sabri Hazarika**

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Exhibit 1: Quarterly Summary (Consolidated)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q1FY24	YoY (%)	QoQ (%)	H1FY23	H1FY24	YoY (%)
Revenue	6,882	7,893	7,705	7,135	8,434	23%	18%	13,159	15,569	18%
COGS	5,543	6,527	6,012	5,629	6,804	23%	21%	10,315	12,433	21%
Gross Profit	1,339	1,366	1,693	1,506	1,630	22%	8%	2,844	3,136	10%
Opex	697	680	843	741	832	19%	12%	1,564	1,572	1%
EBITDA	642	686	850	765	798	24%	4%	1,280	1,564	22%
Depreciation	56	61	69	79	86	54%	8%	110	165	50%
EBIT	586	626	781	686	713	22%	4%	1,171	1,399	20%
Finance Cost	99	87	99	127	112	13%	-12%	206	239	16%
Other Income	14	38	15	16	69	386%	329%	37	85	128%
PBT Before Exceptional	502	577	698	575	670	34%	16%	1,002	1,245	24%
Exceptional Item	-	-	-	36	-	-	-	-	36	-
PBT	502	577	698	539	670	34%	24%	1,002	1,209	21%
Tax	52	72	58	86	82	57%	-5%	105	168	59%
PAT	450	505	640	453	588	31%	30%	896	1,041	16%
PAT After MI	446	502	638	521	579	30%	11%	871	1,099	26%
EPS	6.5	7.3	9.2	7.5	8.4	30%	11%	12.6	15.9	26%

Segmental

Lead Revenue	5,683	6,589	6,243	5,834	7,577	33%	30%	10,502	13,412	28%
Lead EBIT	506	558	553	462	628	24%	36%	986	1,090	11%
Lead EBIT Margin	9%	8%	9%	8%	8%			9%	8%	
Lead Volumes (ton)	31,060	33,868	32,601	29,287	38,769	25%	32%	55,798	68,056	22%
Lead EBIT/ton (Rs)	16,288	16,467	16,972	15,761	16,209	0%	3%	17,673	16,016	-9%
Aluminium Revenue	775	1,039	919	858	589	-24%	-31%	1,429	1,447	1%
Aluminium EBIT	59	89	83	32	27	-54%	-17%	111	59	-47%
Aluminium EBIT Margin	8%	9%	9%	4%	5%			8%	4%	
Aluminium Volumes (ton)	4,331	5,840	5,605	4,772	3,404	-21%	-29%	7,649	8,176	7%
Aluminium EBIT/ton (Rs)	13,507	15,291	14,880	6,790	7,902	-41%	16%	14,564	7,253	-50%
Plastic Revenue	315	228	206	182	195	-38%	7%	612	377	-38%
Plastic EBIT	36	47	35	37	32	-10%	-14%	68	69	1%
Plastic EBIT Margin	11%	21%	17%	20%	16%			11%	18%	
Plastic Volumes (ton)	4,123	3,398	3,284	2,750	3,018	-27%	10%	7,829	5,768	-26%
Plastic EBIT/ton (Rs)	8,610	13,920	10,688	13,418	10,537	22%	-21%	8,673	11,911	37%
Turnkey Revenue	52	12	111	146	72	38%	-51%	68	218	222%
Turnkey EBIT	14	6	96	100	36	152%	-64%	16	135	
Turnkey EBIT Margin	27%	47%	87%	68%	49%			23%	62%	

Source: Company, Emkay Research; Note: Hedging gains reported in 'Other Income' by the company adjusted in revenue, MI is Minority Interest; EBITDA may not fully match the annual tables due to a different adjustment method in the Emkay detailed annual model

Exhibit 2: Change in assumptions

	FY24E			FY25E			FY26E
	Previous	Revised	Variance	Previous	Revised	Variance	Introduced
Sales Volumes (kt)	203.7	200.8	-1%	258.4	256.8	-1%	318.4
Total Volume growth	30.2%	28.4%	-185bps	26.8%	27.9%	108bps	24.0%
Blended EBITDA/ton	213.4	211.4	-1%	215.1	229.8	7%	231.9

Source: Company, Emkay Research

Exhibit 3: Change in estimates

(Rs mn)	FY24E			FY25E			FY26E
	Previous	Revised	Variance	Previous	Revised	Variance	Introduced
Revenue	36,217	36,240	0%	46,026	46,396	1%	58,486
EBITDA	3,523	3,523	0%	4,559	4,840	6%	6,055
EBITDA Margin	9.7%	9.7%	-bps	9.9%	10.4%	53bps	10.4%
PAT	2,615	2,482	-5%	3,163	3,481	10%	4,322
EPS (Rs)	37.9	35.9	-5%	45.8	50.4	10%	62.6

Source: Company, Emkay Research

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Exhibit 4: Change in Valuation

Consolidated	Previous	Revised			Consolidated	Rs/sh
Rs/sh	FY25E	FY25E	FY26E	Sep-25E	Previous TP	915
EPS	45.8	50.4	62.6	56.5	EPS Increase & Rollover (23%)	214
Target PE (x)	20.0			23.0	PE (x) Change from 20x to 23x	170
TP	915			1,300	Revised TP	1,300

Source: Emkay Research

Detailed Concall KTAs

- GRAV's total consolidated capacity stood at 284ktpa as of Sep-23; while it targets ~430ktpa by FY26E-end at a total capex outlay of Rs6bn during FY24-26E. In Q1, GRAV started 6ktpa of lead recycling facility at Togo in Africa and has already been sourcing battery scrap from Togo since the last three years.
- YoY volume growth in Q2 stood at 14%, with lead growth strong at 25% YoY while aluminum (AL) volumes were impacted by AL commodity price volatilities and some demand slowdown in China. Plastic volumes were down due to sale of Nicaragua facility.
- GRAV continues to work on hedging mechanism for AL and plastics besides developing OEM relationships for the same. It also expects steady-state AL EBITDA margin of Rs16-17/kg. VAP share stood at 44%/48% in Q2FY24/H1FY24.
- Receivables rose as of Sep-23 due to higher dispatches towards the end of Q2. The same has normalized and money was received in Oct-23. The normal trend of 18-20-day cycle had temporarily increased to 25 days as of Sep-23 end.
- Domestic sourcing formed 20%/27% of the total sourcing in Q2FY24/H1FY24. It was lower in Q2 because of arbitrage opportunities in terms of favorable spreads resulting in sourcing in Africa and sale from India, while maintaining ROCE of 25%. Domestic sourcing was up 40% YoY in Q2.
- Capex in H1FY24 was at Rs540mn, while H2 capex is targeted at Rs1bn mainly for existing verticals. GRAV's FY24 capex target for existing verticals would be met; however, for new verticals, it may get pushed to FY25E.
- GRAV also expects stability in the AL market by FY24-end, while closure of Nicaragua facility resulted in ~1,000 ton per quarter of lower plastic volumes. Plastics ex-Nicaragua are largely steady.
- GRAV has set up rubber recycling facilities at Ghana and Tanzania and is generating pyrolysis oil for internal consumption in smelting operations.
- Approvals are awaited for the Li-ion facility at Mundra, while more details on the paper recycling plant in Central America will be shared by the end of Q3-Q4FY24. Installation of the paper recycling plant would take 1-1.5 years, while timely approvals also remain critical. Hedging mechanism for Li-ion is not available much as of now and the same would evolve as volumes rise by FY26-27E.
- GRAV has retained its long-term volume guidance of a 25% volume CAGR over the next 3-4 years while targeting 25% ROCEs.
- Long-term debt rose to more than Rs3bn due to term loan from ESG funds (Proparco & OEB) in Netherlands' subsidiary. This resulted in lower short-term India debt used to finance the working capital of Africa business earlier. Cost of this debt is ~7% vs. working capital debt in India at 8%, which was repaid. This long-term debt will be used for expansion and working capital needs of Africa operations.
- GST/import duty order of Rs700mn is being challenged for reduction of duties (to just 10% of total demand) as well as by invoking limitation period. In case of adverse order, GRAV may face temporary cash flow challenge; however, tax credit will be available for such payment made.

- Lead acid battery in EVs will be ~70% lower than the current battery packs, but demand for EVs will likely be gradual and GRAV will have capabilities and networks to cater to Li-ion as well in future. Lead marketing continues to grow, driven by the radiation industry, nuclear industry, and other industrial applications.
- Lead content in a battery is 60-65%. The price of imported battery scrap is 50-55% of LME, while domestic sourcing price is 58-60% of LME. GRAV, in some cases, gets it at 40% of LME from its own scrap yards.
- Energy cost in lead recycling vs. mining – recycling takes just 25% energy as compared to mining, while AL takes only 5% energy in recycling vs. mining. Every ton of lead recycled requires ~50 liters of FO, while pyrolysis oil from rubber recycling is also used for smelting to reduce costs.
- GRAV's share in the global lead recycling market is unavailable, but India's organized market share is 15-17% and Africa's market share is more than 50% in every country it is present in. The organized market is 30-35% of the total lead recycling market in India. For plastics, less than 10% market is organized. In terms of AL, the scrap is mostly imported and GRAV handles ~15ktpa out of the total alloy demand of ~700ktpa.
- In plastics, GRAV plans to focus on the tolling business to meet EPR norms and hedging would not be needed on that front. The sourcing ecosystem for Li-ion would be similar to lead viz. OEM relationship-based.

Gravita India: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	22,159	28,886	36,240	46,396	58,486
Revenue growth (%)	57.2	30.4	25.5	28.0	26.1
EBITDA	2,109	2,856	3,523	4,840	6,055
EBITDA growth (%)	88.5	35.4	23.3	37.4	25.1
Depreciation & Amortization	206	240	359	527	700
EBIT	1,904	2,617	3,163	4,313	5,355
EBIT growth (%)	107.8	37.5	20.9	36.3	24.2
Other operating income	0	0	0	0	0
Other income	78	51	174	230	282
Financial expense	336	391	472	473	548
PBT	1,646	2,276	2,866	4,070	5,089
Extraordinary items	0	0	0	0	0
Taxes	162	235	344	529	687
Minority interest	91	30	40	60	80
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,394	2,011	2,482	3,481	4,322
PAT growth (%)	165.7	44.3	23.4	40.3	24.2
Adjusted PAT	1,394	2,011	2,482	3,481	4,322
Diluted EPS (Rs)	20.2	29.1	35.9	50.4	0.0
Diluted EPS growth (%)	165.7	44.3	23.4	40.3	0.0
DPS (Rs)	3.0	4.4	5.4	7.6	9.4
Dividend payout (%)	14.9	14.9	15.0	15.0	15.0
EBITDA margin (%)	9.5	9.9	9.7	10.4	10.4
EBIT margin (%)	8.6	9.1	8.7	9.3	9.2
Effective tax rate (%)	9.8	10.3	12.0	13.0	13.5
NOPLAT (pre-IndAS)	1,716	2,346	2,784	3,752	0
Shares outstanding (mn)	69.1	69.1	69.1	69.1	69.1

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,646	2,276	2,866	4,070	5,089
Others (non-cash items)	665	786	657	770	966
Taxes paid	(149)	(235)	(344)	(529)	(687)
Change in NWC	(2,062)	(825)	(1,164)	(1,624)	(1,785)
Operating cash flow	101	2,001	2,015	2,687	3,583
Capital expenditure	(702)	(1,068)	(2,100)	(2,500)	(2,200)
Acquisition of business	0	0	0	0	0
Interest & dividend income	9	7	174	230	0
Investing cash flow	(699)	(1,058)	(1,915)	(2,270)	(1,918)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	1,315	(434)	700	1,000	1,300
Payment of lease liabilities	(22)	(8)	9	12	0
Interest paid	(336)	(389)	(472)	(473)	(548)
Dividend paid (incl tax)	(238)	(43)	(372)	(522)	(648)
Others	(17)	(22)	9	12	13
Financing cash flow	725	(887)	(135)	17	117
Net chg in Cash	127	56	(35)	433	1,782
OCF	101	2,001	2,015	2,687	3,583
Adj. OCF (w/o NWC chg.)	2,163	2,827	3,179	4,311	5,368
FCFF	(601)	933	(85)	187	1,383
FCFE	(928)	549	(383)	(56)	1,118
OCF/EBITDA (%)	4.8	70.1	57.2	55.5	59.2
FCFE/PAT (%)	(66.6)	27.3	(15.4)	(1.6)	25.9
FCFF/NOPLAT (%)	(35.0)	39.8	(3.1)	5.0	29.9

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	138	138	138	138	138
Reserves & Surplus	3,730	5,751	7,861	10,819	14,493
Net worth	3,869	5,889	7,999	10,958	14,631
Minority interests	140	128	168	228	308
Deferred tax liability (net)	15	3	3	3	3
Total debt	3,915	3,477	4,186	5,198	6,511
Total liabilities & equity	7,939	9,497	12,356	16,386	21,453
Net tangible fixed assets	1,837	2,657	4,253	6,126	0
Net intangible assets	3	3	3	3	0
Net ROU assets	73	73	73	73	0
Capital WIP	425	455	600	700	800
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	11	0	0	0
Cash & equivalents	509	610	634	1,147	0
Current assets (ex-cash)	7,129	8,243	10,174	12,644	15,458
Current Liab. & Prov.	2,036	2,555	3,380	4,307	5,432
NWC (ex-cash)	5,092	5,688	6,794	8,337	10,026
Total assets	7,939	9,497	12,356	16,386	21,453
Net debt	3,406	2,867	3,553	4,051	3,485
Capital employed	7,939	9,497	12,356	16,386	21,453
Invested capital	7,005	8,421	11,122	14,539	17,627
BVPS (Rs)	56.0	85.3	115.8	158.7	211.9
Net Debt/Equity (x)	0.9	0.5	0.4	0.4	0.2
Net Debt/EBITDA (x)	1.6	1.0	1.0	0.8	0.6
Interest coverage (x)	0.2	0.1	0.1	0.1	0.1
RoCE (%)	29.7	30.6	30.5	31.6	29.8

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	52.6	36.5	29.6	21.1	17.0
P/CE(x)	45.9	32.6	25.8	18.3	14.6
P/B (x)	19.0	12.5	9.2	6.7	5.0
EV/Sales (x)	3.5	2.7	2.1	1.7	1.3
EV/EBITDA (x)	36.4	26.7	21.8	16.0	12.7
EV/EBIT(x)	40.3	29.1	24.3	17.9	14.4
EV/IC (x)	11.0	9.1	6.9	5.3	4.4
FCFF yield (%)	(0.8)	1.2	(0.1)	0.2	1.8
FCFE yield (%)	(1.3)	0.7	(0.5)	(0.1)	1.5
Dividend yield (%)	0.3	0.4	0.5	0.7	0.9
DuPont-RoE split					
Net profit margin (%)	6.3	7.0	6.8	7.5	7.4
Total asset turnover (x)	3.3	3.3	3.3	3.2	3.1
Assets/Equity (x)	2.0	1.8	1.6	1.5	1.5
RoE (%)	42.5	41.2	35.7	36.7	33.8
DuPont-RoIC					
NOPLAT margin (%)	7.7	8.1	7.7	8.1	7.9
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	28.6	30.4	28.5	29.2	28.8
Operating metrics					
Core NWC days	96.7	80.2	76.6	73.5	70.5
Total NWC days	96.7	80.2	76.6	73.5	70.5
Fixed asset turnover	9.0	9.1	7.8	6.8	6.4
Opex-to-revenue (%)	11.8	11.1	10.4	9.7	0.0

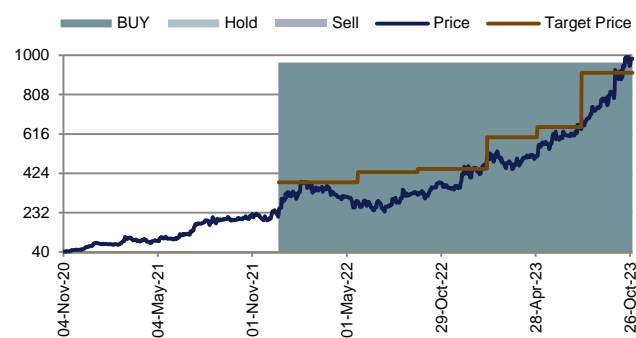
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
25-Jul-23	670	915	Buy	Sabri Hazarika
04-May-23	564	650	Buy	Sabri Hazarika
01-May-23	508	650	Buy	Sabri Hazarika
25-Jan-23	510	600	Buy	Sabri Hazarika
04-Nov-22	366	445	Buy	Sabri Hazarika
14-Sep-22	319	445	Buy	Sabri Hazarika
04-Aug-22	280	430	Buy	Sabri Hazarika
10-Jun-22	285	430	Buy	Sabri Hazarika
22-May-22	286	430	Buy	Sabri Hazarika
21-Dec-21	227	380	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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