



Gravita reported strong set of numbers. Net revenue recorded growth of 45.0% YoY and 18.6% QoQ at Rs 2,247m due to positive impact of GST and commencement of commercial production of PET flakes in Jamaica and fresh capacity addition of lead at Chittoor plant. EBITDA grew 115.5% YoY and 36.5% QoQ to Rs 258m and margins expanded by 375bps YoY and 150bps QoQ to 11.5% in Q2FY18. YoY margin expansion was driven by 110% growth in aluminium revenues thereby accounting for 9% of total revenues (Q1FY17: 5.9%). Simultaneously aluminium margins also expanded from 4.5% in Q2FY17 to 7.2% in Q2FY18. While lead revenues in absolutes terms did grow by 34.8% but as a percentage of total revenues came down to 88.6% in Q2FY18 (vs at 91.2% in Q2FY17). Margins on lead improved from 6.7% to 11.4% YoY. PAT was recorded growth of 48.9% YoY and 30.2% QoQ to Rs 142m in spite of higher depreciation, interest cost and higher tax rate.

During the first half of FY18, revenues grew by 44.7% to Rs 4,141 mn on back of 32% higher volumes. EBITDAM expanded by 274bps to 10.8% due to higher gross margins and EBITDA at Rs 447 mn, up 94.0%. The profit for the first half was Rs 252mn higher by 48.7%.

Positive impact of GST was witnessed across all the segments. As a result, Lead volumes grew by ~29% YoY to 13,500 MT, aluminum by ~113% YoY to 1,700 MT and PET volumes were at 700 MT. The company has planned capex of Rs 1.5bn over next one and half years which will increase its lead and aluminium capacity by 50,000 tons. It has also planned to set up a furnace at Jaipur plant which will be operational in December 2017 and will enhance the capacity by 33%. Gravita plans to put up aluminium capacity at Chittoor plant at a cost of Rs 0.3bn.

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	4,312	6,557	9,311	13,035
Growth (%)	(14.0)	52.1	42.0	40.0
EBITDA (Rs m)	172	554	988	1,486
PAT (Rs m)	55	330	577	857
EPS (Rs)	0.8	4.8	8.4	12.5
Growth (%)	(42.9)	501.7	74.9	48.5
CEPS (Rs)	1.8	4.8	9.9	14.7
Net DPS (Rs)	0.2	0.6	1.3	1.9
Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	4.0	8.5	10.6	11.4
RoE (%)	4.7	24.3	32.8	36.5
RoCE (%)	10.7	25.8	28.8	28.5
EV / sales (x)	2.5	1.7	1.3	0.9
EV / EBITDA (x)	62.8	19.7	11.9	8.2
PE (x)	198.1	32.9	18.8	12.7
P / BV (x)	9.1	7.1	5.4	4.0
Net dividend yield (%)	0.1	0.4	0.8	1.2

Source: Company Data, PL Research

Q2FY18 Result Update

Wednesday, November 22, 2017

Shailee Parekh

shaileeparekh@plindia.com
+91-22-66322302

Charmi Mehta

charmimehta@plindia.com
+91-22-66322274

Rating	Accumulate
Price	Rs 159
Target Price	Rs 188
Implied Upside	18%
Sensex	33,562
Nifty	10,342
Bloomberg Code	GRAV IN
Reuters Code	GRAI.BO

(Prices as on November 22, 2017)

Tracking Data

Market Cap (Rs bn)	10.9
Shares O/s (m)	68.5
3M Avg. Daily Value (Rs m)	272.4

Major Shareholders (%)

Promoters	73.0%
Domestic Inst.	0.1%
Public & Others	26.9%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.2)	96.8	384.2
Relative	(2.0)	87.4	355.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018E	8.4	5.7	47.4
2019E	12.5	8.7	43.7

Post results, we have maintained our revenue estimates of Rs 9,311mn in FY18E and Rs 13,035mn FY19E. But we have revised our PAT estimates downwards by ~2.5% and ~4.8% in FY18E and FY19E to Rs 577mn and Rs 857mn respectively essentially on account of higher tax rate. At CMP, the stock is trading at 18.8x FY18E and 12.7x FY19E EPS estimates of Rs 8.4 and Rs 12.5 respectively. Given that the capacity ramp ups are as per schedule, it is helping to improve visibility on margin expansion and growth projected by us. In accordance, we have assigned a higher PE multiple to our FY19E EPS estimated thus arriving a revised target price of Rs 188 indicating an upside of 18% from current levels. *Maintain Accumulate.*

Q2FY18 Result Overview (Rs m)							
Y/e March	Q2 '18	Q2 '17	YoY gr. (%)	Q1 '18	H1'18	H1'17	YoY gr. (%)
Net Revenue	2,247	1,549	45.0	1,894	4,141	2,862	44.7
Expenditure							
Raw Material Cost	1,729	1,240	39.4	1,444	3,172	2,280	39.1
<i>% of revenue</i>	<i>76.9</i>	<i>80.0</i>		<i>76.2</i>	<i>76.6</i>	<i>79.7</i>	
Employee Cost	121	78	54.9	100	221	147	50.3
<i>% of revenue</i>	<i>5.4</i>	<i>5.0</i>		<i>5.3</i>	<i>5.3</i>	<i>5.1</i>	
Other Expense	139	112	24.5	162	301	204	47.3
<i>% of revenue</i>	<i>6.2</i>	<i>7.2</i>		<i>8.5</i>	<i>7.3</i>	<i>7.1</i>	
Total Expenditure	1,989	1,430	39.1	1,705	3,694	2,632	40.4
EBITDA	258	120	115.5	189	447	230	94.0
<i>Margin (%)</i>	<i>11.5</i>	<i>7.7</i>		<i>10.0</i>	<i>10.8</i>	<i>8.0</i>	
Depr. & Amortization	21	13	58.2	20	41	29	40.0
EBIT	237	106	122.7	169	406	201	101.8
Net Interest	56	22	159.2	24	81	38	113.8
Other Income	4	26	(84.1)	4	8	29	-71.8
Profit before Tax	185	110	67.3	149	334	193	72.9
Total Tax	42	15	186.6	40	82	24	245.9
<i>Effective tax rate (%)</i>	<i>22.9</i>	<i>13.4</i>		<i>26.6</i>	<i>24.6</i>	<i>12.3</i>	
Profit after Tax	142	96	48.9	109	252	169	48.7
<i>PAT Margin (%)</i>	<i>6.3</i>	<i>6.2</i>		<i>5.8</i>	<i>6.1</i>	<i>5.9</i>	
EPS	2.1	1.4	48.4	1.6	3.7	2.5	48.3

Source: Company Data, Idea Research

Operational Data							
Particulars	Q2 '18	Q2 '17	YoY gr. (%)	Q1 '18	H1'18	H1'17	YoY gr. (%)
Volumes (tons)							
Lead	13,500	10,500	28.6	10,724	24,224	19,809	22.3
Aluminium	1,700	800	112.5	1,492	3,192	1,443	121.2
PET	700	117	498.3	513	1,213	417	190.9
EBITDA (Rs/kg)							
Lead	16.0	10.0	60.0	14.4	15.2	10.9	40.1
Aluminium	9.5	6.0	58.3	10.4	10.0	2.5	306.1
PET	1.4	(9.0)	NA	2.9	2.2	(16.5)	NA

Source: Company Data, Idea Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	4,312	6,557	9,311	13,035
Raw Material Expenses	3,399	5,140	7,248	10,115
Gross Profit	913	1,417	2,062	2,920
Employee Cost	246	364	423	534
Other Expenses	495	498	652	899
EBITDA	172	554	988	1,486
Depr. & Amortization	67	66	101	151
Net Interest	88	86	156	245
Other Income	42	9	9	9
Profit before Tax	60	412	740	1,099
Total Tax	5	82	163	242
Profit after Tax	55	330	577	857
Ex-Od items / Min. Int.	0	(0)	-	-
Adj. PAT	44	303	577	857
Avg. Shares O/S (m)	68.4	68.5	68.5	68.5
EPS (Rs.)	0.8	4.8	8.4	12.5

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	172	298	475	651
C/F from Investing	(158)	(483)	(1,204)	(954)
C/F from Financing	5	246	713	377
Inc. / Dec. in Cash	19	62	(16)	74
Opening Cash	67	86	148	132
Closing Cash	86	148	132	206
FCFF	14	(184)	(729)	(303)

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	(14.0)	52.1	42.0	40.0
EBITDA (%)	(11.4)	221.4	78.2	50.4
PAT (%)	(42.8)	502.5	74.9	48.5
EPS (%)	(42.9)	501.7	74.9	48.5
Profitability				
EBITDA Margin (%)	4.0	8.5	10.6	11.4
PAT Margin (%)	1.3	5.0	6.2	6.6
RoCE (%)	10.7	25.8	28.8	28.5
RoE (%)	4.7	24.3	32.8	36.5
Balance Sheet				
Net Debt : Equity	0.1	0.1	0.5	0.6
Net Wrkng Cap. (days)	78.9	77.4	65.0	61.0
Valuation				
PER (x)	198.1	32.9	18.8	12.7
P / B (x)	9.1	7.1	5.4	4.0
EV / EBITDA (x)	62.8	19.7	11.9	8.2
EV / Sales (x)	2.5	1.7	1.3	0.9
Earnings Quality				
Eff. Tax Rate	8.0	19.9	22.0	22.0
Other Inc / PBT	0.7	0.0	0.0	0.0
Eff. Depr. Rate (%)	8.3	6.1	6.1	6.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	1,192	1,500	1,973	2,676
Total Debt	63	200	1,000	1,500
Other Liabilities	42	89	99	112
Total Liabilities	1,297	1,789	3,072	4,288
Net Fixed Assets	693	1,061	2,060	2,710
Goodwill				
Investments	0	0	0	0
Net Current Assets	504	664	902	1,399
Cash & Equivalents	86	148	132	206
Other Current Assets	1,499	2,190	2,887	3,953
Current Liabilities	1,081	1,674	2,117	2,760
Other Assets	99	64	110	180
Total Assets	1,297	1,789	3,072	4,288

Quarterly Financials (Rs m)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	1,657	2,016	1,894	2,247
EBITDA	132	185	189	258
% of revenue	8.0	9.2	10.0	11.5
Depr. & Amortization	17	19	20	21
Net Interest	22	28	24	56
Other Income	2	7	4	4
Profit before Tax	95	146	149	185
Total Tax	16	39	40	42
Profit after Tax	80	107	109	142

Source: Company Data, PL Research.

DISCLAIMER/DISCLOSURESANALYST CERTIFICATION

We/I, Ms. Shailee Parekh (MMS, B.com) and Ms Charmi Mehta (CA) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Ms. Shailee Parekh (MMS, B.com) and Charmi Mehta (CA), Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209