

Gravita India

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Regulatory nudge to scale up domestic recycling; annual report reiterates Vision 2026

- Govt of India (GoI) has notified the Battery Waste Management Rules 2022 (BWMR) in August which expands the scope of the earlier Battery Management & Handling Rules 2001, to include all types of batteries (incl. EV & portable), further organize process flows (centralized registration & filings) and deepen implementation. The draft BWMR was released in CY20 and the notification affirms the GoI's commitment to a circular economy.
- BWMR specifies that extended producer responsibility (EPR) can be discharged either completely by the battery maker or through purchase of surplus EPR certificates, while non-fulfilment would lead to compensation-penalty. It has stated recyclers as a dedicated agent, although the ultimate responsibility of waste management lies with the producer.
- Within normal auto batteries, BWMR sets the recycling target for FY23 at 30% of the units sold in FY20 (3-year lag), but quickly raises it to 50%/70%/90% for FY24/25/26. While on expected lines, it is, nevertheless, positive for the recycling eco-system and, Gravita being a top player, would see benefits from the higher domestic scrap availability.
- Gravita's FY22 Annual Report (AR) reiterates its Vision 2026 through key strategic initiatives, namely build new recycling verticals, viz. rubber, copper, paper, e-waste and lithium; achieve 25%+ revenue CAGR, 35%+ profitability growth and 25%+ ROCE; garner 25%+ non-lead business share; and attain a portfolio mix of 50%+ value-added products.
- The Chariman's speech in the AR has pointed to high competitive entry barriers in the business, led by factors such as specialist knowledge needs, long gestation to secure OEM approvals, multi-national procurement and customer network, government licenses for imports, etc. Gravita's focus on ESG was reflected in its domestic scrap collection priority, tracking resource usage in operations, utilizing solar energy in plants and the newly set-up rubber vertical, providing in-house furnace oil and charcoal briquettes.
- The AR quotes market research firm IMARC projecting the global lead-aluminum recycling market CAGR at 6.8% over 2022-27 to 44mn tons by 2027, while forecasting plastic to grow by 7.5% to 111mn tons. India is expected to witness faster growth, at 9% and 8.6%, resulting in market size of 3.8mn tons and 4mn tons, respectively, by 2027. In FY22, among major overseas subsidiaries, Recyclers Ghana/Gravita Tanzania/Navam Lanka/Gravita Senegal saw PAT jump 8x/2.7x/2.1x/3x to Rs334/243/189/162mn, while Mozambique's was lower. Nicaragua also swung back to logging profit of Rs82mn.
- We slightly adjust our FY23-25E consol. EPS due to updates in the AR figures, with tweaks in operating costs. Our DCF-based TP is marginally up by ~4% to Rs445, to include the revised earnings outlook and minor improvement in the WC cycle. We remain upbeat on the strong volume outlook and optimization, and reiterate our Buy rating for Gravita.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	14,098	22,159	28,613	33,138	41,632
EBITDA	1,119	2,109	2,879	3,605	4,690
EBITDA Margin (%)	7.9	9.5	10.1	10.9	11.3
APAT	525	1,394	1,694	2,024	2,692
EPS (Rs)	7.6	20.2	24.5	29.3	39.0
EPS (% chg)	58.1	165.7	21.6	19.5	33.0
ROE (%)	21.2	42.5	36.9	32.8	32.9
P/E (x)	42.0	15.8	13.0	10.9	8.2
EV/EBITDA (x)	21.8	12.1	9.0	7.2	5.6
P/BV (x)	8.2	5.7	4.1	3.1	2.4

Source: Company, Emkay Research

CMP	Target Price
Rs 319 as of (September 13, 2022)	Rs 445 (▲) 12 months
Rating	Upside
BUY (■)	39.6 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(1) / 2
Target Price change (%)	3.7
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	24.5	29.3
Consensus	24.7	28.7
Mean Consensus TP (12M)	Rs 430	

Stock Details

Bloomberg Code	GRAV IN
Face Value (Rs)	2
Shares outstanding (mn)	69
52 Week H/L	398 / 187
M Cap (Rs bn/USD bn)	22 / 0.28
Daily Avg Volume (nos.)	1,92,234
Daily Avg Turnover (USD mn)	0.7

Shareholding Pattern Jun '22

Promoters	73.0%
FIIIs	1.1%
DIIIs	-%
Public and Others	25.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	17	(9)	56
Rel. to Nifty	3	2	(16)	50

Relative price chart



Source: Bloomberg

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Exhibit 1: Target for Extended Producer Responsibility – Automotive battery

No.	Compliance cycle	Year	Mandatory Waste Battery collection target and 100% of refurbishment or recycling of the collection target (Weight)	Mandatory waste Battery collection target, and 100% refurbishment and/or recycling target for every seven year cycle (Weight)
(i)	2022-23 till 2028-29	2022-2023	Minimum 30% of the quantity of Battery placed in the market in 2019-20.	Collection of 100% Waste Battery and of 100% of refurbishment or recycling shall be mandatory by end of seven year compliance cycle (end of 7th year) against the Battery placed in the market during seven year compliance cycle. However, there may be a carry forward of up to 20% of the average quantity of Battery placed in the market per year during the seven year cycle to the next compliance cycle.
(ii)		2023-2024	Minimum 50% of the quantity of Battery placed in the market in 2020-21.	
(iii)		2024-2025	Minimum 70% of the quantity of Battery placed in the market in 2021-22.	
(iv)		2025-2026	Minimum 90% of the quantity of Battery placed in the market in 2022-23.	
(v)		2026-2027	Minimum 90% of the quantity of Battery placed in the market in 2023-24.	
(vi)		2027-2028	Minimum 90% of the quantity of Battery placed in the market in 2024-25.	
(vii)		2028-2029	Minimum 90% of the quantity of Battery placed in the market in 2025-26.	
(viii)	2029-30 till 2035-36, and onwards	2029-2030 and onwards	Minimum 90% of the quantity of Battery placed in the market in 3rd preceding financial year (i.e. 2026-27) and onwards	Collection of 100% Waste Battery and of 100% of refurbishment or recycling shall be mandatory by end of seven year compliance cycle (end of 7th year) against the Battery placed in the market during seven year compliance cycle. However, there may be a carry forward of up to 20% of the average quantity of Battery placed in the market per year during the seven year cycle to the next compliance cycle.

Source: MoEF, Emkay Research

Exhibit 2: Target for Extended Producer Responsibility – Industrial battery

No.	Compliance cycle	Year	Mandatory Waste Battery collection target and 100% of refurbishment or recycling of the collection target (Weight)	Mandatory Waste Battery collection target, and 100% refurbishment and/or recycling target for every seven year cycle (Weight)
(i)	2022-23 till 2028-29	2022-2023	Minimum 40% of the quantity of Battery placed in the market in 2019-20.	Collection of 100% Waste Battery and of 100% of refurbishment or recycling shall be mandatory by end of seven year compliance cycle (end of 7th year) against the Battery placed in the market during seven year compliance cycle. However, there may be a carry forward of up to 60% of the average quantity of Battery placed in the market per year during the seven year cycle to the next compliance cycle.
(ii)		2023-2024	Minimum 50% of the quantity of Battery placed in the market in 2020-21.	
(iii)		2024-2025	Minimum 60% of the quantity of Battery placed in the market in 2021-22.	
(iv)		2025-2026	Minimum 70% of the quantity of Battery placed in the market in 2022-23.	cycle.
(v)		2026-2027	Minimum 70% of the quantity of Battery placed in the market in 2023-24.	
(vi)		2027-2028	Minimum 70% of the quantity of Battery placed in the market in 2024-25.	
(vii)		2028-2029	Minimum 70% of the quantity of Battery placed in the market in 2025-26.	
(viii)	2029-30 till 2035-36 and onwards	2029-2030 and onwards	Minimum 70% of the quantity of Battery placed in the market in 3rd preceding financial year (i.e. 2026-27) and onwards	Collection of 100% Waste Battery and of 100% of refurbishment or recycling shall be mandatory by end of seven year compliance cycle (end of 7th year) against the Battery placed in the market during seven year compliance cycle. However, there may be a carry forward of up to 60% of the average quantity of Battery placed in the market per year during the seven year cycle to the next compliance cycle.

Source: MoEF, Emkay Research

Exhibit 3: Change in estimates

(Rs mn)	FY23E			FY24E			FY25E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Revenue	28,510	28,613	0%	33,471	33,138	-1%	42,407	41,632	-2%
EBITDA	2,800	2,879	3%	3,518	3,605	2%	4,589	4,690	2%
EBITDA Margins	9.8%	10.1%	24bps	10.5%	10.9%	37bps	10.8%	11.3%	44bps
PAT	1,707	1,694	-1%	1,979	2,024	2%	2,628	2,692	2%
EPS (Rs)	24.7	24.5	-1%	28.7	29.3	2%	38.1	39.0	2%

Source: Company, Emkay Research

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Exhibit 4: DCF-based Valuation (Sep-23E)

DCF Assumptions			Rs mn
Risk Free Rate	7.0%	NPV Of FCF (Sep '24-Sep '35)	20,720
Risk Premium	5.3%	Terminal Value	51,402
Beta	1.0	PV Of TV	13,692
Cost Of Equity	12.0%	Enterprise Value	34,413
Cost Of Debt	10.0%	Less: Adj Net Debt (Y/E)	3,661
Post Tax Cost Of Debt	8.6%	Equity Value	30,751
Average Debt/EV Ratio	12.3%	No. Of Shares O/S (mn)	69
WACC	11.6%	Fair Value (Rs)	445
Terminal Growth Rate	2.0%		

Source: Company, Emkay Research

Exhibit 5: Implied P/E Valuation (FY25E)

Consolidated	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS (Rs)	4.8	7.6	20.2	24.5	29.3	39.0
Target P/E (x)						13.0
DCF Based FV (Rs)						445

Source: Company, Emkay Research

Exhibit 6: Major subsidiaries' profile

Subsidiaries - PAT (Rs mn)	FY18	FY19	FY20	FY21	FY22
Gravita Metals Inc	41	21	8	(51)	(43)
Gravita Global Pte	0	1	(1)	(1)	4
Gravita Netherlands BV	57	72	37	38	127
Gravita Senegal	85	69	75	54	162
Gravita Nicaragua	8	(9)	(27)	(22)	82
Gravita Jamaica	(9)	(20)	(17)	(64)	(15)
Recyclers Ghana	NA	NA	(22)	42	334
Gravita Mozambique	76	64	78	103	14
Mozambique Recyclers	NA	(2)	(4)	59	63
Navam Lanka	76	78	71	91	189
Gravita Tanzania	NA	NA	77	89	243

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	14,098	22,159	28,613	33,138	41,632
Expenditure	12,978	20,050	25,734	29,533	36,942
EBITDA	1,119	2,109	2,879	3,605	4,690
Depreciation	203	206	362	500	658
EBIT	916	1,904	2,517	3,105	4,032
Other Income	72	78	62	58	74
Interest expenses	279	336	498	573	609
PBT	709	1,646	2,081	2,590	3,497
Tax	141	162	291	466	699
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(44)	(91)	(95)	(100)	(105)
Reported Net Income	525	1,394	1,694	2,024	2,692
Adjusted PAT	525	1,394	1,694	2,024	2,692

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	138	138	138	138	138
Reserves & surplus	2,551	3,730	5,171	6,891	9,180
Net worth	2,689	3,869	5,309	7,029	9,318
Minority Interest	90	140	235	335	440
Loan Funds	2,611	3,911	4,369	4,527	5,040
Net deferred tax liability	24	15	15	15	15
Total Liabilities	5,415	7,935	9,928	11,907	14,813
Net block	1,724	1,913	2,840	3,770	4,911
Investment	98	116	149	173	217
Current Assets	5,307	7,522	9,442	10,994	13,532
Cash & bank balance	199	325	356	562	654
Other Current Assets	916	947	1,223	1,417	1,780
Current liabilities & Provision	1,849	2,040	2,803	3,230	4,047
Net current assets	3,458	5,482	6,639	7,764	9,485
Misc. exp	0	0	0	0	0
Total Assets	5,415	7,935	9,928	11,907	14,813

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	637	1,568	2,019	2,532	3,422
Other Non-Cash items	0	133	0	0	0
Chg in working cap	(382)	(1,907)	(1,126)	(920)	(1,628)
Operating Cashflow	765	100	1,428	2,195	2,318
Capital expenditure	(99)	(684)	(1,165)	(1,330)	(1,800)
Free Cash Flow	666	(584)	263	865	518
Investments	(21)	(17)	(34)	(24)	(44)
Other Investing Cash Flow	(146)	(75)	34	24	44
Investing Cashflow	(194)	(699)	(1,103)	(1,272)	(1,726)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(182)	1,300	458	158	513
Dividend paid (incl tax)	(76)	(207)	(254)	(304)	(404)
Other Financing Cash Flow	(39)	(32)	0	0	0
Financing Cashflow	(576)	725	(294)	(718)	(500)
Net chg in cash	(4)	127	31	206	92
Opening cash position	203	199	325	356	562
Closing cash position	199	325	356	562	654

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	7.9	9.5	10.1	10.9	11.3
EBIT Margin	6.5	8.6	8.8	9.4	9.7
Effective Tax Rate	19.9	9.8	14.0	18.0	20.0
Net Margin	4.0	6.7	6.3	6.4	6.7
ROCE	18.7	29.7	28.9	29.0	30.7
ROE	21.2	42.5	36.9	32.8	32.9
RoIC	18.9	31.6	31.1	30.9	32.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	7.6	20.2	24.5	29.3	39.0
CEPS	10.5	23.2	29.8	36.6	48.5
BVPS	38.9	56.0	76.9	101.8	134.9
DPS	1.1	3.0	3.7	4.4	5.8

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	42.0	15.8	13.0	10.9	8.2
P/CEPS	30.3	13.8	10.7	8.7	6.6
P/BV	8.2	5.7	4.1	3.1	2.4
EV / Sales	1.7	1.2	0.9	0.8	0.6
EV / EBITDA	21.8	12.1	9.0	7.2	5.6
Dividend Yield (%)	0.3	0.9	1.2	1.4	1.8

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.9	0.9	0.7	0.5	0.4
Net Debt/EBIDTA	2.1	1.6	1.3	1.1	0.9
Working Cap Cycle (days)	69.9	88.6	83.3	82.2	80.1

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4.6	57.2	29.1	15.8	25.6
EBITDA	14.8	88.5	36.5	25.2	30.1
EBIT	15.5	107.8	32.2	23.4	29.9
PAT	58.1	165.7	21.6	19.5	33.0

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	4,464	5,465	5,566	6,664	6,277
EBITDA	374	501	537	698	638
EBITDA Margin (%)	8.4	9.2	9.6	10.5	10.2
PAT	226	390	413	456	447
EPS (Rs)	3.3	5.7	6.0	6.7	6.5

Source: Company, Emkay Research

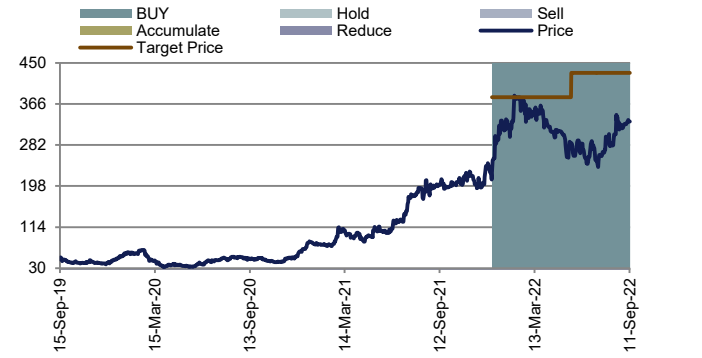
Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	73.0	73.0	73.0	73.0	73.0
FIs	-	0.9	1.4	1.2	1.1
DIs	-	-	0.2	0.1	-
Public and Others	27.0	26.1	25.5	25.7	25.9

Source: Capitaline

RECOMMENDATION HISTORY (RS/share)

Date	Closing Price	TP	Time Period (months)	Rating	Analyst
04-Aug-22	280	430	12	Buy	Sabri Hazarika
10-Jun-22	285	430	12	Buy	Sabri Hazarika
22-May-22	286	430	12	Buy	Sabri Hazarika
21-Dec-21	227	380	12	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY – TREND (Rs/share)

Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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