

Gravita India

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Steady results, though sizable FCF generation a positive surprise

GRAV's Q2FY23 adj. revenue was up 26% YoY at Rs6.9bn, while PAT (after minority interest) grew by 21% to Rs446mn, with H1 run-rate largely in line with our expectations for the year. Sequentially, gross profit declined 13% as Q1 had exceptional arbitrage opportunities in the domestic market and the Sri Lankan crisis affected operations in the island in Q2. Opex however fell, leading to largely flat adj. EBITDA of Rs642mn (up 28% YoY). EBITDA margin moderated to the guided ~9% level or Rs16k/ton+, with equivalent reduction across the three core segments. Total volumes grew by 17% YoY/24% QoQ. However, for GRAV, the positive surprise in Q2 was the sizable reduction in net debt, from Rs3.5bn to Rs2.7bn HoH, on the back of strong FCF of Rs1.1bn, supported by reduction in net working capital cycle from 83 to 66 days (based on our calculation), mainly on the drop in inventory by 16 days. Management maintained its upbeat tone, with capacity additions and scrap availability driving volumes along with improving efficiencies and balance sheet. We maintain our earnings estimates and retain Sep-23E DCF-based TP at Rs445/share. Reiterate BUY.

Results summary: Revenue at Rs6.88bn was up 26% YoY/10% QoQ. Sales volume growth was 17% YoY/24% QoQ at 39.5kt. Volumes of lead were up 16/26%, of AL up 70/31%, while plastic volumes were down 10% YoY/up 11% QoQ. Book EBITDA/ton was up 10% YoY, but fell 19% QoQ to Rs16.2k. Reported lead, AL and plastic EBITDA/ton fell by 19-22% each QoQ. Opex/ton also declined, by 10% YoY/38% QoQ. Finance cost fell 8% QoQ to Rs99mn, while tax rate was at 10%. Segment EBIT for lead/AL/plastic grew 3%/14%/23% YoY and 5%/11%/10% QoQ to Rs506/59/36mn. Turnkey EBIT came in at Rs14mn for Q2 vs. Rs1mn in Q1 and at a loss YoY. Capex for H1 was Rs440mn vs. Rs728mn in FY22. **What we liked:** Reduction in debt, lower working capital cycle and opex management. **What we did not like:** Fall in gross margins QoQ.

Management guidance: Company reiterated its annual volume growth guidance of 25%, with revenue of Rs27-30bn in FY23. It has increased its lead capacity by 6% in H1 to 168ktpa and targets total capacity of 425ktpa including all verticals by FY26. The recent AL capacity addition of 4ktpa in Senegal is expected to yield Rs600mn annual revenue at ~20% gross margins. Phase 1 of the plastic recycling plant in Ghana has also commenced, with capacity of 1.2ktpa and plans to touch 2.7ktpa at the end of phase 2. Capex guidance for H2 stands at Rs600-700mn, while annual capex (all verticals) till FY26 is planned at Rs700-800mnpa. Energy issues in the US and EU present better demand opportunities for GRAV's products. Plastic recycling norms are yet to be notified, while the recent battery waste management rules are expected to formalize the sector, as implementation becomes focused. Sale of recycling certificates could be an additional revenue source. Currently, lead comprises 83% of the mix, and is expected to go down to 75% by FY26. Company plans to start a new AL processing plant in Togo, in Q3. Domestic scrap collection rose to 47% in Q2 vs. 39% in Q1.

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)	47.0	17.7	14.6	12.2	9.2
EV/EBITDA (x)	24.1	13.3	9.9	7.9	6.2
P/BV (x)	9.2	6.4	4.6	3.5	2.6

Source: Company, Emkay Research

CMP	Target Price
Rs 357 as of (November 3, 2022)	Rs 445 (■) 12 months
Rating	Upside
BUY (■)	24.6 %

Change in Estimates

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

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	24.5	29.3
Consensus	26.4	32.3
Mean Consensus TP (12M)	Rs 445	

Stock Details

Bloomberg Code	GRAV IN
Face Value (Rs)	2
Shares outstanding (mn)	69
52 Week H/L	398 / 188
M Cap (Rs bn/USD bn)	25 / 0.30
Daily Avg Volume (nos.)	3,91,895
Daily Avg Turnover (USD mn)	1.6

Shareholding Pattern Jun '22

Promoters	73.0%
FII	1.1%
DII	-%
Public and Others	25.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	27	16	71
Rel. to Nifty	7	22	9	69

Relative price trend



Source: Bloomberg

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Exhibit 1: Quarterly summary (Consolidated)

Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)	H1FY22	H1FY23	YoY (%)
Revenue*	5,465	5,566	6,664	6,277	6,882	26%	10%	9,929	13,159	33%
COGS	4,303	4,392	5,214	4,738	5,543	29%	17%	7,805	10,281	32%
Gross Profit	1,162	1,174	1,450	1,539	1,339	15%	-13%	2,124	2,878	35%
Opex	661	637	752	901	697	5%	-23%	1,250	1,597	28%
EBITDA	501	537	698	638	642	28%	1%	874	1,280	46%
Depreciation	50	52	54	54	56	11%	3%	100	110	10%
EBIT	451	485	644	584	586	30%	0%	774	1,171	51%
Finance Cost	70	67	145	108	99	41%	-8%	124	206	67%
Other Income*	38	39	(8)	23	14	-62%	-39%	48	37	-23%
PBT Before Exceptional	419	457	491	500	502	20%	0%	699	1,002	43%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
PBT	419	457	491	500	502	20%	0%	699	1,002	43%
Tax	29	44	35	53	52	82%	-2%	83	105	27%
PAT	390	413	456	447	450	15%	1%	616	896	46%
PAT After MI	370	393	413	425	446	21%	5%	587	871	48%
EPS (Rs)	5.4	5.7	6.0	6.2	6.5	21%	5%	8.5	12.6	48%
Segmental										
Lead Revenue	4,731	4,677	5,536	4,819	5,683	20%	18%	8,490	10,502	24%
Lead EBIT	492	408	585	480	506	3%	5%	740	986	33%
Lead EBIT Margin	10%	9%	11%	10%	9%			9%	9%	
Lead Volumes (ton)	26,687	25,318	28,827	24,738	31,060	16%	26%	49,466	55,798	13%
Lead EBIT/ton (Rs)	18,425	16,103	20,287	19,411	16,288	-12%	-16%	14,960	17,673	18%
Aluminium Revenue	368	520	740	654	775	111%	19%	807	1,429	77%
Aluminium EBIT	51	78	84	53	59	14%	11%	128	111	-13%
Aluminium EBIT Margin	14%	15%	11%	8%	8%			16%	8%	
Aluminium Volumes (ton)	2,543	3,183	4,290	3,318	4,331	70%	31%	5,643	7,649	36%
Aluminium EBIT/ton (Rs)	20,173	24,348	19,627	15,943	13,507	-33%	-15%	22,594	14,564	-36%
Plastic Revenue	364	332	360	297	315	-13%	6%	622	612	-2%
Plastic EBIT	29	25	91	32	36	23%	10%	62	68	
Plastic EBIT Margin	8%	7%	25%	11%	11%			10%	11%	
Plastic Volumes (ton)	4,556	3,660	4,272	3,706	4,123	-10%	11%	8,376	7,829	-7%
Plastic EBIT/ton (Rs)	6,321	6,694	21,348	8,743	8,610	36%	-2%	7,438	8,673	17%
Turnkey Revenue	0	34	19	16	52			5	68	
Turnkey EBIT	-8	7	11	2	14			(13)	16	
Turnkey EBIT Margin		20%	57%	10%	27%				23%	

Source: Company, Emkay Research; *Hedging gain reported in Other Income by Company, adjusted in revenue

Exhibit 2: The material improvement in net working capital cycle during H1FY23 led by lower inventory (based on our calculation from reported balance sheet and revenue/COGS)

Working Capital Cycle	FY19	FY20	FY21	FY22	Q2FY23
Inventory Days	54	61	93	85	68
Debtor Days	28	18	15	18	12
Creditor Days	30	25	38	14	10
Core Working Capital Cycle	52	54	70	89	71
Other Asset Days	26	29	27	18	16
Other Liability Days	5	5	14	23	21
Net Working Capital Cycle	72	78	83	83	66

Source: Company, Emkay Research

Exhibit 3: DCF-based valuation (Sep-23E)

Assumptions			(Rs mn)
Risk Free Rate	7.0%	NPV Of FCF (Sep-24 to 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 4: Implied PER 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

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	15.2	28.5	26.7	25.3	26.1

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	47.0	17.7	14.6	12.2	9.2
P/CEPS	33.9	15.4	12.0	9.8	7.4
P/BV	9.2	6.4	4.6	3.5	2.6
EV / Sales	1.9	1.3	1.0	0.9	0.7
EV / EBITDA	24.1	13.3	9.9	7.9	6.2
Dividend Yield (%)	0.3	0.8	1.0	1.2	1.6

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.9	0.9	0.7	0.5	0.4
Net Debt/EBITDA	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)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	5,465	5,566	6,664	6,277	6,882
EBITDA	501	537	698	638	642
EBITDA Margin (%)	9.2	9.6	10.5	10.2	9.3
PAT	390	413	456	447	450
EPS (Rs)	5.7	6.0	6.7	6.5	6.6

Source: Company, Emkay Research

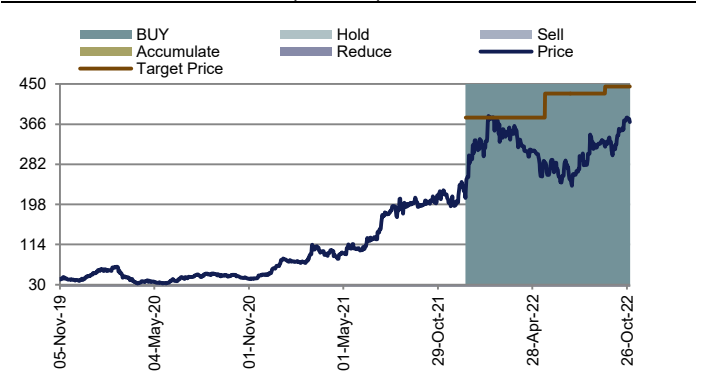
Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	73.0	73.0	73.0	73.0	73.0
FIs	-	0.9	1.4	1.2	1.1
DIs	-	-	0.2	0.1	-
Public and Others	27.0	26.1	25.5	25.7	25.9

Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
14-Sep-22	319	445	12m	Buy	Sabri Hazarika
04-Aug-22	280	430	12m	Buy	Sabri Hazarika
10-Jun-22	285	430	12m	Buy	Sabri Hazarika
22-May-22	286	430	12m	Buy	Sabri Hazarika
21-Dec-21	227	380	12m	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)

Source: Bloomberg, Company, Emkay Research

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

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