BUY Gravita India

Strong run continues

Metals & Mining ▸ Result Update ▸ **July 22, 2024**

TARGET PRICE (Rs): 1,650

Gravita India (GRAV) clocked consol. volume growth of 29% YoY in Q1FY25, led by lead vol. growth of 43% YoY (on a cyclone-impacted base albeit in line with overall guidance). Also, PAT (after MI) grew 29% YoY. The mgmt indicated FY25 consol. volume growth of >25% YoY, besides reiterating 'Vision 2028'. The company highlighted progress on the regulatory framework (penalties for non-compliance of BWMR and EPR norms expected soon), with gradual stabilization of AL margins toward spurring volume growth. The mgmt has slightly upped its lead EBITDA/kg guidance to Rs18-19 from Rs17-18, on efficiencies and scale-related benefits. Efforts are under way in new verticals, with due diligence in paper and steel, and pilot in Li-ion. We retain BUY on GRAV, hoisting and rolling-over to Sep-25E TP of Rs1,650/sh (25x target P/E).

Gravita India: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	28,886	32,008	41,669	52,447	62,818
EBITDA	2,856	3,236	4,399	5,590	6,688
Adj. PAT	2,011	2,545	3,184	4,090	5,023
Adj. EPS (Rs)	29.1	36.9	46.1	59.2	72.7
EBITDA margin (%)	9.9	10.1	10.6	10.7	10.6
EBITDA growth (%)	35.4	13.3	35.9	27.1	19.6
Adj. EPS growth (%)	44.3	26.5	25.1	28.5	22.8
RoE (%)	41.2	35.7	32.7	31.9	30.1
RoIC (%)	30.4	24.8	25.6	26.8	27.3
P/E (x)	49.8	39.3	31.4	24.5	19.9
EV/EBITDA (x)	36.0	32.2	23.8	18.7	15.3
P/B (x)	17.0	11.9	9.0	6.9	5.3
FCFF yield (%)	0.9	(0.4)	(0.1)	1.0	2.8

Source: Company, Emkay Research

Result Highlights

GRAV reported Q1FY25 consol adj revenue/adj EBITDA/PAT (after MI) at Rs9.1bn/912mn/673mn, up 28%/19%/29% YoY and up 3%/down 2%/down 2% QoQ. Total volumes rose 29% YoY/were flat QoQ to 47.6kt, with lead growth strong at 43% YoY to 41.9kt. AL volumes saw a decline of 48% YoY to 2.5kt, whereas plastic volumes rose 18% YoY to 3.2kt, in Q1. Reported EBITDA/kg for lead/AL/plastic was Rs19.3/19.4/10.1, flat/up 27% (higher LME prices)/down 10% QoQ. Lead EBIT grew 79% YoY to Rs825mn, whereas AL grew 44% YoY to Rs47mn and plastics fell 16% YoY to Rs31mn. Turnkey project EBIT fell 34% QoQ to Rs24mn. D/A fell 48% QoQ to Rs65mn due to one-offs of Rs30-40mn in Q4FY24 relating to Ghana currency depreciation impact. Capex incurred in Q1 was Rs150-200mn in existing verticals. Gross/net debt was Rs5.5/4.7bn as of end Jun-24, while working capital days have lowered to 80 in Q1 from 85, QoQ. In Q1, lead/AL/plastic capacity utilization was 70%/45%/40%, respectively.

Management KTAs

The management expects AL hedging mechanism to be available from end-Q2FY25. The company plans capacity additions in Q2 at Ghana and Mundra. Steady-state AL EBITDA/kg can be expected at Rs14-16. BWMR and EPR norms are resulting in higher domestic scrap availability, with Q1 domestic sourcing at 42% for Indian plants (up 50% YoY, in volume terms). GRAV plans to commission a rubber recycling plant with capacity of 9ktpa and capex cost of Rs300mn at Mundra, in H1FY26. Paper and steel verticals are likely to be operational by FY27. Capex target for FY25 is Rs1.8bn – Rs1.4bn/400mn in existing/new verticals. Consol effective tax rate for 2-3 years is expected at 10-11%. GRAV's peak utilization is 75-80% and it targets 70-75% to meet >25% volume CAGR.

Valuation

We value GRAV at Sep-26E (roll-over from Mar-26E) P/E-based TP of Rs1,650/sh (raising target multiple to 25x, from 23x earlier, led by implementation of BWMR and EPR norms and a strong outlook, including diversification into new verticals). Key risks: highly adverse commodity prices, shutdowns/project delays, competition, country-based risks.

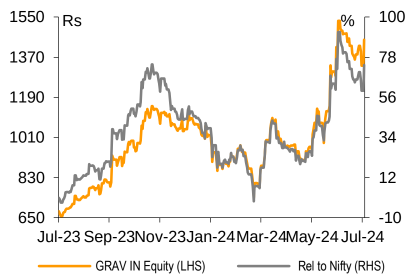
Target Price – 12M	Sep-25
Change in TP (%)	**22.6**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	13.8
CMP (22-Jul-24) (Rs)	1,449.0

Stock Data	Ticker
52-week High (Rs)	1,635
52-week Low (Rs)	610
Shares outstanding (mn)	69.0
Market-cap (Rs bn)	100
Market-cap (USD mn)	1,196
Net-debt, FY25E (Rs mn)	4,789
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	578.1
ADTV-3M (USD mn)	6.9
Free float (%)	32.0
Nifty-50	24,509
INR/USD	83.7
Shareholding, Jun-24	
Promoters (%)	63.4
FPIs/MFs (%)	13.4/2.6

Price Performance

(%)	1M	3M	12M
Absolute	(5.5)	48.7	121.3
Rel. to Nifty	(9.4)	35.5	78.3

1-Year share price trend (Rs)



Sabri Hazarika
sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Amit Lahoti
amit.lahoti@emkayglobal.com
+91 22 6612 1284

Harsh Maru
harsh.maru@emkayglobal.com
+91 22 6612 1336

Arya Patel
arya.patel@emkayglobal.com
+91 22 6612 1285

Exhibit 1: Quarterly Summary (Consolidated)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	FY23	FY24	YoY(%)
Adj. Revenue	**7,135**	**8,434**	**7,598**	**8,841**	**9,114**	**28%**	**3%**	**28,757**	**32,008**	**11%**
COGS	5,629	6,804	6,102	7,078	7,286	29%	3%	22,854	25,612	12%
Adj. Gross Profit	**1,506**	**1,630**	**1,496**	**1,764**	**1,828**	**21%**	**4%**	**5,903**	**6,396**	**8%**
Opex	741	832	673	835	916	24%	10%	3,086	3,080	0%
Adj. EBITDA	**765**	**798**	**824**	**929**	**912**	**19%**	**-2%**	**2,817**	**3,316**	**18%**
Depreciation	79	86	90	125	65	-18%	-48%	240	380	59%
EBIT	686	713	733	804	847	23%	5%	2,577	2,936	14%
Finance Cost	127	112	130	124	130	2%	5%	391	492	26%
Other Income	16	69	134	42	34	109%	-19%	90	261	190%
PBT Before Exceptional	575	670	738	722	751	30%	4%	2,276	2,705	19%
Exceptional Item	36	-	-	-	-			-	36	
PBT	539	670	738	722	751	39%	4%	2,276	2,669	17%
Tax	86	82	123	28	71	-18%	152%	235	319	36%
PAT	453	588	615	694	680	50%	-2%	2,041	2,350	15%
PAT After MI	**521**	**579**	**603**	**690**	**673**	**29%**	**-2%**	**2,011**	**2,392**	**19%**
EPS (Rs)	7.5	8.4	8.7	10.0	9.8	29%	-2%	29.1	34.6	19%
Segmental										
Lead Revenue	5,834	7,577	6,798	7,671	8,321	43%	8%	23,335	27,880	19%
Lead EBIT	462	628	814	789	825	79%	5%	2,143	2,693	26%
Lead EBIT margin	8%	8%	12%	10%	10%			9%	10%	
Lead Volumes (ton)	29,287	38,769	34,488	40,634	41,913	43%	3%	122,267	143,178	17%
Lead EBIT/ton (Rs)	15,761	16,209	23,614	19,412	19,688	25%	1%	17,525	18,810	7%
Aluminium Revenue	858	589	523	579	482	-44%	-17%	3,388	2,549	-25%
Aluminium EBIT	32	27	32	31	47	44%	49%	259	122	-53%
Aluminium EBIT Margin	4%	5%	6%	5%	10%			8%	5%	
Aluminium Volumes (ton)	4,772	3,404	3,264	3,247	2,459	-48%	-24%	19,094	14,687	-23%
Aluminium EBIT/ton (Rs)	6,790	7,902	9,651	9,640	18,991	180%	97%	13,575	8,313	-39%
Plastic Revenue	182	195	177	227	206	13%	-9%	1,045	780	-25%
Plastic EBIT	37	32	21	30	31	-16%	4%	154	119	-23%
Plastic EBIT Margin	20%	16%	12%	13%	15%			15%	15%	
Plastic Volumes (ton)	2,750	3,018	2,458	3,540	3,189	16%	-10%	14,511	11,766	-19%
Plastic EBIT/ton (Rs)	13,418	10,537	8,381	8,418	9,752	-27%	16%	10,626	10,122	-5%
Turnkey Revenue	146	72	62	129	68	-53%	-47%	190	409	115%
Turnkey EBIT	100	36	36	36	24	-76%	-34%	117	208	77%
Turnkey EBIT Margin	68%	49%	59%	28%	35%			62%	51%	

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 that in the annual tables due to a different adjustment method in the Emkay detailed annual model

Detailed Con-call Takeaways

- The management indicated that BWMR and EPR norms are resulting in higher domestic scrap availability, with Q1 domestic sourcing at 42% for Indian plants (up 50% YoY, in volume terms). The company expects that the current 55-60% share of the informal recycling sector would further reduce. Of the India procurement, 80% is through OEMs and, hence, GRAV does not face a price risk. CPCB is under discussions with stakeholders, for levy of penalty on OEMs for non-compliance of BWMR norms. The management expects penalties to be finalized and published in Q2FY25, with penalty for lead acid battery already determined, and for Li-ion being in discussions.

- The management upped its lead EBITDA/kg guidance, from Rs17-18/kg to Rs18-19/kg, on operating efficiencies and scale-related benefits. The company expects higher domestic availability led by BWMR implementation, while growth is currently being mainly driven by anchor clients; 8-10% growth is organic. GRAV expects FY25 volume growth to be higher than the 25% CAGR guidance. Consolidated effective tax rate for 2-3 years is expected to be 10-11%.

- GRAV has reiterated its 'Vision 2028', emphasizing on diversification into new verticals such as Lithium-ion, steel, and paper. The company targets revenue CAGR of >25% and PAT CAGR of >35%, along with maintaining ROCE of 25% and elevating the non-led business to over 30%. Further, GRAV aims to increase the proportion of VAP to 50%. Its earnings could reach Rs7.5-8bn by 2028.

- The management expects AL hedging mechanism to be available from Q2FY25-end, while EPR implementation in the plastic segment would take longer, viz possibly by FY25-end. Aluminum alloy (ADC12) has been notified under the Securities Contracts Regulation Act, and GRAV expects the launch of this aluminum alloy commodity derivative on MCX by Q2FY25. Steady-state AL EBITDA/kg can be expected at Rs14-16, while the Q1 uptick was partly on account of LME price improvement.

- Recently, GRAV signed favorable price (based on M-1 and M-2) contracts with customers in India, wherein recycled AL from overseas plant is being imported and sold in India. Some AL margin stability could be seen from Q2, combined with volume uptick (2.5kt is already in the shipping phase now). The new AL unit in Ghana would also add to volumes in FY25, and commissioning announcement would be made soon. India is a net importer of AL, importing ~1.7mmtpa.

- The company is undertaking a Li-ion pilot project at Mundra, and has bought black mass technology; metal extraction (hydro metallurgy) technology is being developed in-house. It plans to invest Rs0.7-1bn in the Li-ion vertical, over the next 3 years. The initial scrap procurement plan is to obtain imported scrap, while availability in India could increase in 2-3 years. Currently, Indian players are converting battery scrap into black mass, which they are exporting for further refining. Price of battery is Rs90-250/kg, depending on the type of battery, with LHC battery at ~Rs100/kg and nickel-cobalt-based battery at Rs250/kg. In India, mobile and laptop batteries form the bulk of scrap; however, collections remain a challenge. India imports Li-ion cells, with China, Korea, and the EU being key manufacturers – with Li-ion scrap volumes likely at 3-4kt per month now.

- GRAV plans to commission a rubber recycling plant (crumbed rubber+pyrolysis oil) with capacity of 9ktpa and capex cost of Rs300mn, at Mundra in H1FY26. The company targets import of tyres as well for feedstock needs. It also has plans of an independent food grade PET recycling facility in India; the paper and steel verticals are likely to be operational by FY27 (in due diligence phase now). New verticals like plastic and paper are likely to be more profitable than lead and AL.

- The company's capex target is Rs6bn, with funding mainly through internal accruals and some debt for working capital purposes. GRAV's capex target for FY25 is Rs1.8bn – Rs1.4bn/400mn in existing/new verticals. It has spent Rs150-200mn in existing verticals, in Q1FY25.

- Gross/net debt is Rs5.5/4.7bn as at Jun'24-end, while working capital days have lower to 80 days in Q1, from 85 days QoQ. Company plans to reduce inventory days to 65-70 days in 3 years as more domestic scrap availability improves thereby supporting growth in tolling business.

- The company plans capacity additions in Q2, at Ghana and Mundra. GRAV's peak utilization is 75-80% and it targets 70-75% to meet the >25% volume CAGR. India utilization is likely to increase with higher domestic scrap availability. In Q1, lead/AL/plastic utilization was 70%/45%/40%.
- The company closed overseas subsidiaries in Costa Rica and Jamaica, which were non-operational entities after closure of the Nicaragua operations. Employee costs in Q1 included additional provision related to performance incentives as well as annual increments of 9-10%; the Q2 onward run-rate would be similar. Depreciation in Q4FY24 included Rs30-40mn of one-offs due to currency depreciation in Ghana impacting asset value, and Q1FY25 seeing the new run-rate, while currency-related evaluation is typically undertaken in Q4.

Exhibit 2: P/E-based valuation

(Rs)	FY23	FY24	FY25E	FY26E	FY27E
Consol EPS	29.1	36.9	46.1	59.2	72.7
Target P/E (x)					**25.0**
Sep-25E TP/share					**1,650**

Source: Company, Emkay Research

Gravita India : Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**28,886**	**32,008**	**41,669**	**52,447**	**62,818**
Revenue growth (%)	30.4	10.8	30.2	25.9	19.8
EBITDA	**2,856**	**3,236**	**4,399**	**5,590**	**6,688**
EBITDA growth (%)	35.4	13.3	35.9	27.1	19.6
Depreciation & Amortization	240	380	439	568	690
EBIT	**2,617**	**2,856**	**3,960**	**5,022**	**5,998**
EBIT growth (%)	37.5	9.2	38.7	26.8	19.4
Other operating income	0	0	0	0	0
Other income	51	530	315	398	479
Financial expense	391	492	600	687	678
PBT	**2,276**	**2,894**	**3,675**	**4,733**	**5,799**
Extraordinary items	0	0	0	0	0
Taxes	235	319	441	568	696
Minority interest	30	31	50	75	80
Income from JV/Associates	0	0	0	0	0
Reported PAT	**2,011**	**2,545**	**3,184**	**4,090**	**5,023**
PAT growth (%)	44.3	26.5	25.1	28.5	22.8
Adjusted PAT	**2,011**	**2,545**	**3,184**	**4,090**	**5,023**
Diluted EPS (Rs)	**29.1**	**36.9**	**46.1**	**59.2**	**72.7**
Diluted EPS growth (%)	44.3	26.5	25.1	28.5	22.8
DPS (Rs)	**4.4**	**5.2**	**6.9**	**8.9**	**10.9**
Dividend payout (%)	**14.9**	**14.1**	**15.0**	**15.0**	**15.0**
EBITDA margin (%)	9.9	10.1	10.6	10.7	10.6
EBIT margin (%)	9.1	8.9	9.5	9.6	9.5
Effective tax rate (%)	10.3	11.0	12.0	12.0	12.0
NOPLAT (pre-IndAS)	**2,346**	**2,542**	**3,485**	**4,419**	**5,278**
Shares outstanding (mn)	69.1	69.1	69.1	69.1	69.1

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	138	138	138	138	138
Reserves & Surplus	5,751	8,236	10,942	14,419	18,688
Net worth	**5,889**	**8,374**	**11,080**	**14,557**	**18,826**
Minority interests	128	132	182	257	337
Deferred tax liability (net)	3	2	2	2	2
Total debt	**3,477**	**5,476**	**6,483**	**7,791**	**6,298**
Total liabilities & equity	**9,497**	**13,984**	**17,748**	**22,606**	**25,463**
Net tangible fixed assets	2,657	3,409	4,298	5,630	7,240
Net intangible assets	3	3	3	3	3
Net ROU assets	73	73	73	73	73
Capital WIP	455	428	900	1,500	800
Goodwill	0	0	0	0	0
Investments [JV/Associates]	11	165	0	0	0
Cash & equivalents	**610**	**1,337**	**1,694**	**3,267**	**3,847**
Current assets (ex-cash)	8,243	10,609	13,575	15,649	17,883
Current Liab. & Prov.	2,555	2,040	2,795	3,515	4,383
NWC (ex-cash)	**5,688**	**8,570**	**10,780**	**12,134**	**13,500**
Total assets	**9,497**	**13,984**	**17,748**	**22,606**	**25,463**
Net debt	2,867	4,139	4,789	4,524	2,451
Capital employed	9,497	13,984	17,748	22,606	25,463
Invested capital	**8,421**	**12,055**	**15,154**	**17,839**	**20,816**
BVPS (Rs)	85.3	121.3	160.5	210.8	272.6
Net Debt/Equity (x)	0.5	0.5	0.4	0.3	0.1
Net Debt/EBITDA (x)	1.0	1.3	1.1	0.8	0.4
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	**30.6**	**28.8**	**26.9**	**26.9**	**26.9**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,276	2,894	3,675	4,733	5,799
Others (non-cash items)	777	628	724	857	889
Taxes paid	(235)	(496)	(441)	(568)	(696)
Change in NWC	(822)	(2,449)	(2,315)	(1,471)	(1,479)
Operating cash flow	**1,997**	**577**	**1,643**	**3,550**	**4,513**
Capital expenditure	(1,064)	(980)	(1,800)	(2,500)	(1,600)
Acquisition of business	0	0	0	0	0
Interest & dividend income	7	108	315	398	479
Investing cash flow	**(1,054)**	**(1,578)**	**(1,320)**	**(2,102)**	**(1,121)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(433)	1,997	1,000	1,300	(1,500)
Payment of lease liabilities	(8)	(11)	8	7	7
Interest paid	(389)	(482)	(600)	(687)	(678)
Dividend paid (incl tax)	(43)	(295)	(478)	(614)	(753)
Others	(22)	541	8	7	7
Financing cash flow	**(887)**	**1,761**	**(70)**	**7**	**(2,924)**
Net chg in Cash	56	759	252	1,455	467
OCF	1,997	577	1,643	3,550	4,513
Adj. OCF (w/o NWC chg.)	2,818	3,026	3,958	5,022	5,992
FCFF	933	(404)	(157)	1,050	2,913
FCFE	549	(788)	(443)	762	2,713
OCF/EBITDA (%)	69.9	17.8	37.3	63.5	67.5
FCFE/PAT (%)	27.3	(30.9)	(13.9)	18.6	54.0
FCFF/NOPLAT (%)	**39.8**	**(15.9)**	**(4.5)**	**23.8**	**55.2**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	49.8	39.3	31.4	24.5	19.9
P/CE(x)	44.5	34.2	27.6	21.5	17.5
P/B (x)	17.0	11.9	9.0	6.9	5.3
EV/Sales (x)	3.6	3.3	2.5	2.0	1.6
EV/EBITDA (x)	36.0	32.2	23.8	18.7	15.3
EV/EBIT(x)	39.3	36.5	26.5	20.8	17.1
EV/IC (x)	12.2	8.6	6.9	5.9	4.9
FCFF yield (%)	0.9	(0.4)	(0.1)	1.0	2.8
FCFE yield (%)	0.5	(0.8)	(0.4)	0.8	2.7
Dividend yield (%)	0.3	0.4	0.5	0.6	0.8
DuPont-RoE split					
Net profit margin (%)	7.0	7.9	7.6	7.8	8.0
Total asset turnover (x)	3.3	2.7	2.6	2.6	2.6
Assets/Equity (x)	1.8	1.6	1.6	1.6	1.4
RoE (%)	**41.2**	**35.7**	**32.7**	**31.9**	**30.1**
DuPont-RoIC					
NOPLAT margin (%)	8.1	7.9	8.4	8.4	8.4
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**30.4**	**24.8**	**25.6**	**26.8**	**27.3**
Operating metrics					
Core NWC days	80.2	98.5	94.9	84.9	78.8
Total NWC days	**80.2**	**98.5**	**94.9**	**84.9**	**78.8**
Fixed asset turnover	9.1	7.5	7.6	7.4	6.8
Opex-to-revenue (%)	11.1	9.9	9.6	9.1	8.7

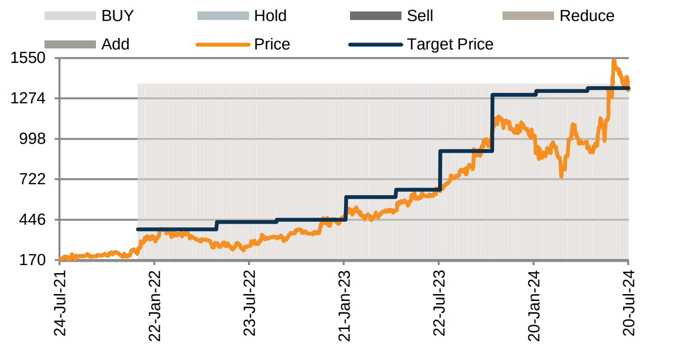
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
03-May-24	948	1,345	Buy	Sabri Hazarika
25-Jan-24	943	1,325	Buy	Sabri Hazarika
30-Nov-23	1,119	1,300	Buy	Sabri Hazarika
02-Nov-23	1,049	1,300	Buy	Sabri Hazarika
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: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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SESHADRI KUMAR SEN

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