KamayaKya

UPSIDE POTENTIAL 20%

GRAVITA INDIA LIMITED

INDUSTRIAL MINERALS INDUSTRY

Gravita India Ltd. (GIL)

AS ON 23/12/2022 MCap : ₹2787 Cr. Risk Profile : Medium

NSE: GRAVITA BSE: 533282 Entry Price: Rs 403.8 Target Price: Rs.486 Duration: 12 months

EV/EBITDA: 11.91	OPM:10%	D/E: 0.65	ROCE: 31.2%	Promoter Holding: 73%
Price to Sales: 1.123	NPM: 7%	Interest Coverage Ratio: 5.66	ROE: 42.9%	DII + FII: 0.98%

FUNDAMENTAL NOTES

Established in the early 1990s, GIL is engaged in the manufacturing of Lead (85% of FY22 sales) through recycling Lead acid batteries along with diversification into Aluminum (10%) and Plastic recycling (5%). Further diversification into rubber, steel, copper, lithium-e waste and paper are on the cards. GIL also manufactures high value products which are 42% of FY22 sales and provides turnkey solutions. Company has recycling plants located in India and offshore (majorly in Africa). Gravita is the leader in the organized Lead recycling space in India, with a 18% market share (4% share in the overall Lead market). GIL was the first mover into Africa with 60% market share in scrap sourcing. Currently Indian business contributes 64% and rest is offshore. The Lead recycling business is not a niche area. Plants can be set up within 1-1.5 years. However, sourcing network, strategic locations, logistics management, corporate tie-ups, and strong OEM relationships are key competitive strengths.

TRIGGERS

1. REGULATORY TAILWINDS TO THE LEAD RECYCLING INDUSTY, STRUCTURAL SHIFT FROM UNORGANIZED TO ORGANIZED
- The Ministry of Environment, Forest and Climate Change, Government of India published the Battery Waste Management Rules, 2022 on 24th August, 2022 to ensure environmentally sound management of waste batteries. This will be a game changer for the companies operating in Battery recycling field. The mandate will increase the volume by 2x-3x for organized recyclers going forward. The EPR rule clearly mandates that recyclers can recycle to the limit of their capacity. The entity cannot outsource the recycling work. The mandate clearly gives the reason for capacity expansion in the industry and utilization of the same. Currently the organized sector caters to 35% of the industry's demand which is expected to grow to 75% by FY26. Major unorganized market was retail battery dealers giving to recyclers who were evading GST.

2. CAPEX TO CATER TO DOMESTIC VOLUMES AS WELL AS OFFSHORE DEMAND WITH HIGH FIXED ASSET TURN
- Gravita has a total capacity of 1,68,319 TPA, 22,000 TPA, 23,400 TPA in Lead, Aluminium and Plastic respectively. Company's capacity is running at 67% utilization levels. Company has expansion plans to take the total capacity to 4,25,000 TPA from existing 2,13,719 TPA till FY26 with a total capex of Rs. 312 Cr, of which 65-70% will be in India and rest in international locations. GIL will incur Rs. 60-70 Cr. annually for the capex till FY26 with asset turns of 8-9x. Management has kept the internal target of D/E of 1:1 if any further opportunity emerges. The company can go for QIP up to Rs. 300 Cr. (Postponed to next year)

3. GUIDANCE ON VOLUMES AND PROFITABILITY WITH SUSTAINABLE EBITDA MARGINS, BACK-TO-BACK HEDGING MECHANISM
-Management had given volume guidance of 25% and EBITDA Margin guidance of 9%, as the company does back-to-back hedging which keeps their margin range bound. Company's revenue is likely to increase at 25% CAGR till FY26 (Management target of Rs. 5000 Cr. by FY25) while bottom-line is expected to grow at 35% CAGR from FY22 to FY26E as per the management. Company has 50% plus target of value-added product (2-3% higher margin) which is currently at 42%,

4. DIVERSIFYING INTO HIGH MARGIN AND COMPLEMENTING VERTICALS TO REDUCE CONCENTRATION ON SINGLE PRODUCT
- GIL is actively working on reducing dependency on single business which is lead recycling (85%) and enter into high margin business like Plastic (Started in 2015), Aluminum (2016), Rubber (2022) while entering into Steel, Paper and Lithium ion is on the cards. Management targets 25% revenue share from non-lead business which is currently 15%.

RISKS

1.Risks from competitors and the entry of miners and OEMs into recycling. However, in reality, battery OEMs prefer recycled Lead over mined Lead due to lower relative profitability and higher govt. impetus on battery recycling.

2. Amara Raja (major client) is constructing battery recycling unit to get backward integration. This can be a threat to GIL's volumes. Despite that, the shift in volumes from the unorganized to organized sector will fill the gap.

3. Sri Lanka business which is 5-7% of total revenue is running at slower pace hence volume contribution will be lower.

4. GIL has no hedging for Aluminium division as of now but management is planning to get it done by H1FY24.

5. Adverse global commodity prices, economic & industrial slowdown, macro events, oversupply and broader cyclicality can impact realizations, margins and volumes.