August 2024

Initiating Coverage | Sector: Recycling

# Gravita India


## Getting the 'Lead Out' in style!

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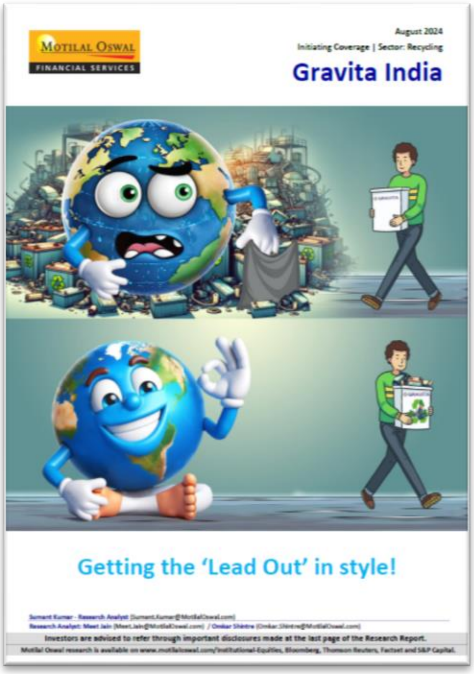



## Getting the 'Lead Out' in style!

Gravita India (Gravita) is one of the key players in the growing recycling industry in India. The company is primarily engaged in recycling lead (~88% of revenue in FY24), aluminum (~8%), and plastics (~2%). Additionally, it offers turnkey solutions to its customers, assisting them in setting up recycling plants.

- Gravita's core business of lead recycling is expected to sustain the strong revenue growth momentum (at ~21% CAGR over FY24-27), fueled by favorable regulatory changes and the formalization of the sector (BWMR, 2022).
- However, the other key business segments, such as Aluminum and Plastic, are expected to report a much higher revenue CAGR of ~49% and 52%, respectively, propelled by changing business scenario due to the introduction of new hedging mechanisms and stricter implementation of regulatory policies (such as the Plastic Waste Management Rule; PWMR).
- The company is incurring a significant capex of over INR6b (INR4b for the existing segments and INR2b for the upcoming segments, like Lithium ion, Steel, and Paper) on the existing gross block of ~INR4.8b to more than double the capacity over the next three years (~686K MTPA by FY27 vs. ~303K in FY24).
- We believe that with strong industry tailwinds, favorable regulatory policies, the availability of additional hedging mechanisms, and the absence of significant supply chain disruption, Gravita can ramp up the utilization materially (driving ~30% sales volume CAGR over FY24-27E).

# Gravita India

| BSE Sensex | S&P CNX |
|---|---|
| 78,956 | 24,139 |

**CMP: INR1,800** **TP: INR2,350 (+31%)** **Buy**

GRAVITA

**Stock Info**

| | |
|---|---|
| Bloomberg | GRAV IN |
| Equity Shares (m) | 69 |
| M.Cap.(INRb)/(USDb) | 123 / 1.5 |
| 52-Week Range (INR) | 1915 / 693 |
| 1, 6, 12 Rel. Per (%) | 30/90/125 |
| 12M Avg Val (INR M) | 362 |
| Free float (%) | 36.6 |

**Financial Snapshot (INR b)**

| Y/E March | FY25E | FY26E | FY27E |
|---|---|---|---|
| Sales | 40.7 | 50.9 | 63.8 |
| EBITDA* | 4.2 | 5.4 | 7.2 |
| EBITDA Margin (%)* | 10.3 | 10.7 | 11.2 |
| Adj. PAT | 3.0 | 4.0 | 5.3 |
| Cons. Adj. EPS (INR) | 43.7 | 57.8 | 77.2 |
| EPS Gr. (%) | 26 | 32 | 34 |
| BV/Sh. (INR) | 164 | 221 | 297 |
| **Ratios (%)** | | | |
| Net D:E | 0.4 | 0.3 | 0.2 |
| RoE (%) | 22.8 | 23.8 | 24.8 |
| RoCE (%) | 30.6 | 30.0 | 29.8 |
| **Valuations** | | | |
| P/E (x) | 41.2 | 31.1 | 23.3 |
| EV/EBITDA (x) | 30.5 | 23.8 | 18.0 |

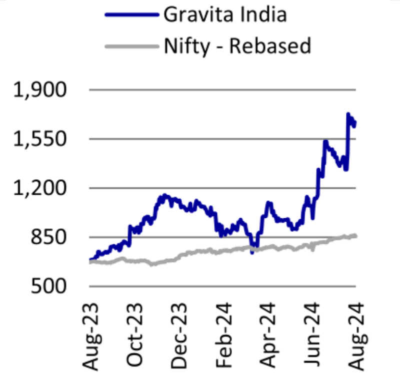
*Adjusted

**Shareholding pattern (%)**

| As On | Jun-24 | Mar-24 | Jun-23 |
|---|---|---|---|
| Promoter | 63.4 | 66.5 | 66.5 |
| DII | 2.6 | 0.4 | 0.4 |
| FII | 14.9 | 12.5 | 11.3 |
| Others | 19.2 | 20.6 | 21.8 |

FII Includes depository receipts

**Stock Performance (1-year)**




## Getting the 'Lead Out' in style!

### Pioneering India's recycling revolution!

**Gravita India (Gravita) is one of the key players in the growing recycling industry in India. The company is primarily engaged in recycling lead (~88% of revenue in FY24), aluminum (~8%), and plastics (~2%). Additionally, it offers turnkey solutions to its customers, assisting them in setting up recycling plants.**

- **Gravita's core business of lead recycling is expected to sustain the strong revenue growth momentum (at ~21% CAGR over FY24-27), fueled by favorable regulatory changes and the formalization of the sector (BWMR, 2022).**
- **However, the other key business segments, such as Aluminum and Plastic, are expected to report a much higher revenue CAGR of ~49% and 52%, respectively, propelled by changing business scenario due to the introduction of new hedging mechanisms and stricter implementation of regulatory policies (such as the Plastic Waste Management Rule; PWMR).**
- **The company is incurring a significant capex of over INR6b (INR4b for the existing segments and INR2b for the upcoming segments, like Lithium ion, Steel, and Paper) on the existing gross block of ~INR4.8b to more than double the capacity over the next three years (~686K MTPA by FY27 vs. ~303K in FY24).**
- **We believe that with strong industry tailwinds, favorable regulatory policies, the availability of additional hedging mechanisms, and the absence of significant supply chain disruption, Gravita can ramp up the utilization materially (driving ~30% sales volume CAGR over FY24-27E).**
- **Further, Gravita enjoys multiple competitive advantages, such as strategically located manufacturing units, a deep procurement network, a diverse global customer base, and lower costs for building new facilities (through the in-house turnkey division). These advantages provide long-term growth visibility.**
- **We estimate Gravita to register a revenue/Adj. EBITDA/Adj. PAT CAGR of 26%/ 29%/31% over FY24-27. The stock currently trades at 31x/23x FY26E/FY27E EPS, with an RoE/RoCE of 30%/25% in FY27. We initiate coverage on the stock with a BUY rating and a TP of INR2,350 (based on 35x Sep'26E EPS).**
- **Key downside risks: 1) supply chain issues and logistic disruptions, 2) unfavorable regulatory changes, 3) a delay in the ramp-up of new facilities, and 4) volatility in commodity prices where the company has not fully hedged.**

### Lead recycling business to continue leading from the front

- Gravita commenced its lead recycling business with its first plant in Jaipur in CY94. Currently, it is the largest vertical (~88% of FY24 sales) and has been leading the growth trajectory (~21% revenue CAGR) during FY19-24.
- The margins were volatile in the initial years due to fluctuations in commodity prices. However, currently the company is hedging its entire position in the lead segment (including the core inventory), thereby eliminating any commodity price risk.

- In order to secure its share in the massive and fast-growing global lead recycling market (valued at ~USD5.8b in CY23, with ~9.2% CAGR over CY23-32E), Gravita has been constantly increasing its manufacturing capacity (~237KMT in FY24 v/s 125KMT in FY21; further likely to rise to ~350KMT by FY27).
- Further, the demand for recycled lead is expected to rise at a higher pace in India (as of FY24, ~72% of Gravita's total lead recycling capacity is located in India), fueled by the Battery Waste Management Rules (BWMR), 2022 which mandate the minimum use of recycled materials in new batteries (~40% for Automotive/ Industrials by FY28 and ~20% for EV/Portable batteries by FY31).
- Further, BWMR, 2022 is based on the concept of Extended Producer Responsibility (EPR), where producers have an increased responsibility for the collection and recycling of end-of-life batteries. This leads to higher domestic scrap availability for the organized players. The automotive battery manufacturers are likely to collect and recycle ~70%/90% of batteries by FY25E/FY26E that were placed by them three years ago (up from ~50% in FY24).
- The strict implementation of BWMR in 2022, coupled with the proposed Reverse Charge Mechanism under GST for 'end-of-life batteries' (where the buyer of scrap is expected to pay the taxes), can lead to formalization of the sector. This could rapidly reduce the share of unorganized players (who currently hold over 60% of the market share in India), significantly benefitting organized players such as Gravita.
- Factoring in the tailwinds from regulatory changes, formalization of the sector, and strong industry demand, we expect Gravita's lead recycling business to experience ~21% revenue and EBITDA CAGR (each) over FY24-27.

## New and upcoming segments to boost the growth trajectory

- Gravita has leveraged its experience and expertise in lead recycling to enter other verticals such as plastic (in CY15), aluminum (in CY16), and rubber (in CY22; used for captive consumption).
- The aluminum segment (~8% of revenue in FY24) witnessed a revenue decline in FY23/FY24 as the company tried to avoid the high risk of metal price fluctuations during the period due to the lack of hedging mechanisms.
- Going forward, an aluminum alloy derivative is likely to be launched by MCX over the next few months, providing an additional hedging mechanism. This, coupled with a strong capacity addition (~73K MTPA by FY27 v/s ~30K MTPA in FY24), will significantly boost the volumes within the segment (~49% revenue CAGR likely over FY24-27E).
- Similarly, the declining realizations and logistic disruptions have adversely impacted the plastic recycling segment (~2% of revenue in FY24). However, stricter implementation of the PWMR is likely to aid growth within the segment (~52% CAGR over FY24-27E).
- Apart from this, the company expects to enter other new verticals such as lithium-ion (a pilot project to start in FY26), steel, and paper (manufacturing facility for both to start by FY27). Gravita has allocated over INR2b of capex for these upcoming verticals during FY25-27E.
- Accordingly, with robust growth in the new segments and the addition of the upcoming segments, the share of new and upcoming segments is likely to rise to ~23% by FY27 (from ~12% in FY24), fueled by robust 58% CAGR over FY24-27E.

### Multiple moats provide long-term visibility

- Gravita boasts over three decades of recycling experience and operates 11 strategically located manufacturing facilities globally (five each in India and Africa, and one in Sri Lanka). The new facilities are also coming up in Oman and the Dominican Republic. Strategic placement of these facilities near the regions of consumption and procurement provides a competitive edge.
- Gravita has a robust procurement network with over 1,700 touchpoints and ~31 own yards for scrap storage across Asia, Africa, the Middle East, Europe, and America. This global presence facilitates cost-effective raw material procurement by leveraging commodity price differences.
- Further, over the decades, Gravita has developed a diversified customer base, serving more than 350 customers in 32 countries, including over 240 domestic customers across 22 states of India.
- Apart from this, Gravita also offers turnkey solutions through its proprietary in-house recycling technology, achieving ~25% margin. This underscores its capability to construct cost-efficient manufacturing facilities, resulting in higher returns on investments and shorter payback periods.

### Strong earnings and declining working capital to improve cash flows

- Going forward, Gravita is expected to compound its earnings at ~31% CAGR over FY24-27, aided by strong revenue CAGR of ~26% and improving adjusted EBITDA margin (~11.2% in FY27 vs. ~10.5% in FY24) due to favorable operating leverage.
- Net working capital days are expected to decline to 84 days by FY27 (from 108 in FY24), led by higher availability of domestic scrap resulting in significant improvement in cash flows from operations (CFO/EBITDA projected to improve to 52% in FY27 from 36% in FY24).
- RoCE is likely to remain stable at ~25% in FY27, with RoE to moderate to 30% in FY27 (vs. 33.5% in FY24) led by financial deleverage (net debt-to-equity ratio to contract to ~0.2x by FY27 from ~0.5x in FY24).

### Set to thrive in a growing recycling industry – Initiate coverage with a BUY

- Gravita is one of the key players within the growing recycling industry in India. Going forward, we expect the company to report robust earnings growth on the back of: 1) strong growth within the lead recycling segment led by favorable regulatory changes; 2) faster growth from the new segments (aluminum and plastic) and addition of the steel and paper segments; 3) robust capacity addition across segments; and 4) a rise in the mix of value-added products.
- We estimate Gravita to register a revenue/Adj. EBITDA/Adj. PAT CAGR of 26%/ 29%/ 31% over FY24-27.
- Gravita currently trades at 31x/23x FY26E/FY27E EPS with an RoE/RoCE of 30%/25% in FY27E. We believe that the company will be a key beneficiary of the growing recycling industry in India and is poised to secure its share within the market led by multiple moats built around over the years. **We initiate coverage on the stock with a BUY rating and a TP of INR2,350 (based on 35x Sep'26E EPS).**
- **Key downside risks:** 1) supply chain issues and logistic disruptions, 2) unfavorable regulatory changes, 3) a delay in the ramp-up of new facilities, and 4) volatility in commodity prices where the company has not fully hedged.

# STORY IN CHARTS

## Timeline

| | |
|---|---|
| 1994 | Lead recycling plant in Jaipur |
| 2001 | 1st overseas recycling unit in Srilanka |
| 2007 | 1st recycling products in Jaipur unit in Ghana |
| 2010 | Listed on NSE & BSE |
| 2013 | Value added 1st recycling products in Jaipur |
| 2015 | Diversified in plastic recycling |
| 2016 | Added Aluminum Recycling |
| 2017 | New recycling facility at Chittoor |
| 2019 | Started Aluminum & Plastic recycling in Africa |
| 2021 | New recycling facility at Mundra Port |
| 2022 | Added Rubber Recycling; Became MCX empanelled brand |
| 2024 | Continuous capacity expansion; achieved milestone of over 300K MTPA capacity |

## Lead and its growing usage

The growth of the global lead market is increasing since various countries such as China and India have started making huge investments in smart grid technology in order to meet the huge demand for power over the projected period.

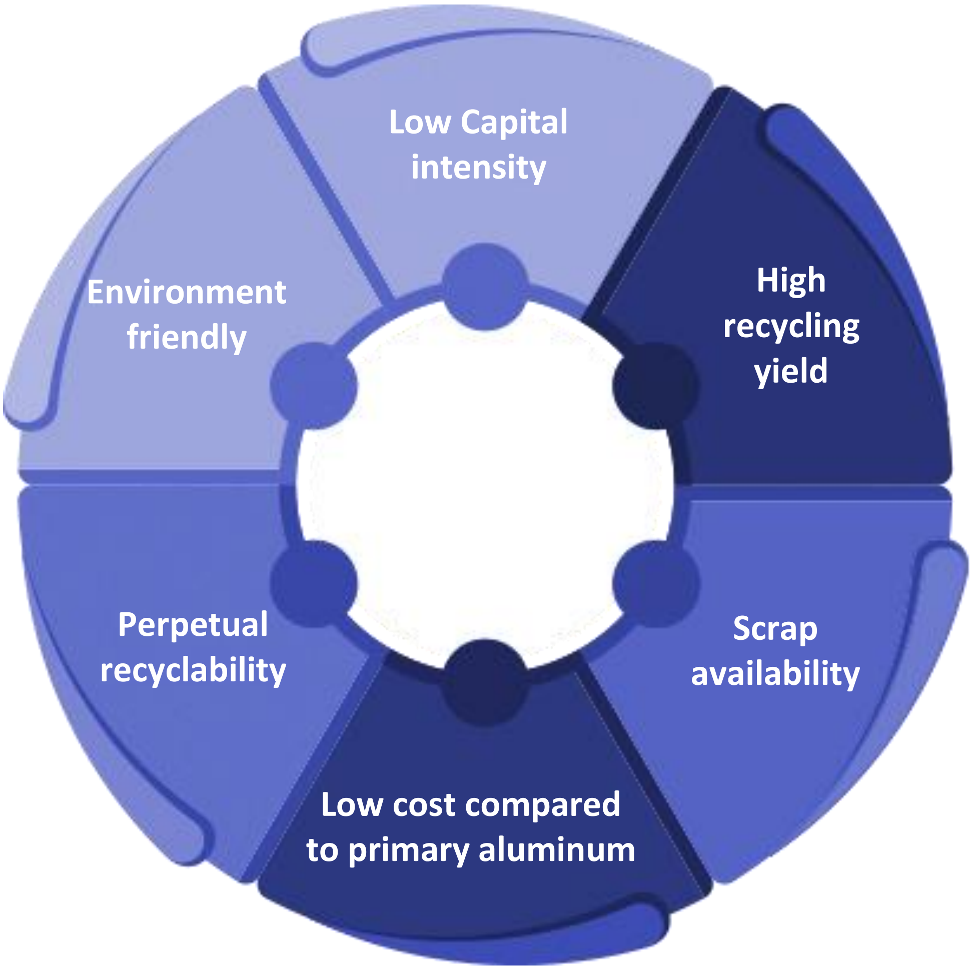
The potential investments in efficient smart grid technology have further led to the massive growth of lead-acid batteries, which are mostly utilized in electrical vehicles (EV), this factor further serves as one of the major components within the smart grid technology

Lead acid batteries are known to be based on modern technologies which are also gaining immense importance in applications where batteries are considered extremely important for their efficient mechanism, as well as in new applications such as grid storage for renewable energy generation.

The surge in the building construction industry is predicted to be one of the crucial factors driving the demand for the lead over the assessment period. Lead is widely used in the construction industry as an architectural metal for roofing materials and gutter joints, and roof parapets

## STORY IN CHARTS

### Key advantages of recycled (secondary) Aluminum

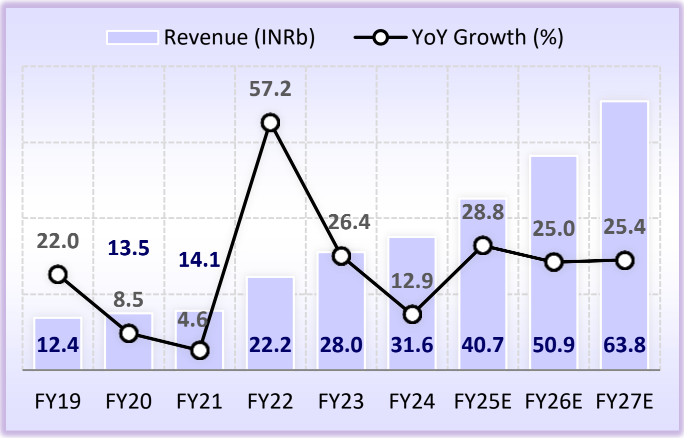



### Key takeaways of the plastic industry in India

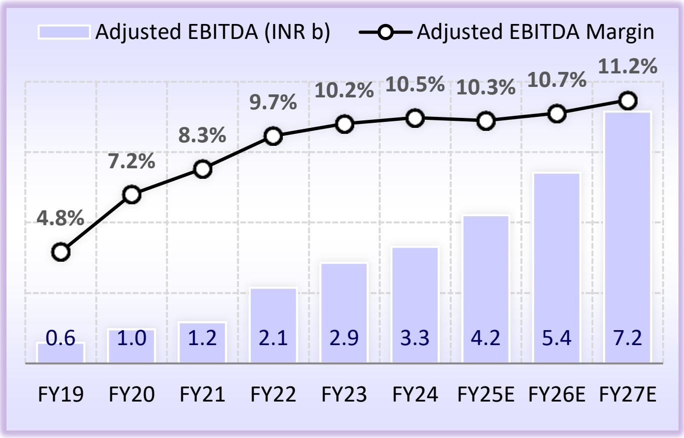
| Plastic is considered a big contributor to economic growth | Plastic can be recycled 7-9 times before it is no longer recyclable. | Bangalore has setup material recovery facilities (dry waste collection centres) where recyclable plastic can be sold at pre-decided rates. | Companies can work with municipalities to collect back the packaging waste generated from their products. This is known as Extender Producer Responsibility |
|---|---|---|---|

# STORY IN CHARTS

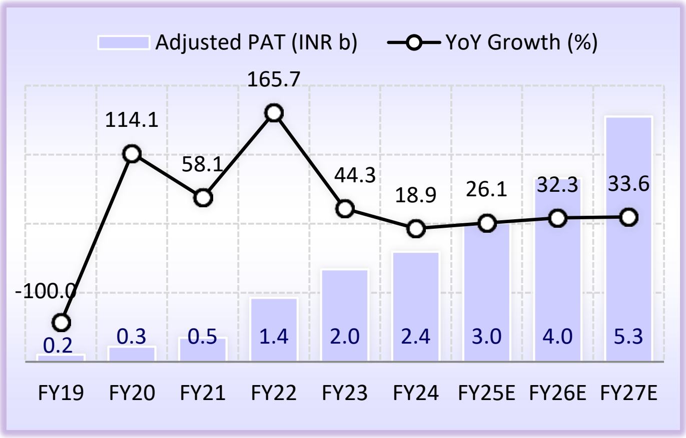
### Revenue CAGR of ~26% over FY24-FY27E…



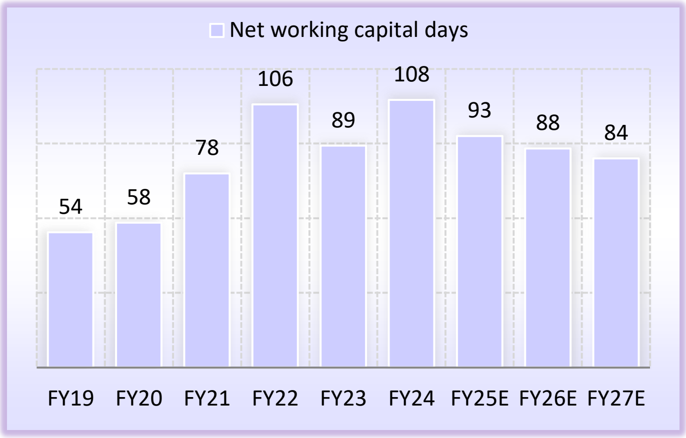

### …coupled with margin expansion…



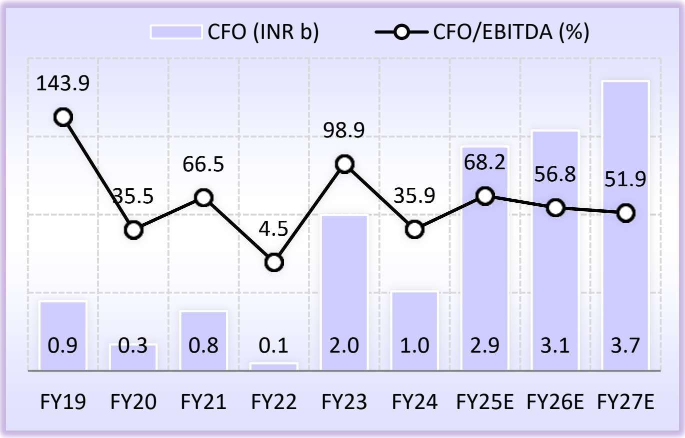

### …leading to robust earnings growth (at ~31% CAGR)



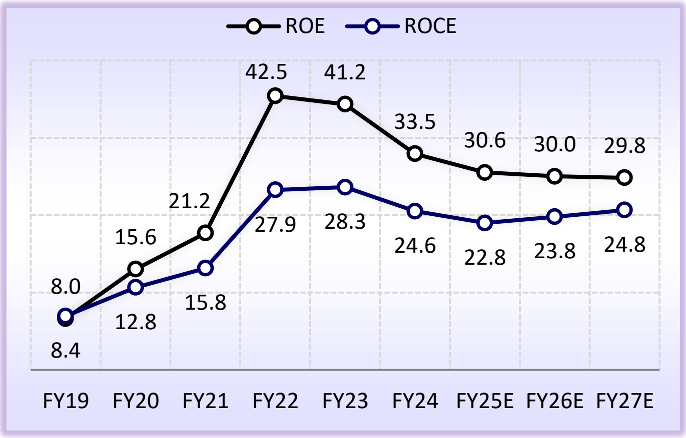

### Reduction in net working capital leading to…




### …improved cash flow from operations



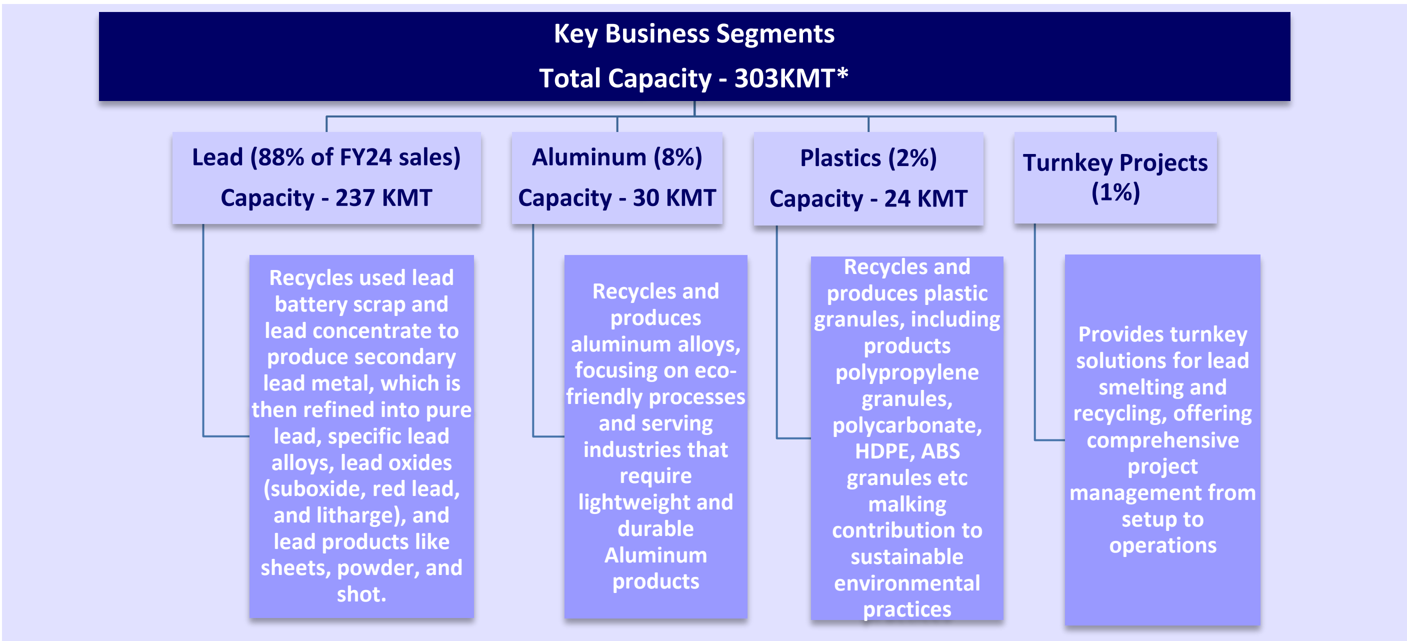

### Healthy return ratios



## Company overview

- Founded in 1992 by Mr. Rajat Agarwal, Gravita India Limited is one of the leading global recycling companies operating in four key verticals – lead (~88% of revenue in FY24), aluminum (~8%), plastic (~2.4%) and rubber (internal consumption only). Apart from this, it also provides turnkey solutions (~1.3%) for its clients.
- The company started with the lead recycling vertical (still forms ~88% of total revenue in FY24) and established its first lead recycling plant in Jaipur in 1994. Thereafter, it expanded into different verticals such as plastic recycling (CY15) and aluminum recycling (CY16). The company also provides turnkey solutions by leveraging the organizational knowledge and rich expertise within the space.
- Gravita's deep routed procurement network in Asia, Africa, Europe, and America ensures cost-effective raw material procurement by leveraging commodity price differences.
- Gravita currently operates through 11 strategically located recycling plants (with a total manufacturing capacity of ~303 KMT) including five plants in India, one in Sri Lanka, and five in Africa, with plans of an upcoming plant in the Dominican Republic and another in Oman.
- The company has a global customer network, with 350+ customers in over 32 countries to whom the company has delivered ~170 KMT of recycled products in FY24.
- The company aims to be ranked among the top 5 recycling companies globally by CY26, driven by the expansion of existing segments and diversification into new verticals such as lithium-ion, steel, and paper recycling.
- The company derives a majority of its revenue from the domestic market (62% in FY24) and the balance from overseas (38%).

**Exhibit 1: Gravita - key business segments**



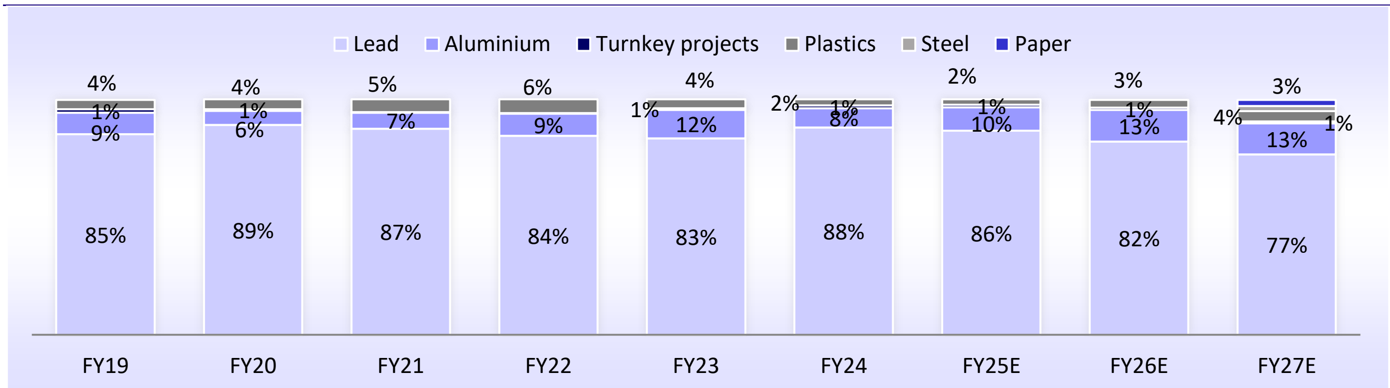

**Including 12 KMT for rubber which is used for captive consumption.*

Source: Company, MOFSL

**Exhibit 2: Circular and sustainable business model of Gravita**


Source: Company, MOFSL

**Exhibit 3: Gravita – Vertical wise business mix (as a percentage of total revenue)**

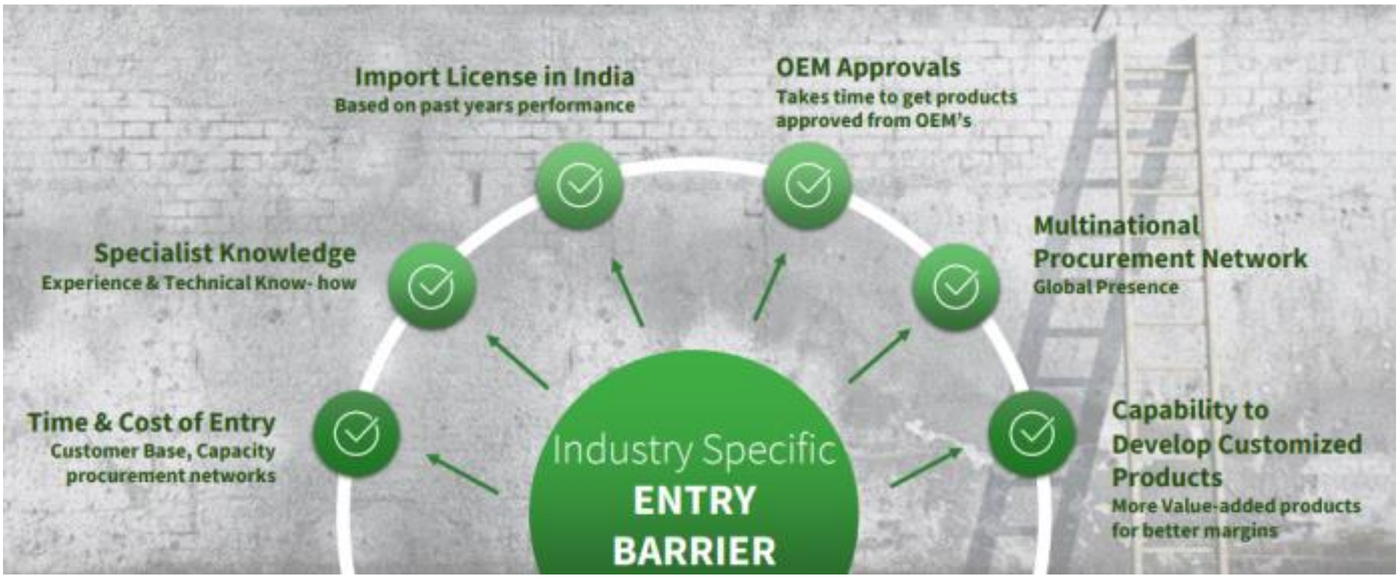



Source: Company, MOFSL

**Exhibit 4: Partner network (customers/suppliers of scrap)**


Source: Company, MOFSL

**Exhibit 5: Strong industry-specific entry barriers**




Source: Company, MOFSL

## Competitive landscape

- Within the listed space, Pondy Oxide and Nile Limited are the key competitors of Gravita.
- Pondy Oxide primarily focuses on recycling lead, aluminum, plastic and copper scraps. While Nile Limited mainly specializes in producing pure lead for battery consumption and lead alloys.
- Gravita has a total capacity of ~303K MTPA across its 11 manufacturing units, while Pondy Oxide has a total capacity of ~159K MTPA across three manufacturing facilities. Nile Limited only has a capacity of ~107K MTPA across two manufacturing facilities.
- Gravita's size, diversification, and global reach offer a significant advantage over its peers.

**Exhibit 6: Gravita's turnkey solutions**

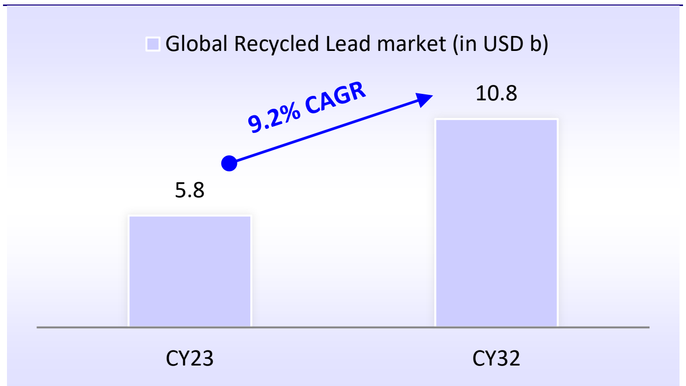
| | Gravita | Pondy Oxide | Nile |
|---|---|---|---|
| Market Capitalization (INR b) | 124.9 | 17.6 | 6.9 |
| Sales Volume (FY24) | 169,631 MT | NA | NA |
| Sales Volume CAGR over FY19-24 (%) | 15.0 | NA | NA |
| EBITDA CAGR over FY19-24 | 36.0 | 2.4 | 11.2 |
| EBITDA/MT | 19,801 | NA | **NA** |
| PAT CAGR over FY19-24 (%) | 73.0 | 3.2 | 19.7 |
| Capacity | Total capacity - 3,02,859 MTPA 2,36,599 MTPA(Lead) 30,000MTPA(Aluminum) 24,300MTPA(Plastic) 12,000MTPA(Rubber) | Total capacity -1,59,000 MTPA 1,32,000 MTPA (Lead) 12,000 MTPA (Aluminum) 9,000 MTPA (Plastic) 6,000 MTPA (Copper) | Total capacity -1,59,000 MTPA (Lead Recycling) |
| Manufacturing units | 11 | 3 | 2 |
| Exports revenue share | 38% | 56% | NA |
| Location of manufacturing facility | Kathua (J&K); Jaipur (Rajasthan); Jaipur SEZ (Rajasthan); Chittoor (Andhra Pradesh); Mundra (Gujarat); Sri Lanka (Mirigama); Senegal (Dakar); Mozambique (Maputo); Tanzania (Dar-es-Salam); Togo (Lome); Ghana (Accra); Senegal (Dakar); | Mundra,(Gujarat); Tamil Nadu; Andhra Pradesh | Choutuppal(Telangana), Tirupati(Andhra Pradesh) |
| Key Products | Lead, Aluminum, Plastic, Rubber, Turnkey | Lead , Copper, Plastic & Aluminum | Lead & Lead alloys |
| Partner Network | 32+ Countries, 350+ Customers, 31 Own yards, 1700+ Touch points, 2,50,000MT scrap collection | 200+ Partners Worldwide, 20+ Export Destinations, 270+ Overseas Suppliers | 390+ distributors and dealers |
| RoCE (%) | 24.6 | 16.0 | 19.5 |
| P/E ratio (TTM) | 70.7 | 38.8 | 21.9 |
| Promoter Holdings | 63.4 | 45.1 | 50.4 |
| Enterprise Value (INR b) | 127.5 | 19.1 | 6.2 |
| EV/EBITDA multiple | 34.1 | 22.1 | 13.3 |
| Debt:Equity ratio | 0.5 | 0.29 | 0.05 |

Note: Data as on FY24. Source: Industry data, Company, MOFSL

## Lead recycling business to continue leading from the front

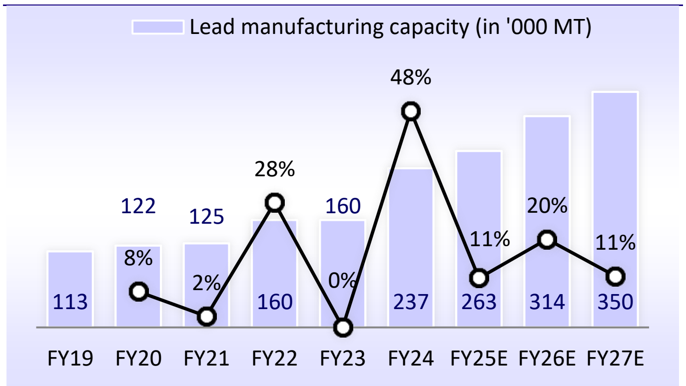
- Lead recycling is the largest vertical of Gravita (~88% of FY24 sales) and has been leading its growth trajectory with 21% revenue CAGR over FY19-24.
- Globally, the lead market is valued at ~USD19.6b in CY22 and is expected to reach ~USD30.8b by CY30, clocking ~5.8% CAGR over the period.
- Manufacturers of lead acid batteries are the largest consumers of lead (~85% of the total global consumption of lead is for the production of lead-acid batteries).
- However, lead possesses one of the highest recycling rates of all materials commonly used today. Further, disposal of lead-acid batteries is a highly regulated area due to the harmful chemical leak from decayed/burned batteries.
- Accordingly, the recycled lead market is a key global industry valued at ~USD5.8b in CY23 and is expected to reach ~USD10.8b by CY32, clocking ~9.2% CAGR over the period.
- Further, favorable regulatory policies in India will boost the demand for the recycled lead, thereby accelerating the overall demand and growth trajectories over the next few years.
- To tap into this massive opportunity, Gravita has aggressively expanded its manufacturing capacity for lead recycling over the past three years, almost doubling the capacity to ~237KMT as of FY24 from ~125KMT as of FY21 (with capacity utilization at ~61% in FY24).

**Exhibit 7: Global lead recycling market**




Source: IRB Technology market analysis, Company, MOFSL

**Exhibit 8: Gravita's lead recycling capacity**




Source: Company, MOFSL

### End-to-end hedging eliminates commodity price risk; leads to sustainable margin profile

- For the lead segment, the company started hedging from FY17, in order to reduce the commodity price risk of the company and bring in sustainability within the margins.
- The company hedges its positions through contracts on London Metal Exchange (LME). The metal equivalent of the scrap bought, is sold on the same day on the LME in order to hedge the risk.
- However, the margins continued to remain volatile even during FY17-19 because of an unhedged core inventory position for Gravita. Thereafter, the company also started hedging its core inventory from June 2019 by taking a forward contact on LME Exchange.

- This has significantly reduced the margin volatility, with adj. EBITDA margins of 8.3%/9.7%/10.2%/10.5% for FY21/FY22/FY23/FY24.
- Accordingly, this places Gravita as a pure play recycler company rather than a metal company, eliminating its exposure to the commodity price risk and adding more sustainability to growth and margins of the company.
- **Note:** The EBITDA margin should be observed on an adjusted basis as the hedging profit/loss is classified as other income/other expense. Thus, the plain vanilla EBITDA (excluding other income), does not take into account hedging profits, which are operational in nature and have offset the losses from fluctuations in commodity prices (which are classified as other expenses and are part of EBITDA calculation).

## BWMR to accelerate the growth journey

- Of the total lead recycling capacity (~237K MTPA) of Gravita, around 72% (~171K MTPA) of the manufacturing capacity is situated in India, with the rest at overseas locations.
- The lead recycling sector in India is dominated by the unorganized players, which currently hold around 60% market share.
- We believe that the introduction of the BWMR in 2022, and the Extended Producer Responsibility (EPR) are set to formalize the sector, leading to in market share gain for the organized players over the next few years.
- These rules are extremely favorable for the lead recycling industry as it mandates the company regarding the minimum use of recycled material in its end product (Refer to exhibit 9).

**Exhibit 9: Minimum use of recycled materials in a battery as per BWMR, 2022**

| S.No. | Type of Battery. | Minimum use of the recycled materials out or total dry weight of a Battery (In percentage ) | | | |
|---|---|---|---|---|---|
| | | 2027-28 | 2028-29 | 2029-30 | 2030-31 and onwards |
| 1. | Portable | 5 | 10 | 15 | 20 |
| 2 | Electric Vehicle | 5 | 10 | 15 | 20 |
| | | 2024-25 | 2025-26 | 2026-27 | 2027-28 and onwards |
| 3. | Automotive | 35 | 35 | 40 | 40 |
| 4. | Industrial | 35 | 35 | 40 | 40 |

Source: Company, MOFSL

- Further, BWMR, 2022 is based on the concept of EPR, where the producers (including importers) of batteries are responsible for the collection and recycling/refurbishment of waste batteries and the use of recovered materials from wastes into new batteries.
- To meet the EPR obligations, producers may engage themselves or authorize any other entity for the collection, recycling or refurbishment of waste batteries.
- As per the rules, producers have to collect a minimum percentage of the batteries placed by them in the market around three years ago and have to recycle/refurbish them.
- For example, for the automotive batteries, producers will have to collect 30% of the batteries placed three years ago, (i.e., in FY20) during FY23. This requirement has increased to ~50%/70%/90% in FY24/FY25/FY26 (Refer to exhibit 10).

**Exhibit 10: Minimum battery collection requirement as per BWMR, 2022**

| 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 % of refurbishment or recycling of the collection target for every seven years cycle (Weight) |
|---|---|---|---|---|
| (i) | 2022-2023 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 100% of refurbished 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 | |

Source: Company, MOFSL

- Thus, with increasing responsibility for collection and recycling, the key existing battery manufacturer players, such as Amara Raja and Exide, have to rely on the recycler like Gravita to fulfill their responsibilities.
- Further, in order to ensure compliance and avoid penalties therein, some of the battery manufacturers even have to put up their own recycling capacities. (Exide/Amara Raja have put up recycling facilities of ~346K/1,500K MTPA).
- However, these facilities account for just ~25-33% of their raw material requirements, and these companies will have to rely on contract manufacturers, such as Gravita, in order to fulfill their responsibilities.
- Further, the one-off recycling capacities of these companies will be located at one particular location (for each company), and transporting the scrap collected on a pan-India basis to these facilities will be a challenge.
- The pan-India presence of contract manufacturers like Gravita significantly eases the transportation expense as they can procure, recycle, and supply the recycled lead from their nearest manufacturing facility.
- Also, apart from some of the key large scale battery manufacturer players like Amara Raja and Exide, the other relatively smaller-sized players will find it difficult to put up their own recycling facility and will have to rely on the contract manufacturers, such as Gravita.

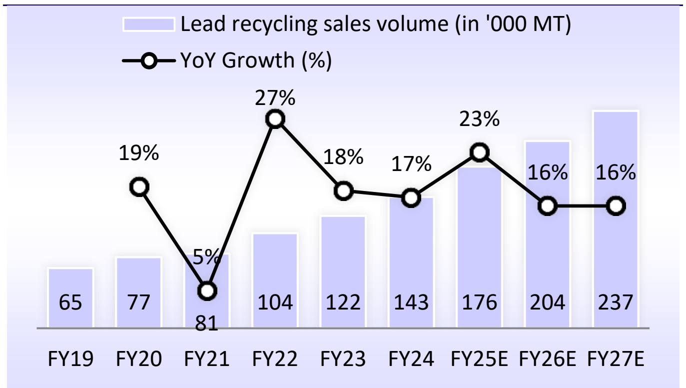
## Formalization of the sector to benefit organized players

- To ensure proper compliance, the rule mandates all the entities within the supply chain of battery waste management to register them with the relevant authority.
- Further, multiple initiatives, such as online reporting, auditing, and a committee for monitoring the implementation of rules, et al. have been undertaken to ensure that the procedures are followed.
- Thus, with the strict implementation of these rules, we believe it will lead to a gradual shift to the organized sector.
- Apart from this, the Material Recycling Association of India (MRAI) has also requested the Finance Ministry to bring the ‘end-of-life batteries’ under the Reverse Charge Mechanism (RCM) of GST Act, 2017.
- This will also aid the formalization of the sector by eliminating the undue advantage of unorganized players, which used to benefit from GST evasion.

### Lead business to clock ~21% revenue & EBITDA CAGR (each) over FY24-27E

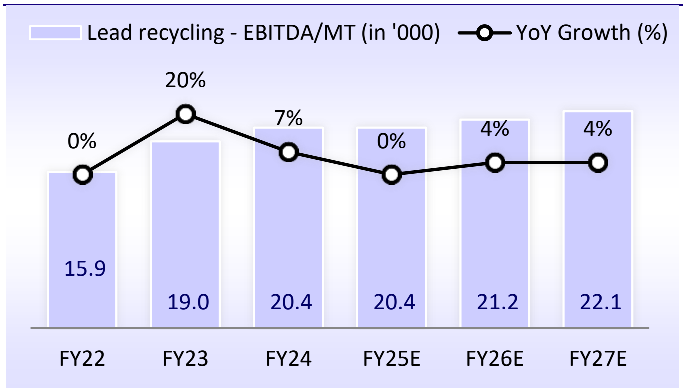
- Factoring in the tailwinds from the regulatory changes, formalization of the sector, and strong industry demand, we expect the lead recycling business of Gravita to witness healthy revenue growth.
- We expect ~21% revenue & EBITDA CAGR (each) over FY24-27E for the lead business of the company.

**Exhibit 11: Lead recycling sales volume trend**



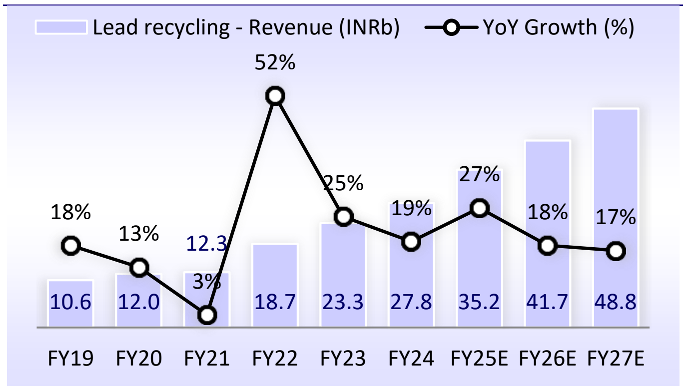

Source: Company, MOFSL

**Exhibit 12: Lead recycling EBITDA per MT**



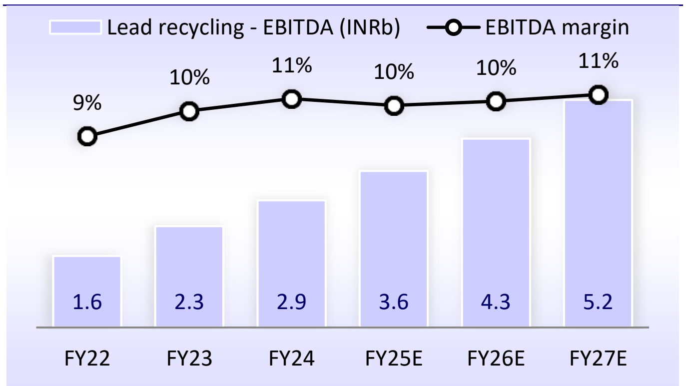

Source: Company, MOFSL

**Exhibit 13: Lead recycling revenue trend**




Source: Company, MOFSL

**Exhibit 14: Lead recycling EBITDA trend**

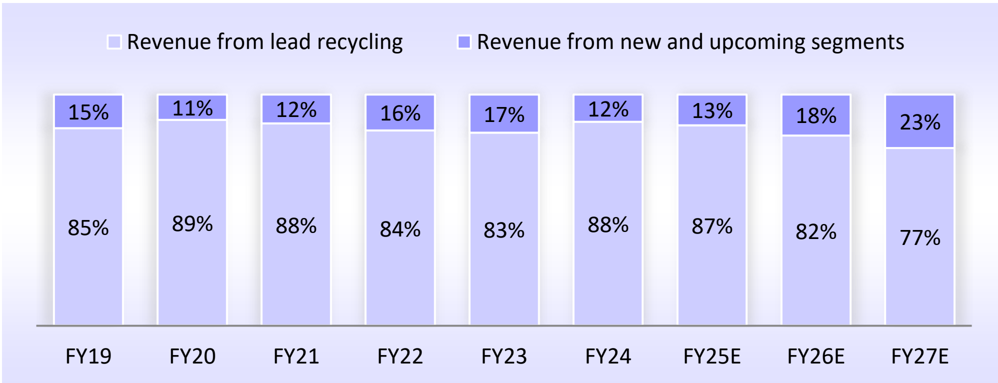



Source: Company, MOFSL

## New and upcoming segments to boost the growth trajectory

- To diversify its revenue stream and to tap into the huge opportunities available with other recycling segments, Gravita started its plastic recycling business in CY15 and aluminum recycling business in CY16.
- Currently, the non-lead share of revenue, which includes aluminum recycling, plastic recycling, and turnkey solutions, accounts for ~12% of the revenue in FY24 (with aluminum/plastic/turnkey accounting for ~8.1%/2.5%/1.3% of the consolidated revenue).
- Apart from this, the company also operates in the rubber recycling vertical, but currently that is just utilized for captive consumption.
- Gravita is also expecting to leverage its expertise and tap into other recycling segments such as steel, paper, and lithium ion, which are expected to commercialize over FY26/FY27.
- Going forward, based on the relatively smaller bases and strong tailwinds within the industry, the company expects the share of these new and upcoming verticals to reach ~23% by FY27 (from 12% in FY24).
- By growing the share of non-lead business, Gravita expects to boost the profitability of the company, while creating value for all the stakeholders.

**Exhibit 15: Increasing revenue mix of new and upcoming segments**



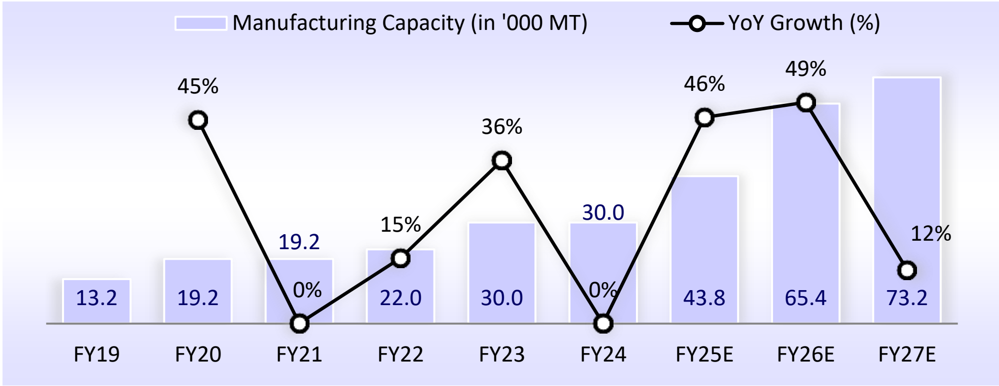

Source: Company, MOFSL

### Ramp up of the aluminum business to drive growth

- Aluminum recycling is the second largest business segment for Gravita accounting for ~8% of its FY24 revenue.
- However, the mix has come down from the peak of 12% in FY23, as the business witnessed ~25% YoY revenue decline in FY24 (vs. 13% YoY revenue growth for the company on a consolidated basis). This was mainly affected by a 23% volume decline during the year.
- The key reason behind this decline was to avoid the high risk of metal price fluctuations during the transit period for imports in India. Currently, Gravita has not been able to hedge its position in Aluminum due to the lack of sufficient hedging mechanisms. However, the company is finding solutions for this.
- Recently, aluminum alloy has been notified under the Securities Contracts, Regulation Act 1956 by the Ministry of Finance. This can be positive for the company, as after this announcement, management is expecting the launch of an aluminum alloy commodity derivative by MCX.

- This derivative is anticipated to be listed by 3QFY25. This will provide the company with additional hedging mechanisms.
- However, the benefit of this hedging mechanism is expected to witness in 3QFY25 and 4QFY25, when the company expects the current capacity utilization of ~11% (for Indian operations) to ramp up to over 60%.
- Further, the company is expecting an incremental capacity in Africa within the aluminum business to be commercialized by 2QFY25. This will further boost the international sales volume of the company.

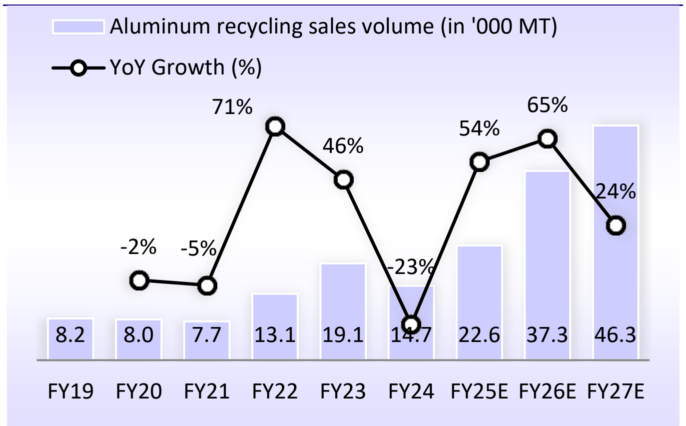
**Exhibit 16: Aluminum recycling - manufacturing capacity**




Source: Company, MOFSL

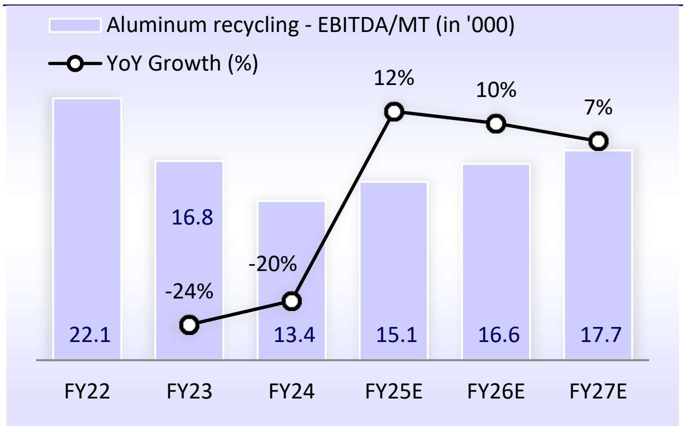
- Accordingly, we believe, the company will be able to witness a strong surge in volumes of the aluminum business in FY25, leading to ~47% volume growth in FY25, which will lead to favorable operating leverage, thereby increasing the margins within the segment.
- Accordingly, we expect ~49%/61% revenue/EBITDA CAGR over FY24-27 for the lead business of the company.

**Exhibit 17: Aluminum recycling sales volume trend**



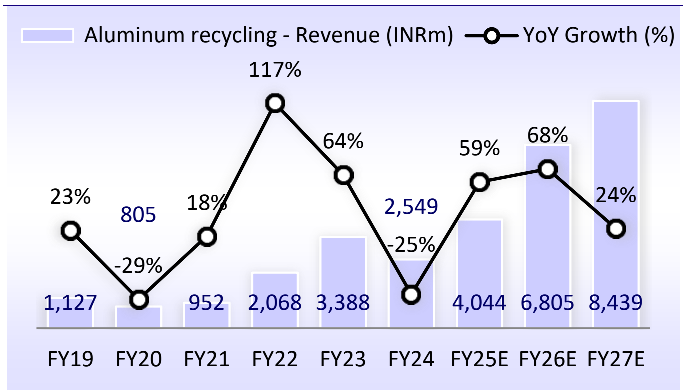

Source: Company, MOFSL

**Exhibit 18: Aluminum recycling – EBITDA/MT**



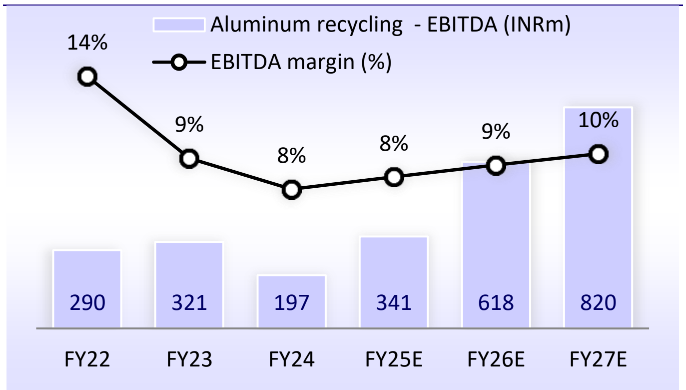

Source: Company, MOFSL

Exhibit 19: Aluminum recycling revenue trend




Source: Company, MOFSL

Exhibit 20: Aluminum recycling EBITDA trend

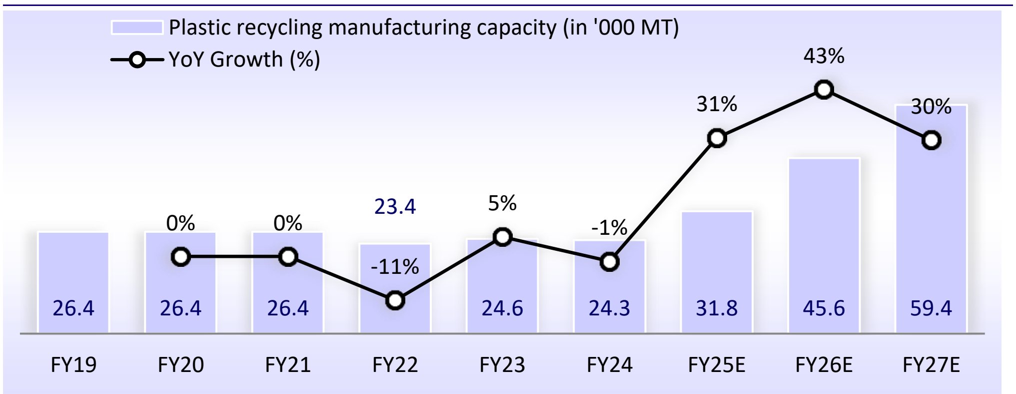



Source: Company, MOFSL

## Plastic recycling to witness a recovery; India operations to drive growth

- Plastic recycling is another key business segment for Gravita. The company entered plastic recycling in CY15, with a manufacturing facility in Africa (involved in the conversion of plastic waste to PET flakes).
- Currently, the segment has a total manufacturing capacity of ~24,300 MTPA, with the majority of the capacity being located in India (~19,500 MTPA) and the rest in Africa.
- The outer casing of batteries used in the lead vertical is one of the key sources of raw materials for the segment. Apart from this, Gravita has also tied up with some of the paint companies, which provide empty pails (buckets for storing paint) for recycling.
- Polyethylene (HDPE and LDPE) and Polypropylene (PP) are some of the commonly recycled commodities by the company. Gravita sells these recycled plastic granules to its customers, which are utilized in various end-use applications, such as packaging, building materials, and textiles.

Exhibit 21: Plastic recycling – manufacturing capacity

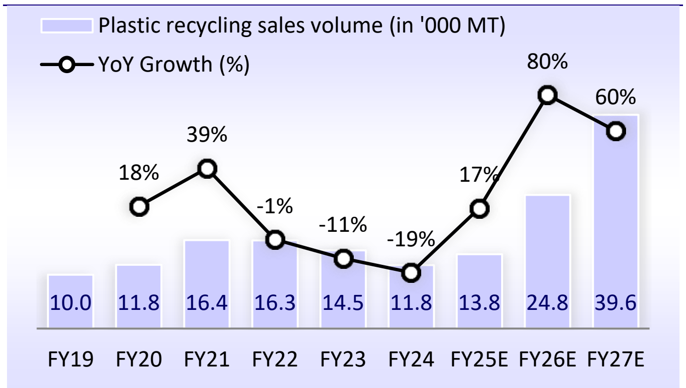



Source: Company, MOFSL

- The segment accounted for just ~2.5% of its FY24 revenue (INR780m) compared to its peak of 6.0% revenue share in FY22.
- The business posted ~20%/25% YoY revenue decline in FY23/FY24 due to ~11%/19% sales volume decline coupled with deteriorating realizations.
- The logistic issues caused by the Red Sea disruption and declining realizations are leading to the decline in the business.

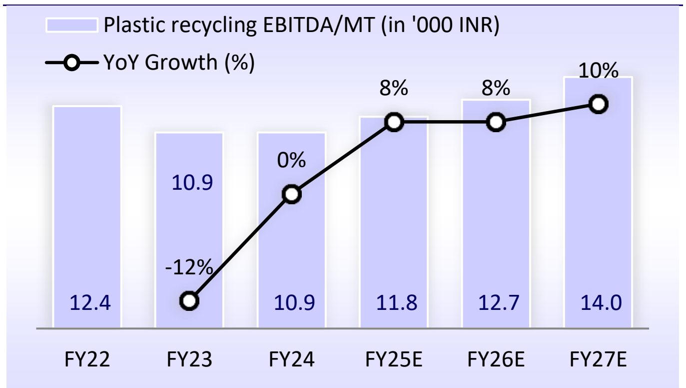
- Going forward, the company expects this segment to record significant traction within this space with stricter implementation of Plastic Waste Management Rules (PWMR).
- This can be a game changer for the industry, similar to what has been witnessed in the lead segment after the announcement of BWMR.
- Factoring in the potential of the segment, Gravita is expanding within this space, taking the total capacity to ~60,000 MTPA by FY27.
- With Gravita's renewed focus to ramp up the newer segment and diversify the business, along with favorable regulatory policies and stricter implementation of the same, we believe this division will experience an improvement in utilization levels.
- We expect ~52%/63% revenue/EBITDA CAGR for the plastic recycling business of the company over FY24-27.

**Exhibit 22: Plastic recycling sales volume trend**



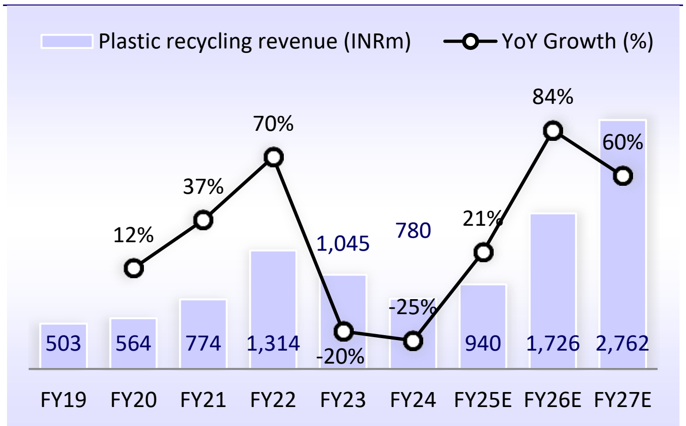

Source: Company, MOFSL

**Exhibit 23: Plastic recycling – EBITDA/MT**



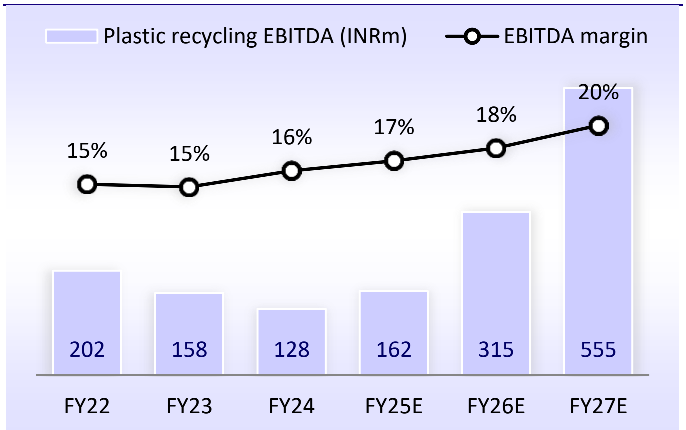

Source: Company, MOFSL

**Exhibit 24: Plastic recycling revenue trend**




Source: Company, MOFSL

**Exhibit 25: Plastic recycling EBITDA trend**




Source: Company, MOFSL

## Upcoming verticals to bring in diversity; incremental growth

- Apart from the core business (lead recycling) and the new businesses (aluminum, plastic, and rubber recycling), the company is planning to enter other verticals such as lithium ion, steel, and paper.
- Accordingly, Gravita has allocated ~INR2b of capex for these upcoming verticals over FY25-27E.
- With the entry into these upcoming segments, Gravita will further diversify its business, reducing dependency on its single-largest vertical (lead).
- Further, these businesses are likely to generate better operating margins than the core vertical (lead recycling) and thus will be margin-accretive for the company.
- **Rubber:** As of FY24, Gravita has ~12,000 MTPA of manufacturing capacity within its rubber recycling facility. However, the company fully utilizes the same for captive consumption. Going forward, Gravita will put up the new capacity for sale to external customers. Accordingly, we project revenue generation from this segment from FY26 onwards (however, its contribution will be negligible in the initial years; less than 1% of revenue).
- **Lithium Ion:** Gravita expects to start the work for its lithium ion plant in India in FY25. The company has applied for relevant approvals from the authorities at its Mundra plant. However, this will be a pilot project to develop the necessary capabilities for recycling Lithium ion, and we are not anticipating any significant revenue contribution from this segment in the near term.
- **Steel/Paper recycling:** Currently, the company is conducting a feasibility study for putting up a steel/paper recycling facility. The study will be completed by FY25 end, with the new capacities expected to be operationalized in FY27. We expect steel/paper to contribute ~2%/3% of consolidated revenue in FY27.

## Multiple moats provide long-term visibility

### Distributed manufacturing presence reduces freight cost & delivery time

- The company has a strong DNA with over three decades of recycling experience along with state-of-the-art manufacturing facilities across the globe.
- Gravita currently operates through 11 strategically located recycling plants (with a total manufacturing capacity of ~303K MTPA – including a rubber capacity of ~12K MTPA, which is utilized for internal consumption). It has five plants in India, one in Sri Lanka, and five in Africa (Ghana, Moambique, Togo, Senghal, and Tanzania).
- Apart from this, Gravita has signed an MOU for establishing a battery recycling unit in Oman through a JV (capacity of ~6,000 MTPA in Phase 1). This will be its first manufacturing facility in the Middle East. Moreover, the company is also coming up with a lead facility in America (in the Dominican Republic).
- In India, Gravita has strategically covered most of the country, with manufacturing facilities in Rajasthan, Gujarat, Jammu & Kashmir, and Andhra Pradesh.
- This pan-India presence allows the company to operate near the source of scrap as well as the customers' facilities, reducing the inward and outward logistic costs and the time involved.
- Further, a significant portion of scrap is procured by the company through imports. The majority of the imported scrap is consumed by the Mundra plant (Gujarat) due to its close proximity to the Mundra port.

**Exhibit 26: Gravita's distributed manufacturing presence**


Source: Company, MOFSL

- The company operates with a 'start-small and grow-big' model, where it starts with small volumes in multiple places and then targets the locations where business is growing at a faster pace and can attain scale.
- If the company is able to obtain the target customer and the procurement of raw material from the same location, and if the market is sizeable enough, Gravita puts up a manufacturing facility within the location, thus reducing the freight-related costs and delays.

- We believe that strategically placing facilities near the regions of consumption and procurement has produced a strong competitive edge for the company.

### The network effect at play: Deep procurement and customer network

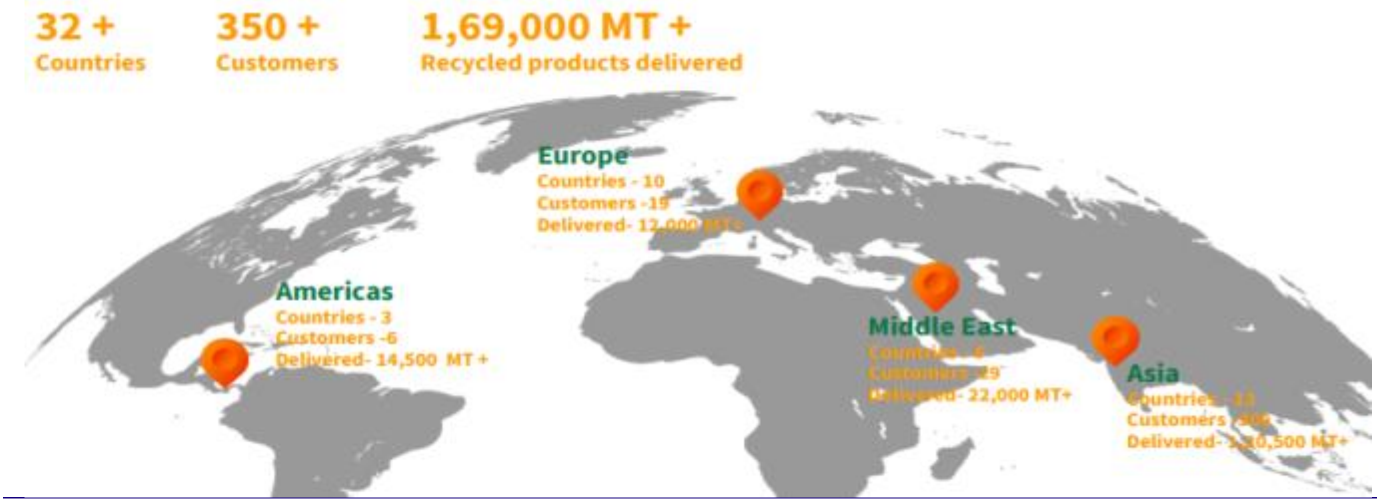
- **Deep-routed procurement network:** Gravita operates in a unique business model where sourcing of raw materials can be a more tedious task than selling the finished products. Accordingly, a strategic plan along with a robust procurement network is critical for the company.
- The company was able to procure over 250,000 MT of scrap in FY24 on account of its deep-routed procurement network, which includes 31 own yards for scrap storage and more than 1,700 contact points over the globe.
- Gravita has a deep presence in Asia, Africa, Australia, Europe, and America, which ensures that it will always procure raw materials at competitive prices.
- The **company's global presence also helps it to take advantage of commodity price variances in different locations and procure material at a much cheaper** cost (it procures from international locations if the prices in the domestic market are higher and vice versa).

**Exhibit 27: Gravita's deep-routed procurement network**


Source: Company, MOFSL

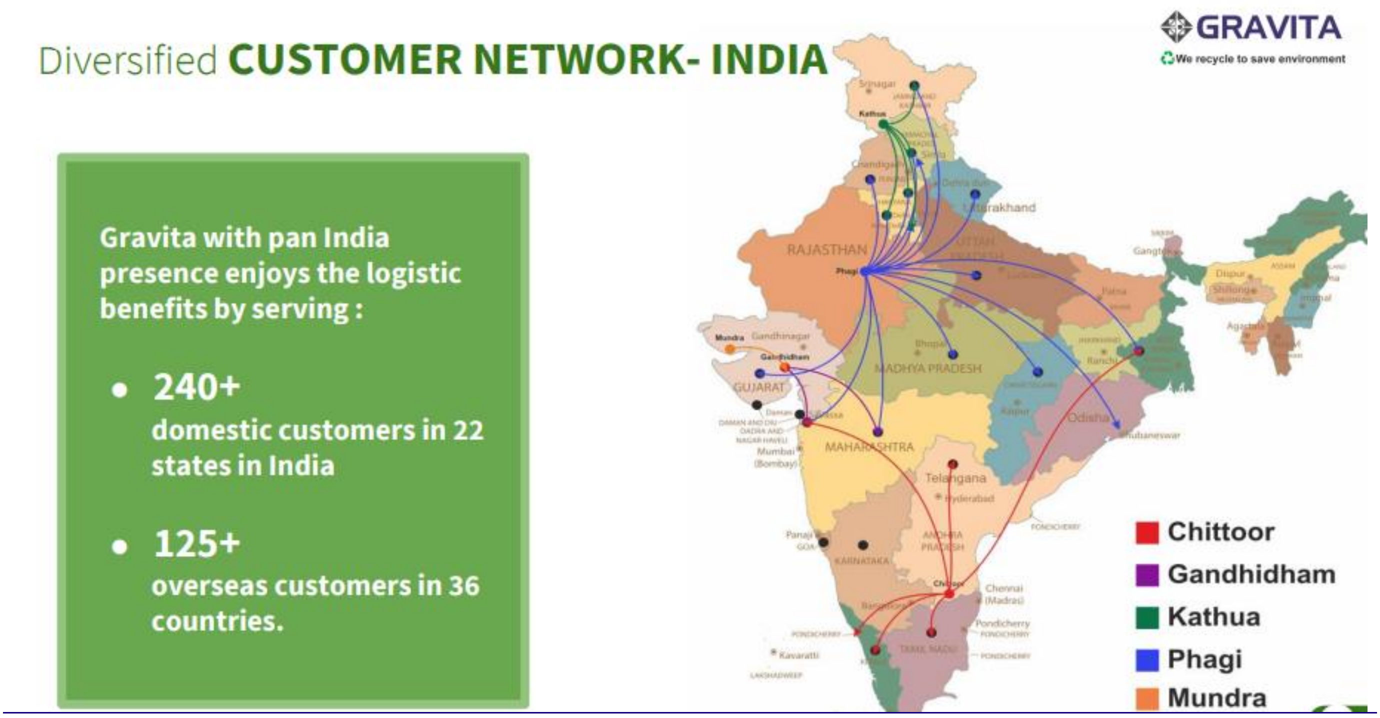
- **Diversified global customer network**: Gravita has a diversified customer base with over 350 customers in over 32 countries across the globe, with significant presence in Asia, America, Europe, and the Middle East.
- Within India, the company enjoys a pan-India presence and has over 240 domestic customers in 22 states.

**Exhibit 28: Diversified global customer network**




Source: MOFSL, Company

**Exhibit 29: Strong customer base across India**




Source: MOFSL, Company

### Turnkey division provides R&D and lower-cost machineries

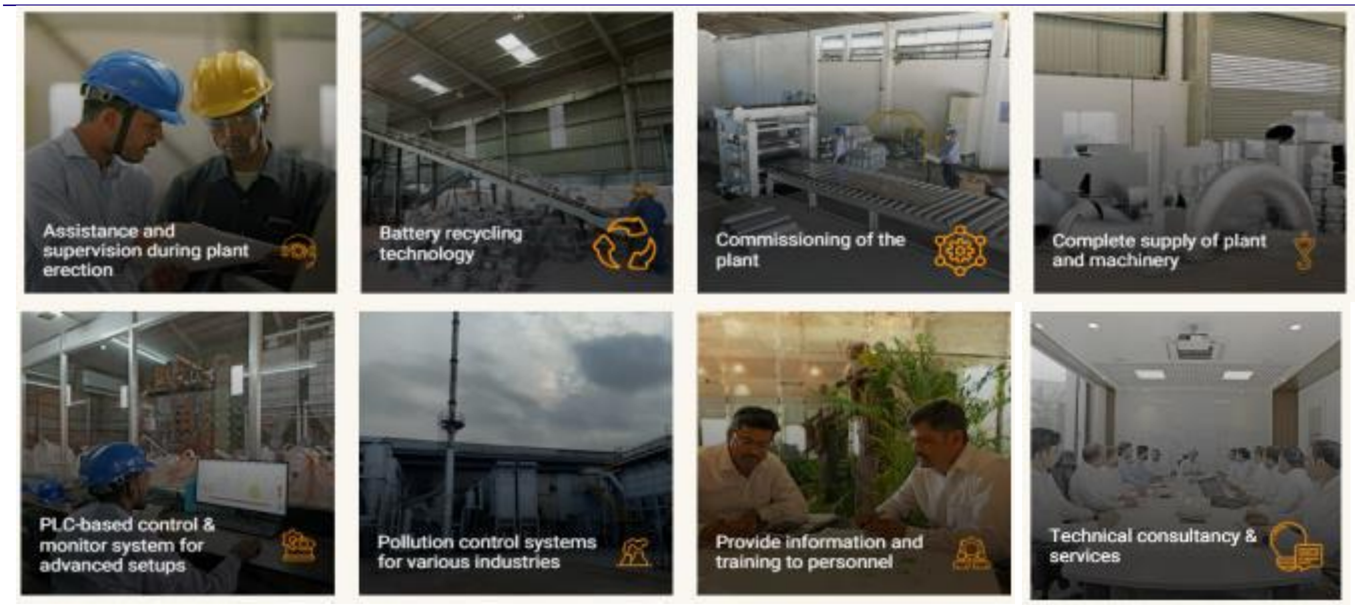
- In addition to recycling, Gravita also offers turnkey solutions for its customers. The turnkey solutions division sets up recycling plants for the customers.
- The company's turnkey solutions branch has created a proprietary in-house recycling technology. The division also serves as an in-house research center, helping Gravita improve efficiencies, achieve better yields within recycling, and optimize the whole recycling process.
- The company has sold over 70 turnkey solutions across the globe (including Qatar, the UAE, Saudi Arabia, Poland, and Chile). While some of the international recycling players are providing recycling turnkey solutions for the larger capacities, Gravita is providing similar solutions for much smaller capacities of ~12,000-24,000 MTPA.

- The division is operating with a margin of ~25-30% for external projects. This indicates that the company is able to procure its plant and machinery in-house, at a cost that is 25-30% lower than the market value.
- Gravita has significant expansion plans over the next three years (capacity to more than double to ~690K MTPA in FY27E from ~303K MTPA in FY24). Thus, the company will be able to procure the machines for expansion from the in-house turnkey solutions department at a much lesser cost, leading to a better payback period for the project.

**Exhibit 30: Gravita's turnkey solutions**


Source: MOFSL, Company

**Exhibit 31: Key features of Gravita's turnkey solutions**



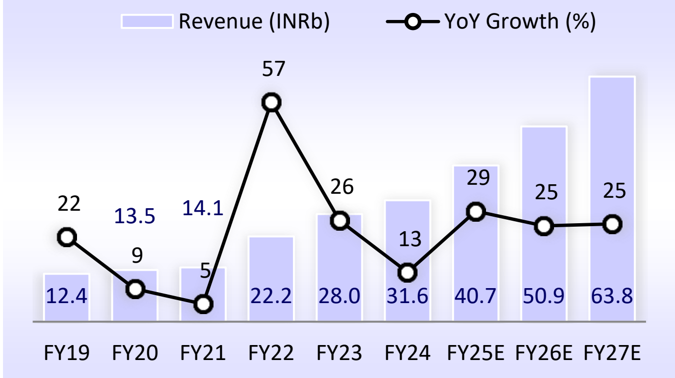

Source: MOFSL, Company

## Financial performance

### Revenue growth momentum to accelerate significantly going forward

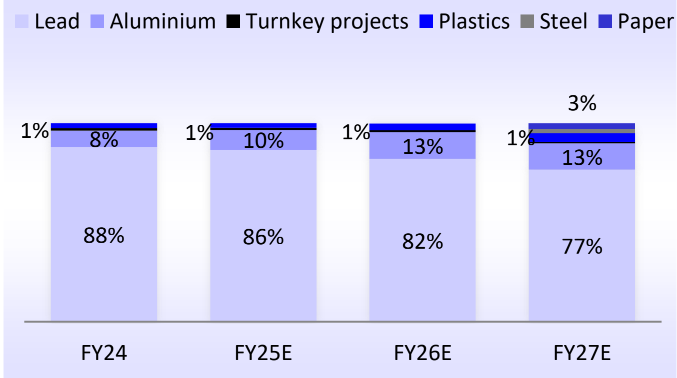
- Gravita witnessed a strong revenue growth over the past five years (at ~21% CAGR over FY19-24), reaching a consolidated revenue of ~INR31.6b in FY24.
- The company reported broad-based growth across verticals, with the Lead recycling segment (accounting for ~88% of consolidated revenue in FY24) leading from the front (clocking ~21% revenue CAGR over FY19-24). This was followed by the Aluminum/ Turnkey/Plastic recycling segments, which posted ~18% /18%/9% revenue CAGR during the same period.
- However, the Aluminum and the Plastic recycling segments experienced a revenue decline in FY24 (~25% decline each) due to multiple factors, including the non-availability of hedging mechanisms, logistic disruptions, etc.
- Nevertheless, the availability of new hedging mechanisms/stricter implementation of PWMR is likely to ramp up the Aluminum/Plastic recycling segments in FY25.
- Going forward, we expect the company to clock a ~26% revenue CAGR on a consolidated basis, with the new (Aluminum/Plastic) and upcoming segments (Lithium ion/Paper/Steel) accelerating notably (the mix of the new and upcoming businesses is likely to rise to ~23% in FY27E from ~12% in FY24).

**Exhibit 32: Revenue to report 26% CAGR over FY24-27E**




Source: MOFSL, Company

**Exhibit 33: Expected business mix going forward**

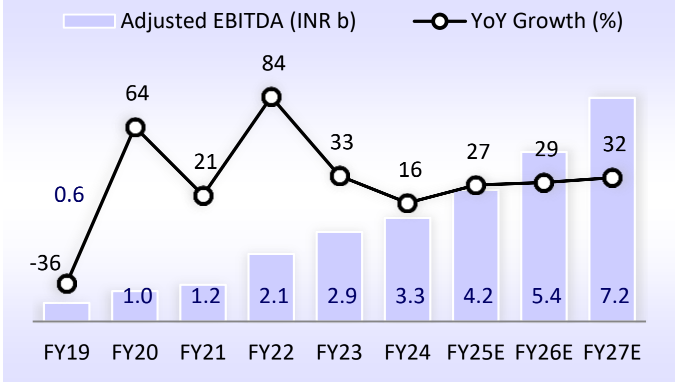



Source: MOFSL, Company

### Operating leverage, new segments to drive margin improvement

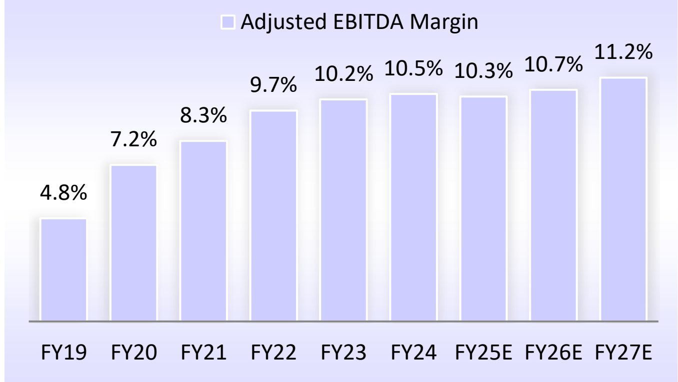
- Gravita's adjusted EBITDA margin expanded to ~10.5% in FY24 from ~4.8% in FY19, led by a spike in EBITDA margin within its core Lead recycling business. This was due to favorable operating leverage (sales volume has more than doubled to ~143K MTPA in FY24 from ~65K MTPA in FY19).
- Going forward, we expect margin to improve (to ~11.2% by FY27) aided by continuing operating leverage and an increase in the mix of value-added products (to over 50% from current levels of ~45%).
- Gravita provides various valued-added products, which include customized lead alloys, lead sheets, lead bricks, red lead, lead oxide, customized aluminum alloys, and food-grade pet flakes.
- **Note:** The EBITDA margin should be observed on an adjusted basis as the hedging profit /loss is classified as other income/other expense. Thus, the plain vanilla EBITDA (excluding other income), does not take into account hedging profit, which is operational in nature and has offset the loss from fluctuations in commodity price (which is classified as other expense and is part of the EBITDA calculation).

**Exhibit 34: EBITDA likely to register 29% CAGR…**




Source: MOFSL, Company

**Exhibit 35: …led by improvement in margin over FY24-27**

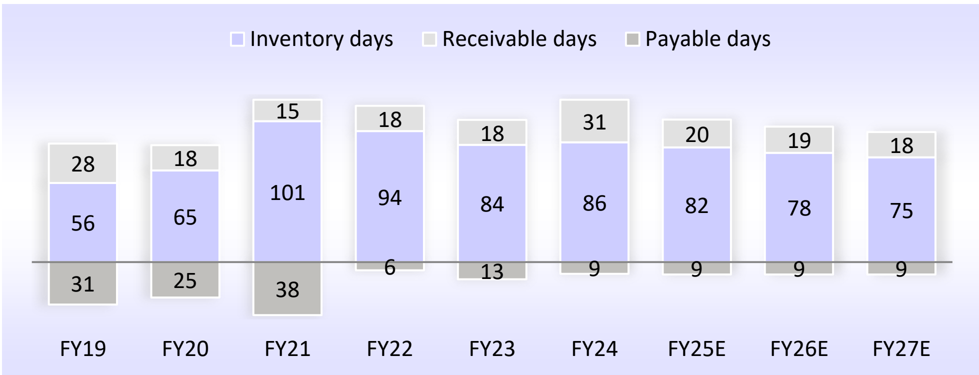



Source: MOFSL, Company

## Working capital days to decline due to better domestic scrap availability

- Gravita witnessed an increase in net working capital over the past five years (from ~54 days in FY19 to ~108 days in FY24) due to heightened inventory days and lowering payable days.
- The inventory days increased significantly to ~86 in FY24 from 56 days in FY19, due to higher procurement from international markets (to gain from lower prices in international markets) and disruptions in the supply chain because of the Red Sea crisis.
- Going forward, we expect a gradual reduction in inventory days, with a rise in the share of domestic scrap procurement and reduction in supply chain issues.
- The new government policy of BWMR will significantly increase the domestic scrap availability, leading to reduction in freight costs, and lower working capital in comparison to imported scrap.
- Accordingly, we expect net working capital to stand at ~84 days by FY27 from ~108 in FY24.

**Exhibit 36: Working capital days trend**

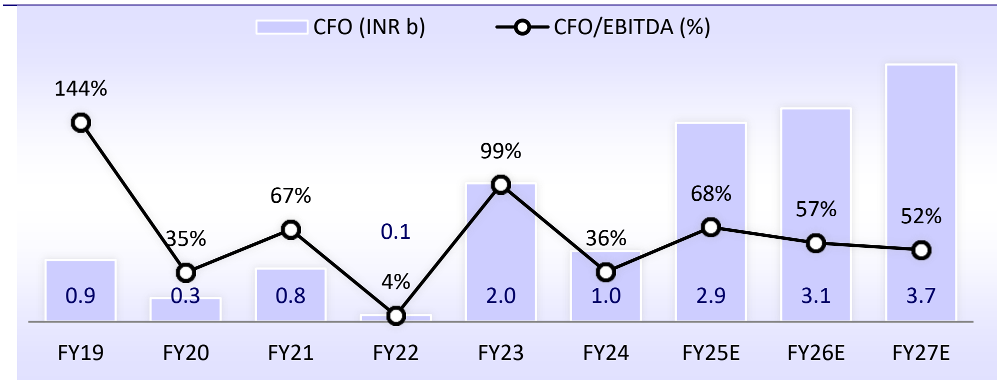



Source: Company, MOFSL

## Higher profitability and declining working capital to significantly increase cash flow from operations

- The strong growth in profitability (at ~31% CAGR) coupled with a reduction in working capital days will lead to a strong cash flow generation from operating activities.
- Accordingly, we expect CFO to reach ~INR3.7b by FY27 (clocking ~54% CAGR over FY24-27), with the CFO-to-EBITDA ratio at ~52% in FY27 vs. 36% in FY24.

**Exhibit 37: Cash flow from operations to witness robust growth**

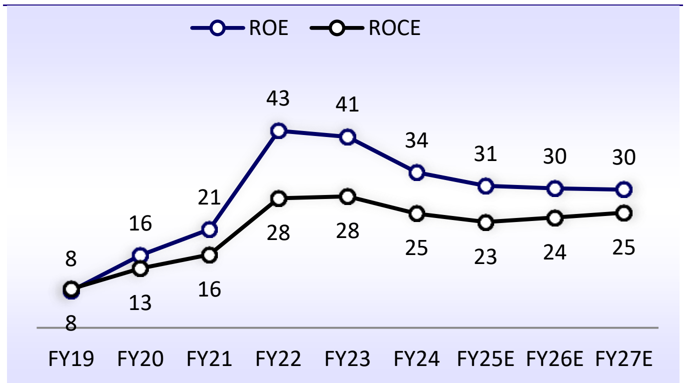



Source: Company, MOFSL

## Delivering healthy return ratios

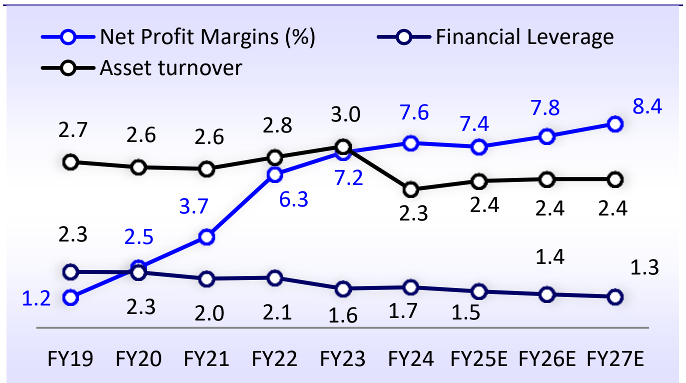
- ROE/ROCE increased sharply to 33.5%/24.6 % in FY24 from FY19 levels of 8%/8.4% led by a steep increase in profitability.
- Going forward, RoE/RoCE is expected to remain stable at ~29.8%/24.8% in FY27
- Factoring the DuPont analysis, net profit margin is expected to increase to ~8.4% in FY27 from 7.6% in FY24 because of increasing EBITDA margin. While the Asset T/O will increase marginally to ~2.4x by FY27 v/s 2.3x in FY24.
- However, financial leverage will decline from ~1.7x in FY24 to ~1.3x by FY27 resulting in a moderation in the return ratios.
- Fixed Asset T/O has declined from ~7.8x in FY19 to ~6.6x in FY24 led by strong capacity addition. This trend is expected to continue going ahead, with an expected fixed asset T/O of ~5.2x by FY27E.

**Exhibit 38: Trends in Return ratios**




Source: MOFSL, Company

**Exhibit 39: Du-Pont analysis**




Source: MOFSL, Company

## Set to thrive in a growing recycling industry

**Initiate coverage with a BUY**

- Gravita is one of the key players within the growing recycling industry in India. The company has strong growth visibility led by industry tailwinds and high competitive advantages (strategically located manufacturing units, deep procurement network, diverse global customer base, and lower cost for building new facilities).
- The company is incurring significant capex of over INR6b (INR4b for the existing segments and INR2b for the upcoming segments, like Lithium ion, Steel and Paper) on the existing gross block of ~INR4.8b to more than double the capacity over the next three years (~686K MTPA by FY27 vs. ~303K in FY24).
- We believe that with strong industry tailwinds, favorable regulatory policies, the availability of additional hedging mechanisms, and the absence of significant supply chain disruption, the company can strong ramp up the utilization (~30% sales volume CAGR over FY24-27E).
- Going forward, we expect the company to report robust earnings growth on the back of: 1) strong growth within the lead recycling segment led by favorable regulatory changes; 2) faster growth from the new segments (aluminum, plastic, and rubber) and addition of the steel and paper segments; 3) robust capacity addition across segments; and 4) a rise in the mix of value-added products.
- We estimate Gravita to register a revenue/Adj. EBITDA/Adj. PAT CAGR of 26%/ 29%/ 31% over FY24-27.
- Gravita currently trades at 31x/23x FY26E/FY27E EPS with an RoE/RoCE of 30%/25% in FY27E. We believe that the company will be a key beneficiary of the growing recycling industry in India and is poised to secure its share within the market led by multiple moats built around over the years. We initiate coverage on the stock with a BUY rating and a TP of INR2,350 (based on 35x Sep'26E EPS).

### Key risks

- Any issues within the supply chain or any logistic disruptions can adversely impact procurement and supply and will lead to higher freight costs and higher inventory days.
- Unfavorable regulatory changes, or lack of discipline in strictly implementing existing policies (such as BWMR and PWMR), can lead to slower-than-expected growth in demand.
- A delay in the ramp-up of new facilities will lead to slower-than-expected revenue growth.
- Downside in commodity prices, where the company has not fully hedged, can lead to losses.

# ESG initiatives


## Environment

- Gravitas' sustainable and energy efficient recycling processes play a pivotal role in preserving resources and effectively managing waste materials. Its efforts not only aid in the repeated use of recycled metal but also ensure responsible disposal of scrap, without any adverse environmental impact.
- Gravita has installed a Solar Energy Generation system at various manufacturing facilities located in India. This green energy installation will not only help the company to fulfill the vision to reduce carbon footprints but will also help reduce Gravita's cost of production in the long run.
- The company is implementing the 'reduce and recycle' policy for use of water at various manufacturing sites.
- Gravita undertook various measures towards the preservation of ecological balance and protection of flora and fauna and also undertook a tree plantation drive to take care of Nature.

## Social

- All of the manufacturing sites comply with ISO 45001 - Occupational, Health, and Safety Management System with a focus on employee training to reduce instances of accidents at manufacturing sites. There is round-the-clock availability of doctors at various plants to tackle any medical emergency.
- During the year, Gravita incurred INR1.33b as employee benefit expenses.
- It has undertaken various CSR activities by integrating social concerns in business operations and fostering a better world in its surroundings. Gravita has proactively worked towards the development of underprivileged communities over the years.
- The company has consistently participated in social initiatives aimed at improvement of livelihoods, access to healthcare, providing educational access to the communities, taking care of the environment as a responsible corporate, etc. These initiatives ensure a more holistic and inclusive development.

## Governance

- As of FY24, the Board comprised six Directors, which included three independent Directors.
- The company established an Employee Grievances Redressal Policy to address any employee concerns effectively. It has policies in place for Equal Employment Opportunity, Human Rights, and Anti-Corruption thus demonstrating its commitment to fair and ethical practices.

# Bull and Bear cases

## Bull Case

- In our bull case, we assumed revenue CAGR of 29% over FY24-27E on back of strong growth within the lead segment and faster ramp up of new and upcoming segments.
- We expect adjusted margins to expand from current levels by ~100bp to ~11.5% by FY27E led by favorable operating leverage and higher mix of new and upcoming segment.
- EPS to register a robust CAGR of 35% over FY24-27E led by strong revenue growth and margin improvements.

## Bear Case

- In our bear case, we assumed a revenue CAGR of 21% over FY24-27E.
- Margins will expand by 50bp from current level to 11% by FY27E.
- EPS to register a CAGR of 25% over FY24-27E.

### Scenario analysis

| | Particulars | FY24 | FY25E | FY26E | FY27E | CAGR (FY24-27E, %) |
|---|---|---|---|---|---|---|
| Bear case | Revenue | 31,608 | 39,143 | 47,012 | 56,437 | 21 |
| | Adj. EBITDA | 3,309 | 3,997 | 4,835 | 6,222 | 23 |
| INR1950 | EPS | 34.6 | 41.0 | 50.8 | 67.3 | 25 |
| Base case | Revenue | 31,608 | 40,699 | 50,855 | 63,781 | 26 |
| | Adj. EBITDA | 3,309 | 4,210 | 5,422 | 7,156 | 29 |
| INR2350 | EPS | 34.6 | 43.7 | 57.8 | 77.2 | 31 |
| Bull case | Revenue | 31,608 | 41,654 | 53,264 | 68,001 | 29 |
| | Adj. EBITDA | 3,309 | 4,387 | 5,840 | 7,851 | 33 |
| INR2750 | EPS | 34.6 | 45.9 | 63.1 | 85.9 | 35 |

## SWOT analysis

- ☑ Presence in regions that have ready access to raw materials and a large nearby market
- ☑ Global sourcing capabilities
- ☑ Diversified customer base across globe
- ☑ Lower cost of capex on account of the in-house turnkey solutions division

- ☑ Global uncertainties and highly volatile prices of raw materials throughout the year affects the non-hedged segments
- ☑ Increase in working capital cycle due to supply chain disruptions and logistical issues

- ☑ The recycled lead market is valued at ~USD5.8b in CY23 and is expected to reach ~USD10.8b by CY32, clocking ~9.2% CAGR over the period
- ☑ It is estimated that waste management in India is potentially an USD15b industry.

- ☑ Competition from the fragmented market.
- ☑ Reliance on scrap imports
- ☑ Competition from alternate technologies, mainly lithium-ion, is expected to hinder the Lead acid battery market growth.
- ☑ Unfavourable regulatory changes

## Management team

**Dr. M.P. Agarwal**
Chairman

Driven by a passion for business and innovation, he embarked on a journey in lead manufacturing and trading alongside his son, amassing invaluable experience of over 30 years in the non-ferrous metals industry. After completing his M.B.B.S. in 1956 and M.D. in General Medicine, Dr. Agarwal dedicated over three decades to public service, working in the Department of Medical & Health in Rajasthan

**Rajat Agarwal**
Managing Director and Founder

With a rich experience of over 30 years in the industry, Rajat Agarwal is an astute strategist and visionary, spearheading the company's overall direction and fostering strategic initiatives. He holds a B.E. in Mechanical Engineering from MNIT and an OPM from Harvard Business School. Since the company's inception in 1992, he has been at the forefront, driving Gravita to become the top player in India's recycling industry.

**Yogesh Malhotra**
Whole Time Director and CEO

He has over 30 years of experience and expertise in global markets to Gravita. With a remarkable career spanning top national and multinational organisations such as Bluestar, Castrol, and Eurochem.
He holds a B.E. (Mechanical) degree from MNIT, Jaipur, and an MBA from NUS, Singapore, that form the foundation of his extensive practical knowledge.

**Naveen Prakash Sharma**
Executive Director

He have over 30 years of experience in the metals and mining industry. Joining Gravita in 2006, he has held notable positions in renowned organizations like Hindalco Industries Limited, Pennar Aluminum, and Finolex Cables. Mr. Sharma holds a B.E. in Metallurgy from MNIT, Jaipur, and an MBA from R.A. Poddar Institute of Management, Jaipur.

**Vijay Kumar Pareek**
Executive Director

He brings over 30 years of invaluable sales and marketing experience. He joined Gravita in 2012, following successful tenures at renowned organizations like Larsen & Toubro, Grasim, and Aditya Birla Group. Possesses a strong educational foundation with a B.E. in Metallurgy (Gold Medallist) from MNIT, Jaipur, and an MBA from Global U21, Singapore.

**Sunil Kansal**
CFO

Bringing in three decades of experience in the financial domain. A Chartered Accountant himself, he also holds a Bachelor's and a Master's Degrees in Commerce from Rajasthan University, reflecting his strong educational foundation. Mr. Kansal joined Gravita in 2008, bringing with him a wealth of knowledge in financial management and strategic planning, honed during his tenure at Jaipur Rugs Company Pvt. Ltd.

# Financials and valuations

**Consolidated - Income Statement** (INR Million)

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|---|
| **Total Income from Operations** | **12,417** | **13,478** | **14,098** | **22,159** | **28,006** | **31,608** | **40,699** | **50,855** | **63,781** |
| Change (%) | 22.0 | 8.5 | 4.6 | 57.2 | 26.4 | 12.9 | 28.8 | 25.0 | 25.4 |
| RM Cost | 10,574 | 11,126 | 11,586 | 17,899 | 23,391 | 25,612 | 32,356 | 40,429 | 50,578 |
| Employees Cost | 635 | 659 | 729 | 1,028 | 1,336 | 1,312 | 1,628 | 1,932 | 2,360 |
| Other Expenses | 590 | 738 | 633 | 1,078 | 1,259 | 1,848 | 2,505 | 3,071 | 3,687 |
| **Total Expenditure** | **11,799** | **12,523** | **12,948** | **20,005** | **25,986** | **28,772** | **36,489** | **45,433** | **56,625** |
| % of Sales | 95.0 | 92.9 | 91.8 | 90.3 | 92.8 | 91.0 | 89.7 | 89.3 | 88.8 |
| **EBITDA** | **619** | **955** | **1,150** | **2,154** | **2,020** | **2,836** | **4,210** | **5,422** | **7,156** |
| Margin (%) | 5.0 | 7.1 | 8.2 | 9.7 | 7.2 | 9.0 | 10.3 | 10.7 | 11.2 |
| Other Income (Operational) - Commodity and Forex Hedging | -29 | 15 | 20 | -4 | 841 | 474 | 0.0 | 0.0 | 0.0 |
| **Adjusted EBITDA** | **590** | **970** | **1,170** | **2,149** | **2,860** | **3,309** | **4,210** | **5,422** | **7,156** |
| Margin (%) | 4.8 | 7.2 | 8.3 | 9.7 | 10.2 | 10.5 | 10.3 | 10.7 | 11.2 |
| Depreciation | 116 | 181 | 203 | 206 | 240 | 380 | 416 | 562 | 754 |
| **EBIT** | **474** | **789** | **967** | **1,944** | **2,621** | **2,929** | **3,794** | **4,860** | **6,401** |
| Int. and Finance Charges | 262 | 314 | 310 | 380 | 435 | 492 | 502 | 491 | 491 |
| Other Income | 83 | -5 | 52 | 83 | 90 | 304 | 170 | 200 | 250 |
| **PBT bef. EO Exp.** | **296** | **469** | **709** | **1,646** | **2,276** | **2,742** | **3,462** | **4,569** | **6,161** |
| **PBT after EO Exp.** | **296** | **469** | **709** | **1,646** | **2,276** | **2,742** | **3,462** | **4,569** | **6,161** |
| Total Tax | 102 | 104 | 141 | 162 | 235 | 319 | 415 | 548 | 801 |
| Tax Rate (%) | 34.4 | 22.0 | 19.9 | 9.8 | 10.3 | 11.6 | 12.0 | 12.0 | 13.0 |
| Minority Interest | 39 | 34 | 44 | 91 | 30 | 31 | 31 | 31 | 31 |
| **Reported PAT** | **155** | **332** | **525** | **1,394** | **2,011** | **2,392** | **3,016** | **3,990** | **5,329** |
| **Adjusted PAT** | **155** | **332** | **525** | **1,394** | **2,011** | **2,392** | **3,016** | **3,990** | **5,329** |
| Change (%) | -64.9 | 114.1 | 58.1 | 165.7 | 44.3 | 18.9 | 26.1 | 32.3 | 33.6 |
| Margin (%) | 1.2 | 2.5 | 3.7 | 6.3 | 7.2 | 7.6 | 7.4 | 7.8 | 8.4 |

**Consolidated - Balance Sheet**

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|---|
| Equity Share Capital | 138 | 138 | 138 | 138 | 138 | 138 | 138 | 138 | 138 |
| Total Reserves | 1,856 | 2,114 | 2,551 | 3,730 | 5,751 | 8,236 | 11,183 | 15,104 | 20,364 |
| **Net Worth** | **1,993** | **2,252** | **2,689** | **3,869** | **5,889** | **8,374** | **11,321** | **15,242** | **20,502** |
| Minority Interest | 47 | 52 | 90 | 140 | 128 | 132 | 163 | 194 | 224 |
| Total Loans | 2,503 | 2,793 | 2,611 | 3,915 | 3,477 | 5,451 | 5,451 | 5,451 | 5,451 |
| Deferred Tax Liabilities | 23 | 26 | 24 | 15 | -61 | 2 | 2 | 2 | 2 |
| **Capital Employed** | **4,566** | **5,123** | **5,415** | **7,939** | **9,433** | **13,959** | **16,937** | **20,889** | **26,180** |
| Gross Block | 1,592 | 2,215 | 2,285 | 2,650 | 3,690 | 4,759 | 6,337 | 9,062 | 12,187 |
| Less: Accum. Deprn. | 227 | 399 | 562 | 738 | 957 | 1,337 | 1,753 | 2,315 | 3,069 |
| **Net Fixed Assets** | **1,365** | **1,817** | **1,724** | **1,913** | **2,733** | **3,423** | **4,584** | **6,747** | **9,118** |
| Goodwill on Consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital WIP | 462 | 147 | 135 | 425 | 455 | 428 | 1,150 | 1,575 | 1,550 |
| **Total Investments** | **0** | **0** | **0** | **0** | **11** | **165** | **165** | **165** | **165** |
| Current Investments | 0 | 0 | 0 | 0 | 0 | 165 | 165 | 165 | 165 |
| **Curr. Assets, Loans&Adv.** | **3,898** | **4,181** | **5,405** | **7,638** | **8,789** | **12,008** | **13,498** | **15,472** | **18,806** |
| Inventory | 1,826 | 2,244 | 3,577 | 5,135 | 5,965 | 6,746 | 8,198 | 9,709 | 11,635 |
| Account Receivables | 965 | 675 | 594 | 1,097 | 1,370 | 2,643 | 2,230 | 2,647 | 3,145 |
| Cash and Bank Balance | 219 | 203 | 199 | 325 | 381 | 988 | 1,158 | 726 | 1,028 |
| Loans and Advances | 888 | 1,059 | 1,035 | 1,081 | 1,073 | 1,631 | 1,913 | 2,390 | 2,998 |
| **Curr. Liability & Prov.** | **1,160** | **1,020** | **1,849** | **2,036** | **2,555** | **2,065** | **2,460** | **3,070** | **3,459** |
| Account Payables | 987 | 874 | 1,357 | 329 | 895 | 675 | 900 | 1,120 | 1,396 |
| Other Current Liabilities | 102 | 65 | 376 | 1,515 | 1,457 | 1,379 | 1,547 | 1,932 | 2,041 |
| Provisions | 71 | 81 | 116 | 193 | 202 | 11 | 14 | 17 | 22 |
| **Net Current Assets** | **2,738** | **3,160** | **3,556** | **5,601** | **6,234** | **9,944** | **11,038** | **12,402** | **15,347** |
| **Appl. of Funds** | **4,566** | **5,123** | **5,415** | **7,939** | **9,433** | **13,959** | **16,937** | **20,889** | **26,180** |

# Financials and valuations

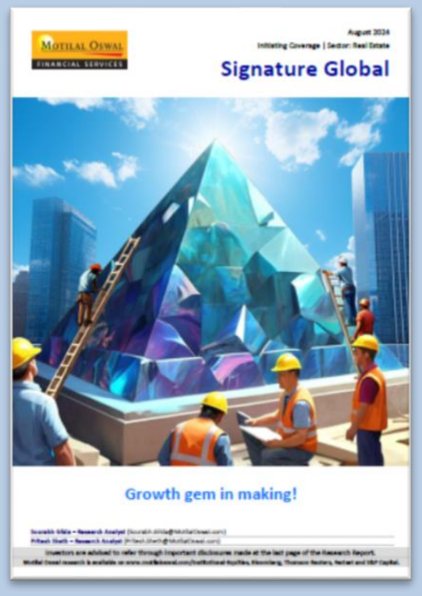
## Ratios

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|---|
| **Basic (INR)** | | | | | | | | | |
| **EPS** | **2.3** | **4.8** | **7.6** | **20.2** | **29.1** | **34.6** | **43.7** | **57.8** | **77.2** |
| Cash EPS | 3.9 | 7.4 | 10.5 | 23.2 | 32.6 | 40.1 | 49.7 | 65.9 | 88.1 |
| BV/Share | 29.0 | 32.6 | 38.9 | 56.0 | 85.3 | 121.3 | 164.0 | 220.7 | 296.9 |
| DPS | 0.0 | 0.7 | 1.1 | 3.5 | 0.6 | 0.9 | 1.0 | 1.0 | 1.0 |
| Payout (%) | 0.0 | 15.2 | 14.2 | 17.1 | 2.1 | 2.5 | 2.3 | 1.7 | 1.3 |
| **Valuation (x)** | | | | | | | | | |
| P/E | 798.4 | 374.5 | 236.9 | 89.2 | 61.8 | 52.0 | 41.2 | 31.1 | 23.3 |
| Cash P/E | 457.3 | 242.2 | 170.8 | 77.7 | 55.2 | 44.8 | 36.2 | 27.3 | 20.4 |
| P/BV | 62.1 | 55.2 | 46.2 | 32.1 | 21.1 | 14.8 | 11.0 | 8.2 | 6.1 |
| EV/Sales | 10.2 | 9.4 | 9.0 | 5.8 | 4.6 | 4.1 | 3.2 | 2.5 | 2.0 |
| EV/EBITDA | 203.8 | 132.9 | 110.3 | 59.4 | 63.1 | 45.4 | 30.5 | 23.8 | 18.0 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.1 | 0.2 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| FCF per share | 3.1 | 2.7 | 8.0 | -8.8 | 13.5 | -0.3 | 8.3 | -1.0 | 8.9 |
| **Return Ratios (%)** | | | | | | | | | |
| RoE | 8.0 | 15.6 | 21.2 | 42.5 | 41.2 | 33.5 | 30.6 | 30.0 | 29.8 |
| RoCE | 8.4 | 12.8 | 15.8 | 27.9 | 28.3 | 24.6 | 22.8 | 23.8 | 24.8 |
| RoIC | 8.5 | 13.9 | 15.4 | 28.6 | 20.2 | 20.7 | 24.9 | 26.0 | 26.6 |
| **Working Capital Ratios** | | | | | | | | | |
| Fixed Asset Turnover (x) | 7.8 | 6.1 | 6.2 | 8.4 | 7.6 | 6.6 | 6.4 | 5.6 | 5.2 |
| Asset Turnover (x) | 2.7 | 2.6 | 2.6 | 2.8 | 3.0 | 2.3 | 2.4 | 2.4 | 2.4 |
| Inventory (Days) | 54 | 61 | 93 | 85 | 78 | 78 | 82 | 78 | 75 |
| Debtor (Days) | 28 | 18 | 15 | 18 | 18 | 31 | 20 | 19 | 18 |
| Creditor (Days) | 29 | 24 | 35 | 5 | 12 | 8 | 9 | 9 | 9 |
| **Leverage Ratio (x)** | | | | | | | | | |
| Current Ratio | 3.4 | 4.1 | 2.9 | 3.8 | 3.4 | 5.8 | 5.5 | 5.0 | 5.4 |
| Interest Cover Ratio | 1.8 | 2.5 | 3.1 | 5.1 | 6.0 | 6.0 | 7.6 | 9.9 | 13.0 |
| Net Debt/Equity | 1.1 | 1.2 | 0.9 | 0.9 | 0.5 | 0.5 | 0.4 | 0.3 | 0.2 |

## Consolidated - Cash Flow Statement

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|---|
| OP/(Loss) before Tax | 194 | 469 | 709 | 1,646 | 2,276 | 2,742 | 3,462 | 4,569 | 6,161 |
| Depreciation | 116 | 181 | 203 | 206 | 240 | 380 | 416 | 562 | 754 |
| Interest & Finance Charges | 223 | 275 | 271 | 327 | 384 | 188 | 332 | 291 | 241 |
| Direct Taxes Paid | -123 | -111 | -115 | -149 | -235 | -319 | -415 | -548 | -801 |
| (Inc)/Dec in WC | 430 | -462 | -302 | -2,062 | -822 | -1,971 | -924 | -1,796 | -2,643 |
| **CF from Operations** | **840** | **352** | **765** | **-32** | **1,843** | **1,019** | **2,870** | **3,078** | **3,712** |
| Others | 51 | -14 | 0 | 128 | 154 | 0 | 0 | 0 | 0 |
| **CF from Operating incl EO** | **890** | **339** | **765** | **96** | **1,997** | **1,019** | **2,870** | **3,078** | **3,712** |
| (Inc)/Dec in FA | -677 | -149 | -212 | -702 | -1,064 | -1,042 | -2,300 | -3,150 | -3,100 |
| **Free Cash Flow** | **213** | **190** | **553** | **-606** | **933** | **-23** | **570** | **-72** | **612** |
| (Pur)/Sale of Investments | 0 | 0 | 0 | 4 | -11 | 0 | 0 | 0 | 0 |
| Others | 14 | 6 | 19 | 3 | 21 | -1,010 | 170 | 200 | 250 |
| **CF from Investments** | **-664** | **-143** | **-194** | **-695** | **-1,054** | **-2,052** | **-2,130** | **-2,950** | **-2,850** |
| Issue of Shares | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inc/(Dec) in Debt | 0 | 183 | -193 | 1,294 | -442 | 1,974 | 0 | 0 | 0 |
| Interest Paid | -235 | -272 | -265 | -336 | -389 | -492 | -502 | -491 | -491 |
| Dividend Paid | -98 | -71 | -74 | -238 | -43 | -60 | -69 | -69 | -69 |
| Others | 166 | -52 | -33 | 0 | 0 | 217 | 0 | 0 | 0 |
| **CF from Fin. Activity** | **-167** | **-212** | **-565** | **719** | **-874** | **1,639** | **-571** | **-560** | **-560** |
| **Inc/Dec of Cash** | **60** | **-16** | **6** | **121** | **69** | **607** | **170** | **-432** | **302** |
| Opening Balance | 63 | 123 | 107 | 113 | 234 | 382 | 988 | 1,158 | 726 |
| Other cash & cash equivalent | 96 | 96 | 85 | 91 | 78 | 0 | 0 | 0 | 0 |
| **Closing Balance** | **219** | **203** | **198** | **325** | **382** | **988** | **1,158** | **726** | **1,028** |

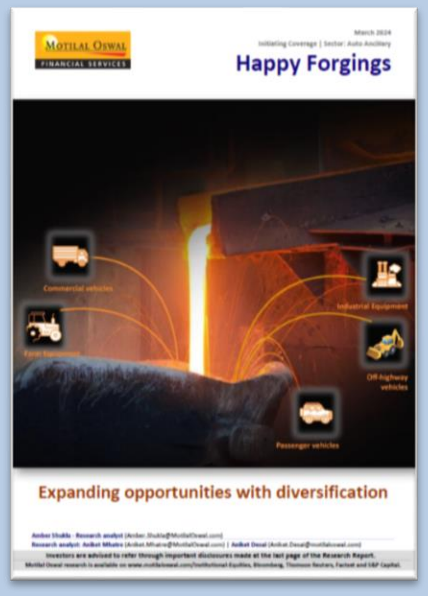
# RECENT INITIATING COVERAGE REPORTS

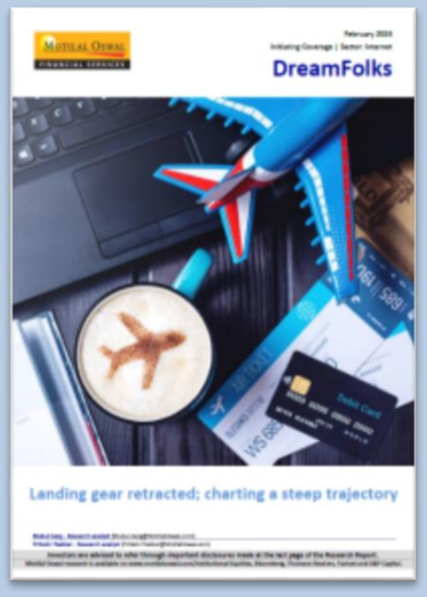








| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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