

# Investment Idea

## Accumulate

### Key Data

DATE	29.05.2023
Reco Price	580-590
Target	732
Sector	Industrial Minerals - Non Ferrous Metals
BSE Code	533282
NSE Code	GRAVITA
EPS (FY22)	29.13
Face Value (Rs.)	2.00
Market Cap (Mn)	4,071
52-week High/Low (Rs)	600.65 / 230.95

Source : NSE, BSE

### Shareholding pattern (Dec-2022)

	%
Promoters	73.00
DII's	0.25
FII's	3.08
Public	21.67
Others	2.00
<b>Total</b>	<b>100.00</b>

Source : NSE, BSE

### Price Performance



## Gravita India Limited

### Company Background

**Gravita India Ltd (GIL)** was established in the early 1990s, with its first recycling plant at Jaipur, Rajasthan in 1994. The Company is one of the largest lead producer in India. The company's business is organized across four specialized verticals: Lead Recycling (flagship), Aluminum recycling, Plastic recycling and Turnkey projects. It enjoys patronage of its products in more than 59 countries. In addition, GIL also provides turnkey solutions to recycling industry and has supplied more than 60 recycling projects across the world.

The company also has expertise in the recycling of used batteries, cable scrap/other Lead scrap, Aluminum scrap, Plastic scrap, etc. The company is headquartered in Jaipur with recycling plants located in India and off shore (majorly in Africa). GIL was the first mover into Africa.

### Company at a glance

- Company having its Deep presence in Asia, Africa, Middle East, Europe and America.
- Gravitas with pan India presence enjoys the logistic benefits by serving;
- 230+ domestic customers in 22 states in India
- 90+ overseas customers in 36 countries.
- Company having its own 27 yards with 1500+ touch points.
- Company have achieved a milestone of 205000 MT+ scrap collection.
- Company have achieved a target of 155000 + MT recycled products delivered.

### Outlook and Valuation

Gravita India Limited is a global leading non-ferrous secondary metal and one of India's largest secondary Lead metal producing company. Company's state-of-the-art recycling facilities are located in the established growth centers of Asia, Africa and Central America. Company strong order book, robust growth outlook of lead recycling, favorable government policies and increased product portfolio to drive growth momentum going forward, we believe Gravita India Limited is well placed to capitalize on these opportunities. Going ahead, we expect the company's revenue to grow at a CAGR of ~25.50% over FY23-FY26E. Hence, we recommend Gravita India Limited with a target price of Rs 732 based on FY26E EPS of Rs 59.72; it's available at reasonable forward PE valuation of 9.88 at recommended price. Hence, **we recommend ACCUMULATE rating for the long term.**

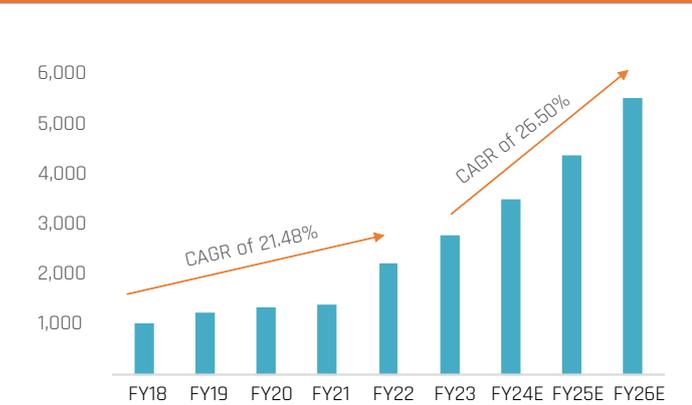
### Financial Snapshot

Particulars (Rs Cr.)	FY23	FY24E	FY25E	FY26E	CAGR (FY23-26)
Revenue	2,800.60	3,500.75	4,393.44	5,535.74	25.50%
EBITDA	197.60	314.42	425.60	565.59	41.98%
EBITDA Margin %	7.06%	8.98%	9.69%	10.22%	200bps
PAT	201.10	219.17	301.28	412.26	27.03%
EPS (Rs.)	29.13	31.75	43.64	59.72	27.03%
ROCE	21.47%	21.81%	25.40%	27.28%	

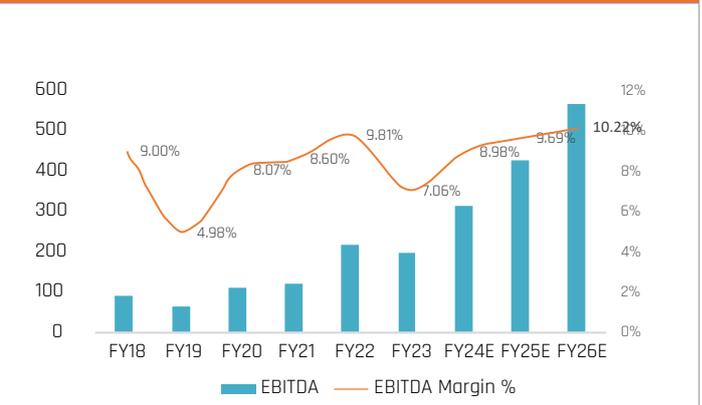
Source : Company, ACMIIL Research

## Story in Charts

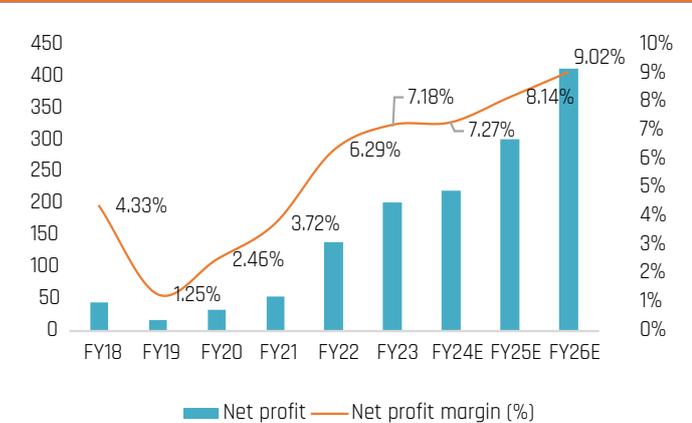
**Exhibit 1: Sales Growth**



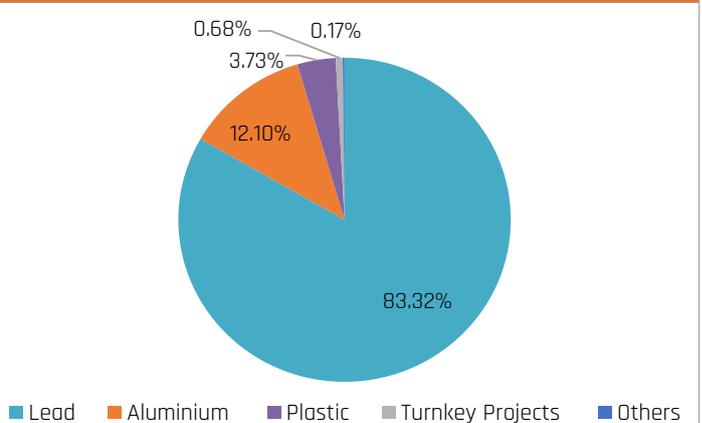
**Exhibit 2: EBITDA & EBITDA Margin (%)**



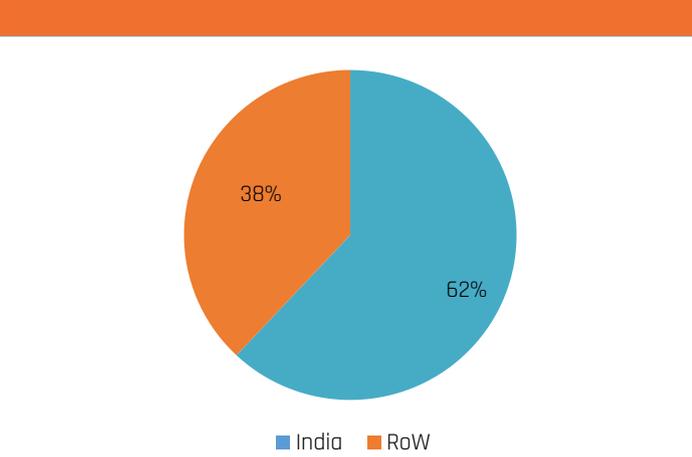
**Exhibit 3: PAT & PAT Margin (%)**



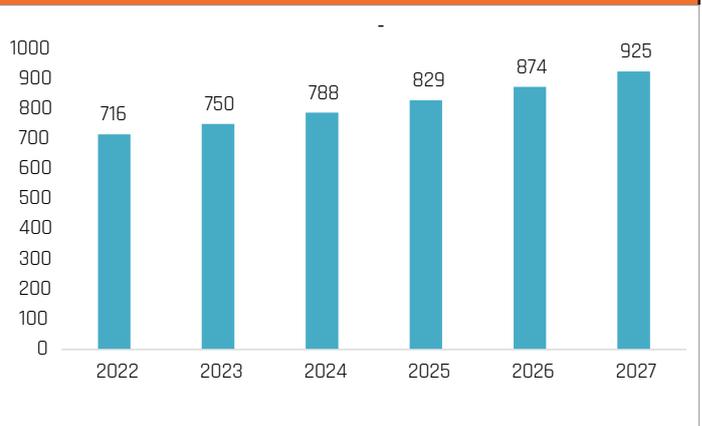
**Exhibit 4: Product Wise breakup**



**Exhibit 5: Location wise breakup**



**Exhibit 6: Global metal recycling market forecast volume (in million tons), 2022-2027**



Source: Company, Asit C. Mehta Retail Research as of 29th May 2023

# Investment Idea

## Investment Rationale

### Established geographical presence -

The company has diversified presence across India with five plants located in Jaipur, Chittoor, Gandhidham, Kathua and Mundra and seven plants overseas in Africa (Ghana, Mozambique, Senegal, Tanzania and Togo), Central America (Nicaragua) and Asia (Sri Lanka) with a recycling capacity of 2,33,919 MTPA for lead, aluminum, plastics and rubber in FY23 and management expects to expand the current capacity to 4,34,319 MTPA by FY26E.

### Barriers to entry:

There are lot of barriers for new entrants in the industry in which the company works. It requires specialist knowledge, OEM Approvals, capacity to develop customized products, multinational procurement network, and Import license in India, which gives an edge among peers in Industry.

### Strategically located manufacturing units

The plants have been set up closer to ports, battery manufacturers and industrial hubs for freight cost savings, easy customer access and lower distribution costs. Further, diversified presence helps to take delivery of scrap in a different region and supply lead from another plant that is the closest to the customer's factory resulting in significant cost savings for its customers.

### Healthy improvement in scale and margins in FY2023 likely to continue to moving forward

On a consolidated basis, the company reported a consistent revenue growth and improving profit margins with rising volumes along with increased capacities and improved sales realization. In terms of profitability, EBIDTA margins also increased with more focus on value-added products, which are more margin accretive. We expect sustained healthy performance in the current fiscal, supported by higher share of value-added products and healthy volumetric growth on the back of optimal utilization of its capacities.

### New verticals to give an edge

The Company aims to increase its Non-Lead business to 25% by 2026 and to enter into new verticals like E-Waste, Lithium, Rubber, Copper and Paper. However, sourcing network, strategic locations, logistics management, corporate tie-ups, and strong OEM relationships are key differentiators and competitive strengths.

### Regulatory tailwinds for lead-acid recycling industry to leads the 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 initiative will be game changer for GIL who is operating in Battery recycling space which will benefit them for future growth and it will also lead to gaining market share from un-organized to organized players like GIL.

### Turnkey Solution for Recycling

The company also provides turnkey solutions to develop in-house Recycling Technology. It has executed more than 50 turnkey projects globally including Qatar, UAE, Saudi Arabia, Poland, and Chile. It did AMC contracts with company for the same. It helps many companies in reducing capital expenditure.

### Hedging strategy to mitigate commodity pricing risks

The company develop back to back hedging mechanism to mitigate the risk of commodity prices fluctuation. The Company started hedging of core inventory by taking a forward contract on LME Exchange. Sometimes company do nature hedging as well against customers contracts.

### Environment friendly and reduce in overall production cost

The major factor driving demand for lead and aluminum recycling include growing demand of metals in various industries such as manufacturing, agriculture, etc. Also, the growing usage of aluminum and lead in consumer electronics, household and industrial appliances, as well as in automobiles sector is significantly fuelling market growth. Metal recycling does not emit harmful gases and assists in reducing production costs.

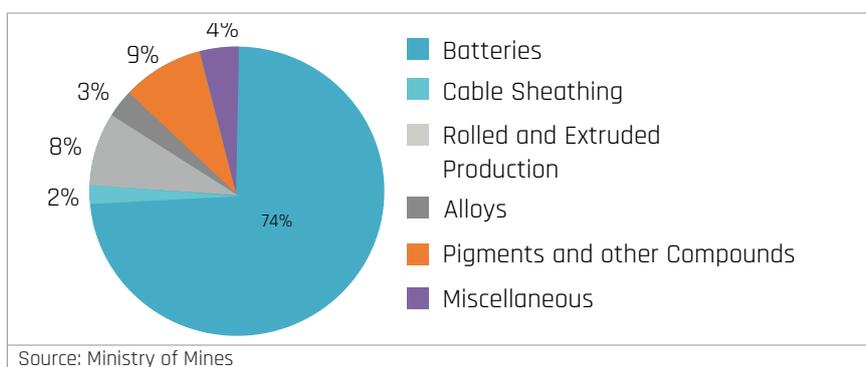
## Company's Strong Partners

## Industry Overview

### Lead Recycling:

Lead sheet used for in Healthcare, Construction Industry. Lead alloys are still used in some bullets, Camera lenses, Optical Instruments, paints & Ornament metal pieces. Recycling of Lead is very high as the metal in batteries, cable sheathing and sheathing against radiation is fully recyclable without losing its properties. The recycled Lead is about 80% of total refined Lead produced in the country in the recent years. In metal Recycling Fuel is a major cost not Power..



Major industrial sectors using Lead in India are Batteries with 74% share followed by pigments & other compounds with 9%, Rolls & extrusions with 8% and Alloys with 3% share in the total use of Lead.

The amount of lead recycled in India stands at about 74-75% of the total lead production. Over 70% of lead consumed in the country goes into manufacturing lead batteries.

Major factors attributed to the growth of the SLI battery market is rising demand for these batteries to power starter motors, lights and ignition systems or other internal combustion engines with high performance, long life and cost-efficiency. Moreover, lead-acid battery is the technology of choice for all SLI battery applications in conventional combustion engine vehicles in India, such as cars and trucks.

The Indian government recently launched the National Electric Mobility Mission, which will witness increased use of lead-acid batteries in electric two-wheelers and e-rickshaws.

### Aluminum Recycling:

The case for recycled aluminum is solid as production of primary aluminum requires a huge amount of energy, while recycling aluminium requires only 5% of the total energy required to produce primary aluminium from the virgin raw material bauxite. Thus, it effectively contributes in climate action and mitigation, reducing the total environmental impact as well as minimizing GHG emissions.

Recycled aluminum can be utilized for almost all aluminum applications, thereby preserving raw materials and ensuring considerable energy savings. Furthermore, it is expected that with the "End of Life Vehicle Policy" being issued by the government and establishing scientific methods for collection of scrap, dependency of the secondary sector on imported scrap will reduce in the future.

### Plastic Recycling

Favorable initiatives to promote the use of recycled plastics in developed countries, growing acceptance of recycled plastics consumption in the textile industry as fibers in developing countries of the Asia Pacific, and cost effective, sophisticated recycling technologies are some of the key factors driving the global recycled plastics market

Recycled plastic is scrap or waste plastic materials that are processed and re-purposed into useful products. Since most of the polymer materials used globally are non-biodegradable, recycling of these materials is the solution to reduce the burden of polymers present in the environment. Furthermore, increasing restrictions on the usage of single use polymers and initiatives taken by governments in Europe, China, India and Brazil are expected to promote recycling on fast-track basis

Moreover the shift of end use industries, specially packaging and consumer goods towards sustainable or recyclable materials will drive the market growth. Further, the innovation and development of products, including packaging bottles, films, containers and cutlery using post-consumer recycled (PCR) plastics will provide huge opportunities for the market in the future.

## Industry Growth Drivers for Recycling of Metals

### Automobile Sector

Auto demand is expected to improve on back of various initiatives taken by the government in the Union Budget 2023 like vehicle scrappage policy for automotive sector. Hence, more the growth in the automobile sector will lead to an increase in business opportunities of Secondary Lead by the Lead acid battery manufacturers.

### Increasing demand for telecommunication and data center applications

Growing population, era of digital and digitalization and 4G services that are well-established in the country are some of the prominent factors contributing to the growing subscriber base in India during the last decade. With increasing subscribers, telecom companies are required to augment the network by increasing the number of telecom towers, which will create considerable demand for lead-acid batteries for backup purposes.

### Power sector (Renewable energy)

Renewable energy and lead batteries, being highly recyclable and economical, offers the required energy density. Generating power from non-renewable sources such as coal or nuclear energy does not need storage of energy. However, with renewable energy such as solar or wind, production is not consistent due to seasonality. It is therefore an imperative to have a low-cost and reliable method to store excess energy generated for use during periods when either production dips or demand spikes. Lead batteries have always stored electricity and it is the oldest, most proven and reliable battery technology available.

**Emerging Segments (E-bikes/EVs):** The government has announced a series of support measures and incentives, as a result of which electric vehicles will see a steady growth in the coming years across the country.

## Other Key Industry Growth Drivers

- The global metal recycling market to grow at a CAGR of around 5.3% during 2022-27.
- The global lead and aluminum recycling market is expected to grow at a CAGR of around 6.8% during 2022-27.
- The global plastic recycling to grow at a CAGR of 7.5% during 2022-27.
- The Indian metal recycling market to grow at a CAGR of 8.3% during 2022-27.
- In India, lead and aluminum recycling projected to rise at a 9% CAGR during 2022-27.
- The plastic recycling market will grow at a CAGR of 8.6% during 2022-27.
- The automotive industry dominated recycled lead and aluminum consumption, accounting for 60.9% of the total market. The automotive sector was followed by construction (14.5%), industrial goods (9.1%), consumer goods (5.7%) and others (9.8%) is key catalysts for future growth.

## Future Key Growth Triggers for Company

- Company is in line with an objective to enter into other verticals like lithium-ion, steel, paper and e-recycling.
- Company's total current capacity is 233919 MTPA in FY23 with a total capacity planned by FY26E is 434319 MTPA (Metric Tonnes Per Annum).
- Rise in awareness about effective use of natural resources and inclination towards recycling of metals for energy savings are major factors fueling growth over the forecast period.
- The company plans to incur a CAPEX in the range of Rs. 600 to 700 crore by FY'26 for its existing and new verticals. Which will be financed through internal accruals with additional debt of approximately Rs. 200 crore to Rs. 300 crore to be taken consciously.
- The company has given a Revenue growth guidance of CAGR 26% for next four years in its vision 2027.
- Number of increase of solar power project & Expansion of telecommunication infra (for 5G) are expected to drive growth & demand for metal recycling.
- The company aims to increase its value-added product from 42% to 50% by 2026, with expansion of value-added production in overseas facilities and replication of the red lead production model to other locations.
- The €34 million ESG loan will improve liquidity for their overseas and India businesses and reduce borrowing costs from approximately 8.5% to 6.5%. It also certifies that the company is following environmental standards at all their overseas plants.
- The company believes that lead recycling would not be a threat with the rise of EV, as lead-acid batteries would still be required, and that there is a bigger opportunity for aluminum recycling, especially with the increasing use of aluminum in car bodies.
- The government is trying to support recycling in an organized manner for all sectors, including e-waste, but it will take some time for the policy to prevent people from misusing it by refurbishing instead of recycling.
- The company believes it is difficult to compete with the unorganized sector in e-waste recycling in India until the recycling is taken into the organized sector, which requires support from policies that provide a level playing field for all companies.
- The company may dilute the stake for more capital raising if required, as an option for Capex funding.

## Financial Statements

### Consolidated Profit & Loss Statement:

Particulars (in Cr.)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	1,017.40	1,241.73	1,347.80	1,409.75	2,215.87	2,800.60	3,500.75	4,393.44	5,535.74
Cost of goods sold	925.79	1,179.87	1,239.07	1,288.48	1,998.39	2,603.00	3,186.33	3,967.84	4,970.14
<b>EBITDA</b>	<b>91.61</b>	<b>61.86</b>	<b>108.73</b>	<b>121.27</b>	<b>217.48</b>	<b>197.60</b>	<b>314.42</b>	<b>425.60</b>	<b>565.59</b>
<b>EBITDA Margin %</b>	<b>9.00%</b>	<b>4.98%</b>	<b>8.07%</b>	<b>8.60%</b>	<b>9.81%</b>	<b>7.06%</b>	<b>8.98%</b>	<b>9.69%</b>	<b>10.22%</b>
Other Income	1.59	5.45	-12.24	0.90	5.71	93.08	5.00	7.00	9.00
Interest	20.32	26.16	31.43	30.97	37.99	39.14	42.39	50.52	58.64
Depreciation	8.69	11.56	18.13	20.30	20.56	23.96	32.61	46.11	56.22
Profit before tax	64.19	29.59	46.93	70.90	164.64	227.59	244.41	335.97	459.73
Tax	16.55	10.20	10.35	14.08	16.19	23.50	25.24	34.69	47.47
Tax %	0.26	0.34	0.22	0.20	0.10	0.10	0.10	0.10	0.10
<b>Net profit</b>	<b>44.09</b>	<b>15.49</b>	<b>33.18</b>	<b>52.47</b>	<b>139.39</b>	<b>201.10</b>	<b>219.17</b>	<b>301.28</b>	<b>412.26</b>
<b>Net profit margin (%)</b>	<b>4.33%</b>	<b>1.25%</b>	<b>2.46%</b>	<b>3.72%</b>	<b>6.29%</b>	<b>7.18%</b>	<b>7.27%</b>	<b>8.14%</b>	<b>9.02%</b>
Number of Shares	6.87	6.87	6.90	6.90	6.90	6.90	6.90	6.90	6.90
<b>EPS (₹)</b>	<b>6.42</b>	<b>2.25</b>	<b>4.81</b>	<b>7.60</b>	<b>20.19</b>	<b>29.13</b>	<b>31.75</b>	<b>43.64</b>	<b>59.72</b>

Source : Company, ACMIIL Research

### Balance Sheet:

Particulars (Cr.)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Liabilities:</b>									
Equity Share Capital	13.74	13.75	13.81	13.81	13.81	13.81	13.81	13.81	13.81
Reserves	175.94	185.57	211.37	255.12	373.04	575.12	590.29	643.57	840.84
Borrowings	232.52	250.28	279.30	261.09	391.12	347.72	400.72	528.72	656.72
Other Liabilities	69.59	122.93	109.88	196.31	219.53	268.55	356.77	374.41	456.92
<b>Total</b>	<b>491.79</b>	<b>572.53</b>	<b>614.36</b>	<b>726.33</b>	<b>997.50</b>	<b>1,205.20</b>	<b>1,361.59</b>	<b>1,560.51</b>	<b>1,968.28</b>
<b>Assets:</b>									
Net Block	108.91	136.52	181.64	172.37	191.26	273.32	448.00	633.39	772.28
WIP	24.00	46.00	15.00	13.00	42.00	46.00	50.00	55.00	52.00
Investments	0.04	0.02	0.01	-	-	1.11	1.00	1.00	1.00
Other Assets	342.38	367.90	397.74	520.61	731.23	847.15	829.57	835.40	1,106.43
cash & bank	16.58	21.87	20.32	19.86	32.52	38.12	33.03	35.72	36.58
<b>Total</b>	<b>491.79</b>	<b>572.53</b>	<b>614.36</b>	<b>726.33</b>	<b>997.50</b>	<b>1,205.20</b>	<b>1,361.59</b>	<b>1,560.51</b>	<b>1,968.28</b>

Source : Company, ACMIIL Research

### Risks and Concerns

- Heavy dependence on import of metal scrap is one of the key challenges faced by the lead and aluminum recycling industry in India.
- Supply chain disruption due to prevailing Geo-Political Risk expected to impact Automobile sales.
- Economic slowdown due to external & internal factors can affect overall GDP growth of Country.
- Any kind of unexpected change in government policies & Regulations.

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