23 January 2025
3QFY25 Results Update | Sector: Midcaps

Gravita India

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	GRAV IN
Equity Shares (m)	74
M.Cap.(INRb)/(USDb)	152 / 1.8
52-Week Range (INR)	2700 / 730
1, 6, 12 Rel. Per (%)	-9/24/104
12M Avg Val (INR M)	691

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	39.4	50.6	64.5
Adj. EBITDA	4.2	5.5	7.2
Adj. EBITDA Margin (%)	10.6	11.0	11.2
Adj. PAT	3.2	4.4	5.8
Cons. Adj. EPS (INR)	42.8	59.8	79.1
EPS Gr. (%)	23	40	32
BV/Sh. (INR)	291	349	428
Ratios			
Net D:E	-0.3	-0.3	-0.3
RoE (%)	18.5	17.7	19.7
RoCE (%)	21.2	18.7	20.4
Valuations			
P/E (x)	48.3	34.5	26.1
EV/EBITDA (x)	41.4	26.2	19.9

Shareholding pattern (%)

As on	Dec-24	Sep-24	Dec-23
Promoter	59.3	63.4	66.5
DII	5.4	3.2	0.4
FII	15.5	15.5	12.0
Others	19.8	18.0	21.1

Note: FII includes depository receipts

CMP: INR2,065 TP: INR2,800 (+36%) Buy

Strong volume growth drives revenue

Earnings in line with estimates

- Gravita India (GRAVITA) reported strong revenue growth of ~31% YoY in 3QFY25, aided by total volume growth of 33% YoY. The growth was broad-based across segments, with aluminum reporting the highest growth (2.4x YoY), following by plastics (44%) and lead (up 23% YoY). However, adj. EBITDA/kg declined 14% to INR19.1, due to higher sourcing of domestic scrap (44%) in 3Q.
- The company's core business (lead) is witnessing strong traction as the availability of scraps domestically has improved. Other segments are also picking up traction amid growing capacities and strong industry tailwinds. For 4Q, we estimate revenue/EBITDA/adj. PAT growth of 29%/21%/43%.
- We keep our FY25E/FY26E/FY27E EPS unchanged. We reiterate our BUY rating on the stock with a TP of INR2,800 (35x FY27E EPS).

Lower margins attributed to higher domestic sourcing of scrap

- Consolidated revenue grew 31% YoY to INR9.9b (est. INR9.5b) in 3QFY25. Consolidated sales volume rose 33% YoY to 53KMT.
- Adjusted EBITDA margin contracted 160bp YoY to 10.3% (est. 11.3%), while adjusted EBITDA grew 14% YoY to INR1b (in line with est.). Adj. PAT grew 29% YoY to INR779m (est. INR753m).
- **Lead business** revenue grew 23% YoY to INR8.4b, led by volume growth of 27% YoY to 44KMT. EBITDA/kg stood at INR19 (down 19% YoY). **Aluminum business** revenue grew 2.4x YoY to INR1.2b. Volumes jumped 1.9x YoY to 6.3KMT, while EBITDA/kg surged 2.3x YoY to INR20.1. **Plastic business** revenue grew 44% YoY to INR255m and volumes rose 33% YoY to 3.3KMT. EBITDA/kg declined 7% YoY to INR10.

Highlights from the management commentary

- **Outlook:** The company maintains its guidance of a ~25% CAGR in sales volume and a ~35% CAGR in PAT, with RoIC of more than 25%. GRAVITA expects non-lead business/value-added products mix at 30%/50% in the next three to four years.
- **Industry scenario:** The upcoming end-of-life vehicle (ELV) policy, effective 1st Apr'25, will mandate the channeling of used vehicles to registered vehicle scrappage facilities (RVSFs), which will supply battery scrap to recyclers. While the majority of battery scrap currently comes from the replacement market (~70%), this share will decline after the regulation boosts inflows from ELVs
- **Capacity and Expansion:** The Mundra plant's capacity will be expanded from the current 72KMTPA to 100KMTPA by 1HFY26. The company is accelerating its expansion plans in Oman. Additionally, capacity expansion efforts are underway in the Dominican Republic, with licensing approval anticipated by 1HFY26.

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Valuation and view

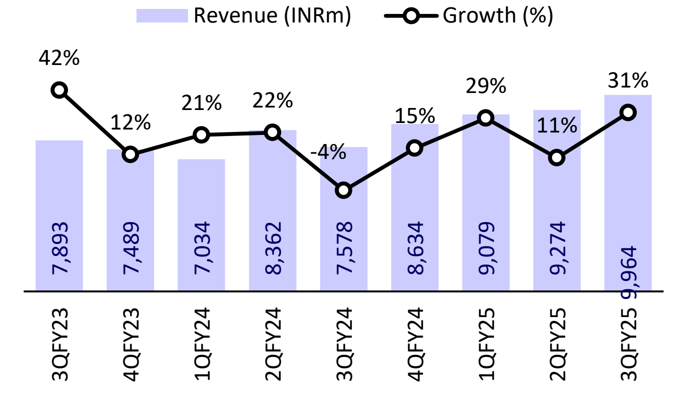
- GRAVITA, being a key player in the burgeoning recycling industry in India, is expected to report robust earnings growth in the medium term on account of: 1) accelerated growth in the lead recycling segment fueled by favorable regulatory changes; 2) higher growth in new segments (aluminum and plastic) and the addition of the steel and paper segments; 3) robust capacity addition across segments; and 4) an improvement in the mix of value-added products.
- We expect a CAGR of 27%/30%/35% in revenue/EBITDA/PAT over FY24-27E. We maintain our FY25E/FY26E/FY27E EPS estimates. We reiterate our BUY rating on the stock with a TP of INR2,800 (35x FY27E EPS).

Consolidated - Quarterly Earning **(INR m)**

Y/E March	FY24				FY25				FY24	FY25	FY25E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Sales	**7,034**	**8,362**	**7,578**	**8,634**	**9,079**	**9,274**	**9,964**	**11,128**	**31,608**	**39,445**	**9,554**	**4**
YoY Change (%)	5.6	44.2	11.0	9.4	29.1	10.9	31.5	28.9	12.9	24.8	14.3	
Total Expenditure	6,349	7,563	6,681	7,705	8,166	8,259	8,942	9,906	28,298	35,272	8,476	
Adjusted EBITDA	**685**	**798**	**897**	**929**	**912**	**1,015**	**1,023**	**1,222**	**3,309**	**4,173**	**1,078**	**-5**
Margins (%)	9.7	9.5	11.8	10.8	10.1	10.9	10.3	11.0	10.5	10.6	11.3	
Depreciation	79	86	90	125	65	72	76	80	380	293	85	
Interest	127	112	130	124	130	120	128	35	492	413	125	
Other Income	132	69	61	42	33	23	73	35	304	165	20	
PBT before EO expense	**612**	**670**	**738**	**722**	**751**	**847**	**891**	**1,142**	**2,742**	**3,631**	**888**	
PBT	**612**	**670**	**738**	**722**	**751**	**847**	**891**	**1,142**	**2,742**	**3,631**	**888**	
Tax	86	82	123	28	71	128	111	149	319	458	120	
Rate (%)	14.1	12.2	16.7	3.9	9.4	15.1	12.4	13.1	11.6	12.6	13.5	
MI & Profit/Loss of Asso. Cos.	5	10	12	4	7	-1	1	10	31	17	15	
Reported PAT	**521**	**579**	**603**	**690**	**673**	**720**	**779**	**983**	**2,392**	**3,156**	**753**	
Adj PAT	**521**	**579**	**603**	**690**	**673**	**720**	**779**	**983**	**2,392**	**3,156**	**753**	**4**
YoY Change (%)	26.0	36.1	35.2	37.4	29.3	24.4	29.3	42.6	18.9	31.9	30.1	
Margins (%)	7.4	6.9	8.0	8.0	7.4	7.8	7.8	8.8	7.6	8.0	7.9	

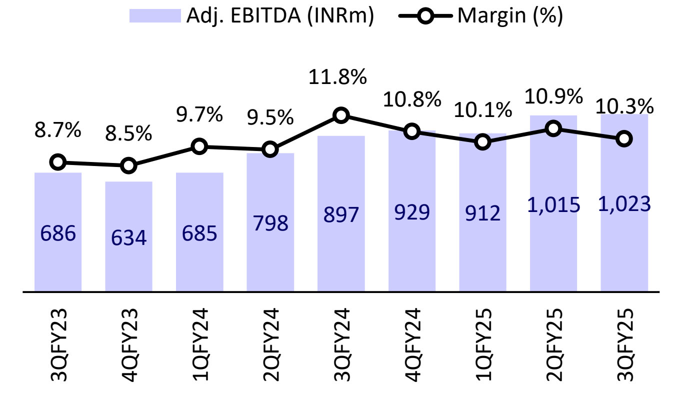
Key Exhibits

Exhibit 1: Consolidated revenue trend



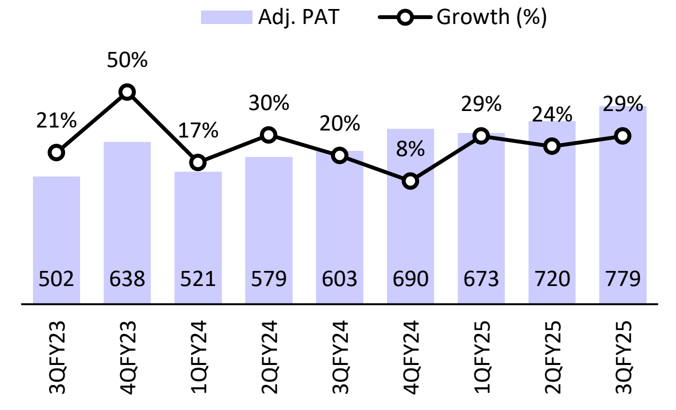
Source: Company, MOFSL

Exhibit 2: Consolidated Adj. EBITDA trend



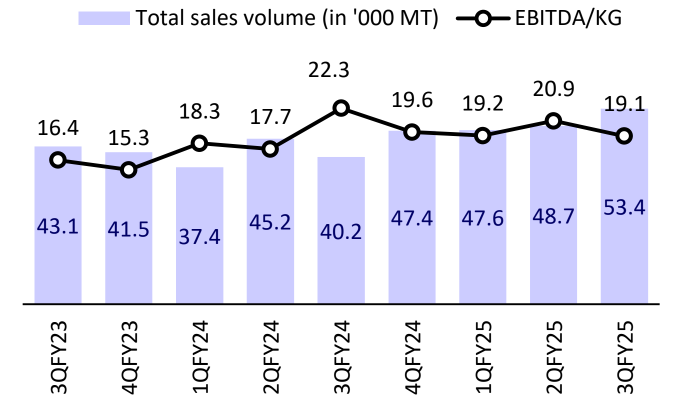
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



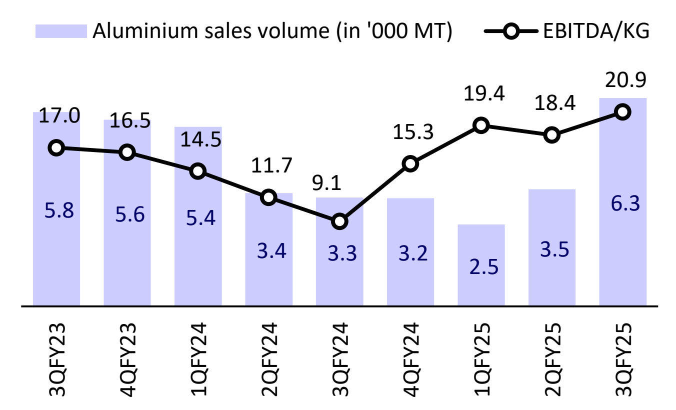
Source: Company, MOFSL

Exhibit 4: Total sales volume trend



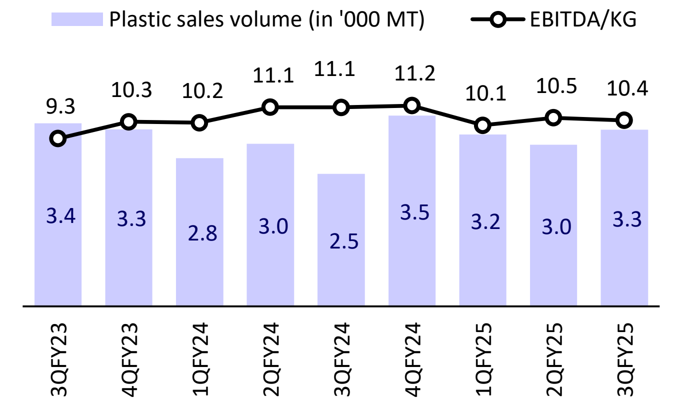
Source: Company, MOFSL

Exhibit 5: Aluminum sales volume trend



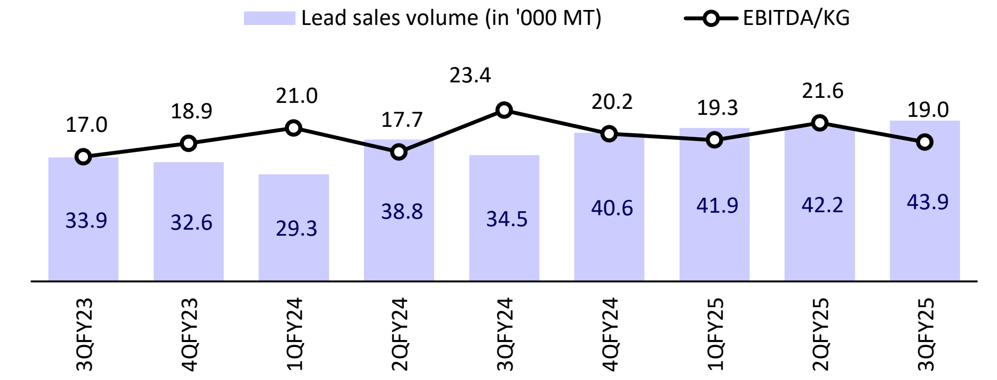
Source: Company, MOFSL

Exhibit 6: Plastic sales volume trend



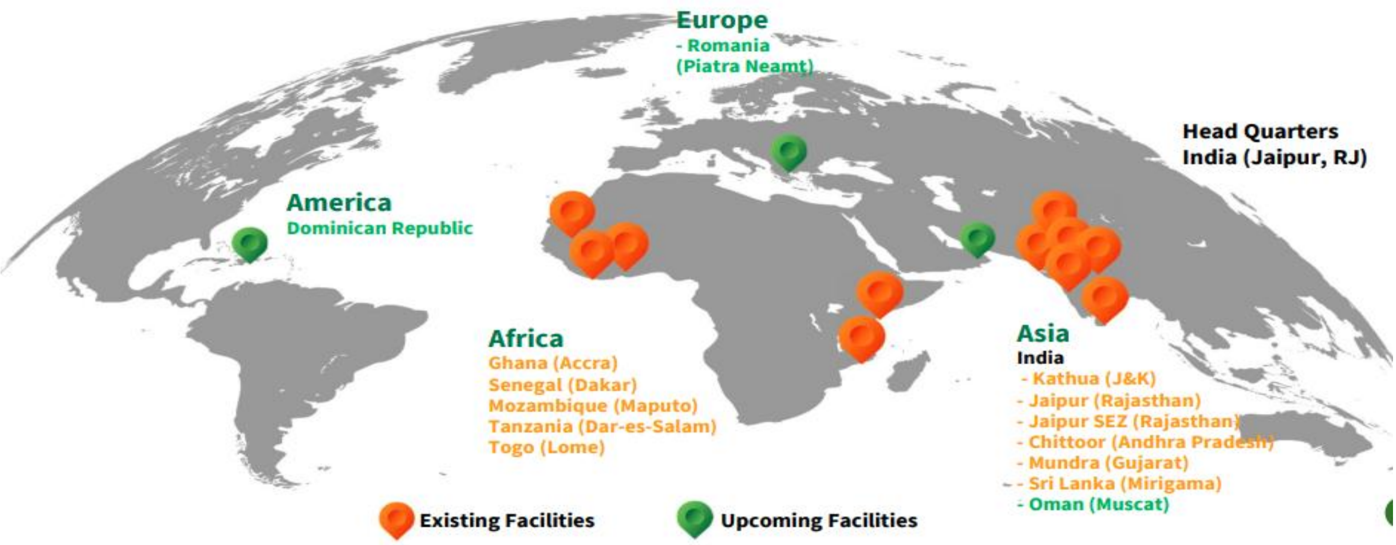
Source: Company, MOFSL

Exhibit 7: Lead sales volume trend



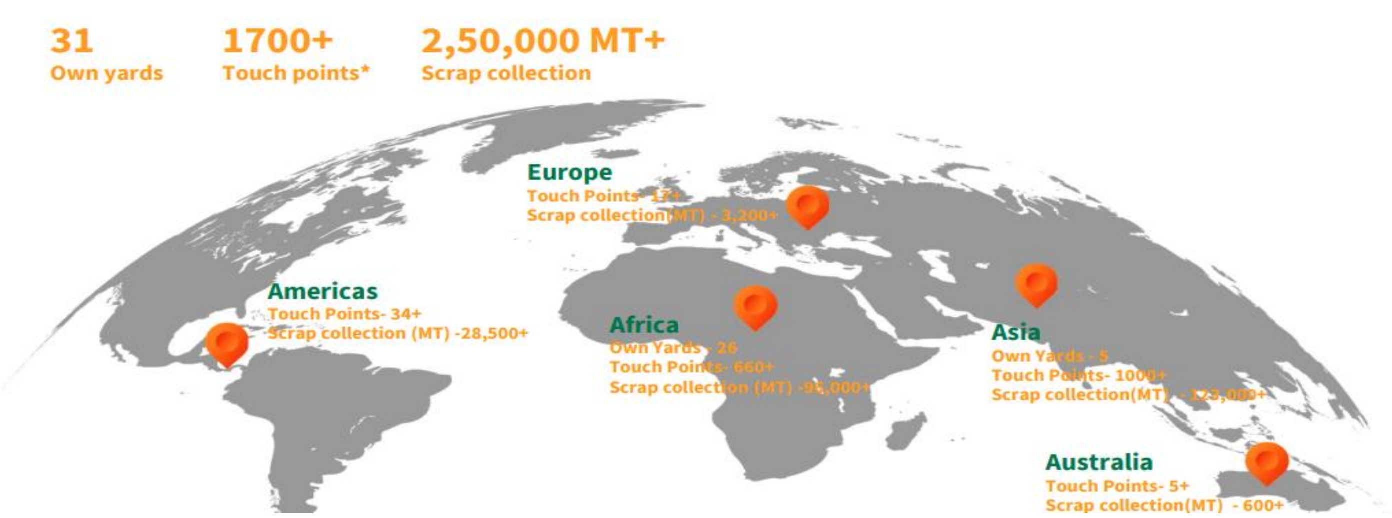
Source: MOFSL, Company

Exhibit 8: Widespread manufacturing presence



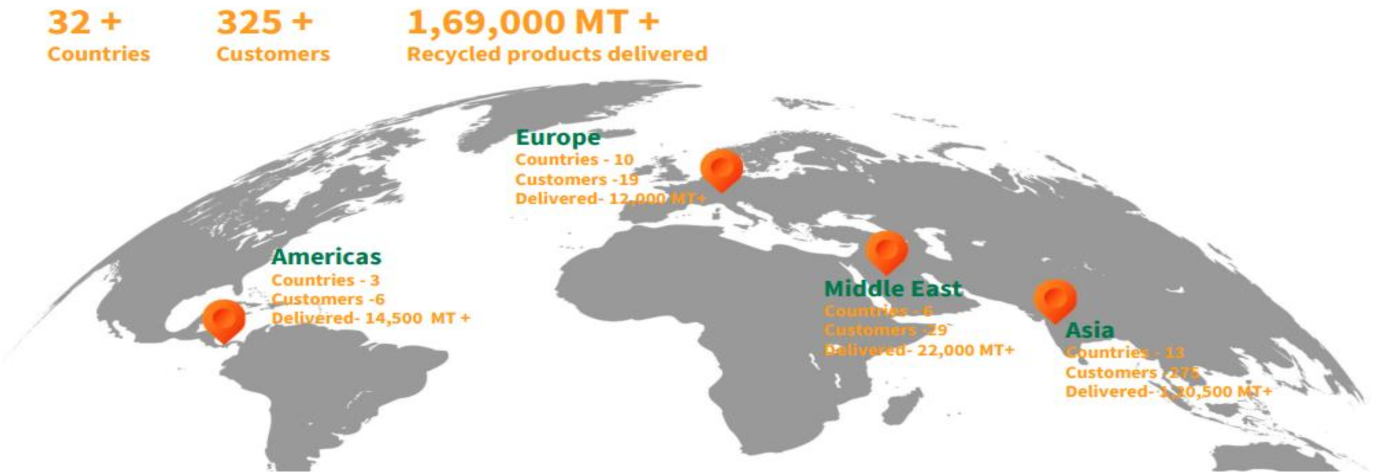
Source: MOFSL, Company

Exhibit 9: Deep routed procurement network



Source: MOFSL, Company

Exhibit 10: Diversified global customer network



Source: MOFSL, Company

Highlights from the management commentary

Operating performance

- Recyclers Ghana Ltd., a step-down subsidiary of GRAVITA, has commenced operations for commercial production of recycled aluminum with a capacity of 4KMTPA in phase 1, which will be expanded to 8KMTPA in phase 2.
- Gravita Netherlands BV has increased its stake in Navam Lanka Ltd. from 52% to 100%.
- Its first rubber recycling plant and lithium recycling facility are on track to start commercial operations in 1HFY26
- Gravita is on track to increase its capacity to over 500KMTPA by FY27 from 300KMTPA currently.
- EBITDA margin growth was lower than revenue growth as there was not much arbitrage compared to the previous quarter.

Outlook and guidance

- The company targets a volume CAGR/profitability growth of 25%+/35%+, ROIC of 25%+, and the contribution of value-added products at 50%+ and non-lead business at 30%+ by FY28.
- It expects volume growth of ~40% in aluminum, 60-70% in plastics and 18%-20% in lead in the next 3-4 years.
- EBITDA/kg in lead will be in the range of INR18-19 in FY26. The overseas business and the contribution of value-added business will boost margins.
- **Lead:** EBITDA margin/kg from was ~INR11-12 from India and ~INR28 from overseas. The company targets EBITDA margin/kg of ~INR18-19, with ~INR14-15 in aluminum and INR10 in plastics.
- GRAVITA is exploring growth opportunities in both overseas and Indian markets, with a potential M&A target of ~INR8-9b in all three segments.

MCX listing

- MCX aluminum hedging has not been materialized as of now. The government has introduced BIS in this.
- The company will see volume of ~4000MT per quarter until it is listed on MCX.
- As soon as the hedging mechanism starts, the company will see significant volume growth and realizations in the aluminum segment, with the aluminum MCX expected to be listed by 1QFY26.

Industry scenario

- With the new favorable regulation, the availability of car batteries will surge 3x in the next three years.
- More battery scrap inflow is expected from ELVs in India; however, this may take time. Currently, most of the batteries actually come from the replacement market (~70%),ELV policy will be effective from 1st Apr'25. As per that regulation, used cars will be going to RVSFs, which will supply the scrap to respective recyclers.
- As the EVL targets are met (in the next 1-2 years), there will be more flow of such batteries to recyclers.
- The availability of domestic scrap will improve going ahead due to the implementation of extended producer responsibility guidelines, reverse charge mechanism (RCM), battery waste management rules, and the shift from unorganized markets to organized markets.

Capex

- Over the next three years, the company will spend ~INR25b, of which ~INR15b will be from internal cash flows.

- GRAVITA will spend ~INR15b for new expansions and another INR10b for the additional working capital needs.

Fund raise

- The funds raised in the QIP will be strategically utilized to drive the company's vision of becoming a global leader, increasing capacity and diversifying into new verticals.
- About INR2.45b from the fund raise was used for the repayment of borrowings and working capital.

Capacity expansion

- The Mundra plant's capacity will be expanded to 100KMTPA from the current ~72KMTPA by 1HFY26.
- Lithium ion is a pilot project and the company is not expecting any revenue in the next 3-4 years. Once scrap comes in from EVs, the company wants to be ready for the scrap procurement and recycling.
- Capacity utilization for aluminum is 46% in 9MFY25 and 44% in 3QFY25.
- The company has plans to fast track the Oman expansion
- The company is currently expanding its capacity in Dominican Republic, where the company is expecting a license by 1HFY26.

Other

- The current gross debt is ~INR3.4b, which is expected to be zero by year end (through QIP proceeds).
- Overall 44% of the total scrap processed in India comes from domestic sources and the company can easily increase it; however, the company has restricted it as overseas scrap is more profitable currently
- The acquisition of a rubber recycling unit in Romania would be complete by 4QFY25. FDA approval is already in place.
- EPR regulations will help the plastic segment to grow ~70%. If RCM comes into the plastic recycling, the company will witness higher growth in this segment.
- Margins in lithium will be higher, though this is only speculative as the entry barriers are higher.

Valuation and View

- GRAVITA, being a key player in the burgeoning recycling industry in India, is expected to report robust earnings growth in the medium term on account of: 1) accelerated growth in the lead recycling segment fueled by favorable regulatory changes; 2) higher growth in new segments (aluminum and plastic) and addition of the steel and paper segments; 3) robust capacity addition across segments; and 4) an improvement in the mix of value-added products.
- We expect a CAGR of 27%/30%/35% in revenue/EBITDA/PAT over FY24-27E. We maintain our FY25E/FY26E/FY27E EPS estimates. We reiterate our BUY rating on the stock with a TP of INR2,800 (35x FY27E EPS).

Exhibit 11: Summary of our revised estimates

Earnings change	Old			New			Change		
(INR m)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	39,035	49,765	63,442	39,445	50,570	64,475	1%	2%	2%
EBITDA	4,209	5,559	7,234	4,173	5,547	7,226	-1%	0%	0%
Adj. PAT	3,118	4,413	5,833	3,156	4,416	5,840	1%	0%	0%

Financials and valuations

Consolidated - Income Statement							(INRm)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Total Income from Operations	**14,098**	**22,159**	**28,006**	**31,608**	**39,445**	**50,570**	**64,475**
Change (%)	4.6	57.2	26.4	12.9	24.8	28.2	27.5
RM Cost	11,586	17,899	23,391	25,612	32,160	40,203	51,193
Employees Cost	729	1,028	1,336	1,312	1,585	2,225	2,772
Other Expenses	633	1,078	1,259	1,848	2,159	2,595	3,283
Total Expenditure	**12,948**	**20,005**	**25,986**	**28,772**	**35,904**	**45,023**	**57,249**
% of Sales	91.8	90.3	92.8	91.0	91.0	89.0	88.8
EBITDA	**1,150**	**2,154**	**2,020**	**2,836**	**3,541**	**5,547**	**7,226**
Margin (%)	8.2	9.7	7.2	9.0	9.0	11.0	11.2
Other Inc. (Operational) - Commodity and Forex Hedging	20	-4	841	474	631.4	0.0	0.0
Adjusted EBITDA	**1,170**	**2,149**	**2,860**	**3,309**	**4,173**	**5,547**	**7,226**
Margin (%)	8.3	9.7	10.2	10.5	10.6	11.0	11.2
Depreciation	203	206	240	380	293	447	591
EBIT	**967**	**1,944**	**2,621**	**2,929**	**3,879**	**5,100**	**6,635**
Int. and Finance Charges	310	380	435	492	413	262	153
Other Income	52	83	90	304	165	200	250
PBT bef. EO Exp.	**709**	**1,646**	**2,276**	**2,742**	**3,631**	**5,038**	**6,732**
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	**709**	**1,646**	**2,276**	**2,742**	**3,631**	**5,038**	**6,732**
Total Tax	141	162	235	319	458	605	875
Tax Rate (%)	19.9	9.8	10.3	11.6	12.6	12.0	13.0
Minority Interest	44	91	30	31	17	17	17
Reported PAT	**525**	**1,394**	**2,011**	**2,392**	**3,156**	**4,416**	**5,840**
Adjusted PAT	**525**	**1,394**	**2,011**	**2,392**	**3,156**	**4,416**	**5,840**
Change (%)	58.1	165.7	44.3	18.9	31.9	39.9	32.2
Margin (%)	3.7	6.3	7.2	7.6	8.0	8.7	9.1

Consolidated - Balance Sheet							
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	138	138	138	138	148	148	148
Total Reserves	2,551	3,730	5,751	8,236	21,308	25,651	31,417
Net Worth	**2,689**	**3,869**	**5,889**	**8,374**	**21,456**	**25,798**	**31,565**
Minority Interest	90	140	128	132	229	246	263
Total Loans	2,611	3,915	3,477	5,451	2,951	2,451	951
Deferred Tax Liabilities	24	15	-61	2	2	2	2
Capital Employed	**5,415**	**7,939**	**9,433**	**13,959**	**24,639**	**28,498**	**32,782**
Gross Block	2,285	2,650	3,690	4,759	6,337	8,087	10,087
Less: Accum. Deprn.	562	738	957	1,337	1,630	2,077	2,668
Net Fixed Assets	**1,724**	**1,913**	**2,733**	**3,423**	**4,707**	**6,010**	**7,419**
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	135	425	455	428	750	1,000	1,000
Total Investments	**0**	**0**	**11**	**165**	**165**	**165**	**165**
Current Investments	0	0	0	165	165	165	165
Curr. Assets, Loans&Adv.	**5,405**	**7,638**	**8,789**	**12,008**	**21,414**	**24,372**	**27,694**
Inventory	3,577	5,135	5,965	6,746	8,066	9,498	11,450
Account Receivables	594	1,097	1,370	2,643	2,486	2,910	3,533
Cash and Bank Balance	199	325	381	988	9,009	9,588	9,681
Loans and Advances	1,035	1,081	1,073	1,631	1,854	2,377	3,030
Curr. Liability & Prov.	**1,849**	**2,036**	**2,555**	**2,065**	**2,398**	**3,049**	**3,497**
Account Payables	1,357	329	895	675	885	1,110	1,412
Other Current Liabilities	376	1,515	1,457	1,379	1,499	1,922	2,063
Provisions	116	193	202	11	13	17	22
Net Current Assets	**3,556**	**5,601**	**6,234**	**9,944**	**19,017**	**21,324**	**24,197**
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	**5,415**	**7,939**	**9,433**	**13,959**	**24,639**	**28,498**	**32,781**

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	**7.6**	**20.2**	**29.1**	**34.6**	**42.8**	**59.8**	**79.1**
Cash EPS	10.5	23.2	32.6	40.1	46.7	65.9	87.1
BV/Share	38.9	56.0	85.3	121.3	290.7	349.5	427.6
DPS	1.1	3.5	0.6	0.9	1.0	1.0	1.0
Payout (%)	14.2	17.1	2.1	2.5	2.3	1.7	1.3
Valuation (x)							
P/E	271.8	102.3	70.9	59.6	48.3	34.5	26.1
Cash P/E	195.9	89.1	63.4	51.4	44.2	31.3	23.7
P/BV	53.0	36.9	24.2	17.0	7.1	5.9	4.8
EV/Sales	10.3	6.6	5.2	4.7	3.7	2.9	2.2
EV/EBITDA	126.2	67.9	72.2	51.8	41.4	26.2	19.9
Dividend Yield (%)	0.1	0.2	0.0	0.0	0.0	0.0	0.0
FCF per share	8.0	-8.8	13.5	-8.9	15.7	16.5	21.3
Return Ratios (%)							
RoE	21.2	42.5	41.2	33.5	21.2	18.7	20.4
RoCE	15.8	27.9	28.3	24.6	18.5	17.7	19.7
RoIC	15.4	28.6	20.2	20.7	21.0	27.7	29.1
Working Capital Ratios							
Fixed Asset Turnover (x)	6.2	8.4	7.6	6.6	6.2	6.3	6.4
Asset Turnover (x)	2.6	2.8	3.0	2.3	1.6	1.8	2.0
Inventory (Days)	101	94	84	86	82	77	73
Debtor (Days)	15	18	18	31	23	21	20
Creditor (Days)	38	6	13	9	9	9	9
Leverage Ratio (x)							
Current Ratio	2.9	3.8	3.4	5.8	8.9	8.0	7.9
Interest Cover Ratio	3.1	5.1	6.0	6.0	9.4	19.5	43.3
Net Debt/Equity	0.9	0.9	0.5	0.5	-0.3	-0.3	-0.3

Consolidated - Cash Flow Statement **(INR m)**

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	709	1,646	2,276	2,742	3,631	5,038	6,732
Depreciation	203	206	240	380	293	447	591
Interest & Finance Charges	271	327	384	188	248	62	-97
Direct Taxes Paid	-115	-149	-235	-319	-458	-605	-875
(Inc)/Dec in WC	-302	-2,062	-822	-2,567	-1,052	-1,727	-2,781
CF from Operations	**765**	**-32**	**1,843**	**424**	**2,663**	**3,215**	**3,570**
Others	0	128	154	0	0	0	0
CF from Operating incl EO	**765**	**96**	**1,997**	**424**	**2,663**	**3,215**	**3,570**
(Inc)/Dec in FA	-212	-702	-1,064	-1,042	-1,500	-2,000	-2,000
Free Cash Flow	**553**	**-606**	**933**	**-618**	**1,163**	**1,215**	**1,570**
(Pur)/Sale of Investments	0	4	-11	0	0	0	0
Others	19	3	21	-536	-156	200	250
CF from Investments	**-194**	**-695**	**-1,054**	**-1,578**	**-1,656**	**-1,800**	**-1,750**
Issue of Shares	0	0	0	0	10,000	0	0
Inc/(Dec) in Debt	-193	1,294	-442	1,974	-2,500	-500	-1,500
Interest Paid	-265	-336	-389	-492	-413	-262	-153
Dividend Paid	-74	-238	-43	-60	-74	-74	-74
Others	-33	0	0	338	0	0	0
CF from Fin. Activity	**-565**	**719**	**-874**	**1,760**	**7,014**	**-836**	**-1,727**
Inc/Dec of Cash	**6**	**121**	**69**	**606**	**8,021**	**579**	**93**
Opening Balance	107	113	234	382	988	9,009	9,588
Other cash & cash equivalent	85	91	78	0	0	0	0
Closing Balance	**198**	**325**	**382**	**988**	**9,009**	**9,588**	**9,681**

NOTES

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

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