

Introduction of reverse charge mechanism favorable for GRAV

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TARGET PRICE (Rs): 1,650

The GST Council has introduced the reverse charge mechanism (RCM) on supply of metal scrap by a unregistered person to a registered person. About 65% of the lead recycling market is unorganized, which gets meaningful cost advantage (18%) over organized players through GST evasion. With the introduction of RCM, the responsibility of deducting and depositing of GST would now transfer to the buyer of scrap. We expect this development to be significantly beneficial for GRAV. This would result in a completely transparent system over time and the undue advantage enjoyed by the unorganized segment so far would start receding. GRAV could now tap this large market segment for procurement of scrap. With this note, coverage of GRAV is transferred to Amit Lahoti.

Gravita India: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	28,886	32,008	41,669	52,447	62,818
EBITDA	2,856	3,236	4,399	5,590	6,688
Adj. PAT	2,011	2,545	3,184	4,090	5,023
Adj. EPS (Rs)	29.1	36.9	46.1	59.2	72.7
EBITDA margin (%)	9.9	10.1	10.6	10.7	10.6
EBITDA growth (%)	35.4	13.3	35.9	27.1	19.6
Adj. EPS growth (%)	44.3	26.5	25.1	28.5	22.8
RoE (%)	41.2	35.7	32.7	31.9	30.1
RoIC (%)	30.4	24.8	25.6	26.8	27.3
P/E (x)	75.3	59.5	47.5	37.0	30.1
EV/EBITDA (x)	54.0	48.1	35.5	27.9	23.0
P/B (x)	25.7	18.1	13.7	10.4	8.0
FCFF yield (%)	0.9	(0.4)	(0.1)	1.0	2.8

Source: Company, Emkay Research

Introduction of the reverse charge mechanism

The GST Council has introduced the reverse charge mechanism (RCM) on supply of metal scrap by an unregistered person to a registered person, provided that the supplier shall take registration as and when it crosses the threshold limit, and the recipient who is liable to pay under the RCM shall pay tax even if the supplier is under threshold. A TDS of 2% will be applicable on supply of metal scrap by the registered person for B2B supply.

Expected to accelerate the pace toward the organized market

About 65% of the lead recycling market is unorganized. The unorganized segment gets meaningful cost advantage (18%) over organized players through GST evasion. With the introduction of RCM, the responsibility of deducting and depositing of GST would now transfer to the buyer of scrap. This would be beneficial for the organized market, as the undue advantage enjoyed so far by the unorganized segment would start to reduce. While the sector was already moving toward the organized segment, RCM would accelerate this process.

Beneficial for GRAV

We expect this development to be significantly beneficial for GRAV. At this stage, GRAV does not procure scrap from the retail segment as the company would lose out on input tax credit – For example, when GRAV buys scrap worth Rs100 from the retail segment, it pays Rs100 + 18% GST to the seller. If the seller does not deposit the GST, the company would not receive input tax credit. However, now with this new development, the company buying Rs100 worth of scrap would pay the seller Rs98 after deducting 2% TDS, and directly deposit GST of Rs18. This would result in a completely transparent system over time and the undue advantage enjoyed till now by the unorganized segment would start receding. GRAV could now tap this large market segment for procurement of scrap.

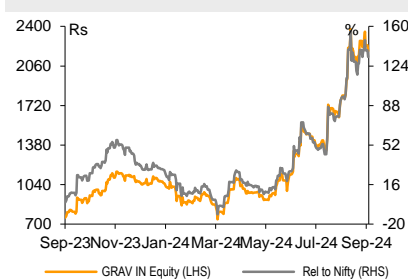
Target Price – 12M	Sep-25
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	(24.8)
CMP (09-Sep-24) (Rs)	2,192.4

Stock Data	Ticker
52-week High (Rs)	2,544
52-week Low (Rs)	707
Shares outstanding (mn)	69.0
Market-cap (Rs bn)	151
Market-cap (USD mn)	1,803
Net-debt, FY25E (Rs mn)	4,789
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,221.8
ADTV-3M (USD mn)	14.6
Free float (%)	32.0
Nifty-50	24,949
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	63.4
FPIs/MFs (%)	13.4/2.6

Price Performance

(%)	1M	3M	12M
Absolute	21.4	94.4	180.0
Rel. to Nifty	18.8	81.8	122.8

1-Year share price trend (Rs)



Amit Lahoti

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

Akhilesh Kumar

akhilesh.kumar@emkayglobal.com
+91 22 6612 1262

Gravita India: Consolidated Financials and Valuations

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

Source: Company, Emkay Research

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

Source: Company, Emkay Research

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

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	75.3	59.5	47.5	37.0	30.1
P/CE(x)	44.5	34.2	27.6	21.5	17.5
P/B (x)	25.7	18.1	13.7	10.4	8.0
EV/Sales (x)	5.4	4.9	3.7	3.0	2.4
EV/EBITDA (x)	54.0	48.1	35.5	27.9	23.0
EV/EBIT(x)	39.3	36.5	26.5	20.8	17.1
EV/IC (x)	12.2	8.6	6.9	5.9	4.9
FCFF yield (%)	0.9	(0.4)	(0.1)	1.0	2.8
FCFE yield (%)	0.5	(0.8)	(0.4)	0.8	2.7
Dividend yield (%)	0.2	0.2	0.3	0.4	0.5
DuPont-RoE split					
Net profit margin (%)	7.0	7.9	7.6	7.8	8.0
Total asset turnover (x)	3.3	2.7	2.6	2.6	2.6
Assets/Equity (x)	1.8	1.6	1.6	1.6	1.4
RoE (%)	41.2	35.7	32.7	31.9	30.1
DuPont-RoIC					
NOPLAT margin (%)	8.1	7.9	8.4	8.4	8.4
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	30.4	24.8	25.6	26.8	27.3
Operating metrics					
Core NWC days	80.2	98.5	94.9	84.9	78.8
Total NWC days	80.2	98.5	94.9	84.9	78.8
Fixed asset turnover	9.1	7.5	7.6	7.4	6.8
Opex-to-revenue (%)	11.1	9.9	9.6	9.1	8.7

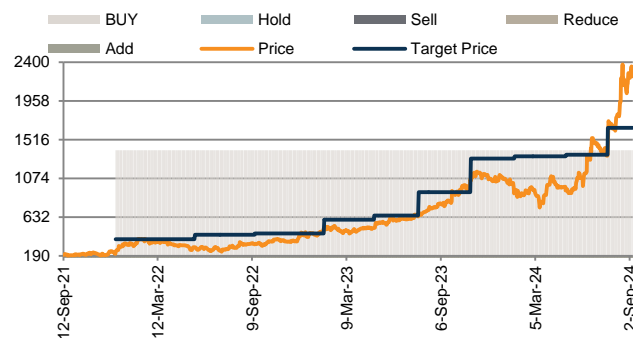
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
22-Jul-24	1,449	1,650	Buy	Sabri Hazarika
03-May-24	948	1,345	Buy	Sabri Hazarika
25-Jan-24	943	1,325	Buy	Sabri Hazarika
30-Nov-23	1,119	1,300	Buy	Sabri Hazarika
02-Nov-23	1,049	1,300	Buy	Sabri Hazarika
25-Jul-23	670	915	Buy	Sabri Hazarika
04-May-23	564	650	Buy	Sabri Hazarika
01-May-23	508	650	Buy	Sabri Hazarika
25-Jan-23	510	600	Buy	Sabri Hazarika
04-Nov-22	366	445	Buy	Sabri Hazarika
14-Sep-22	319	445	Buy	Sabri Hazarika
04-Aug-22	280	430	Buy	Sabri Hazarika
10-Jun-22	285	430	Buy	Sabri Hazarika
22-May-22	286	430	Buy	Sabri Hazarika
21-Dec-21	227	380	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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

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CIN - L67120MH1995PLC084899

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

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