

BSE SENSEX
84,914

S&P CNX
25,940

CMP: INR2,496 TP: INR2,900 (+16%)

Buy



Stock Info

Bloomberg	GRAV IN
Equity Shares (m)	69
M.Cap.(INRb)/(USDb)	172.3 / 2.1
52-Week Range (INR)	2700 / 730
1, 6, 12 Rel. Per (%)	12/165/177
12M Avg Val (INR m)	523
Free float (%)	36.6

Financial Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	41.0	53.2	69.8
EBITDA*	4.3	5.7	7.6
EBITDA Margin (%)*	10.4	10.6	10.9
Adj. PAT	3.1	4.2	5.7
Cons. Adj. EPS (INR)	44.3	60.5	82.8
EPS Gr. (%)	28	36	37
BV/Sh. (INR)	165	224	306

Ratios (%)

Net D:E	0.4	0.3	0.2
RoE (%)	23.1	24.5	25.9
RoCE (%)	31.0	31.1	31.2

Valuations

P/E (x)	56.4	41.3	30.2
EV/EBITDA (x)	41.5	31.5	23.4

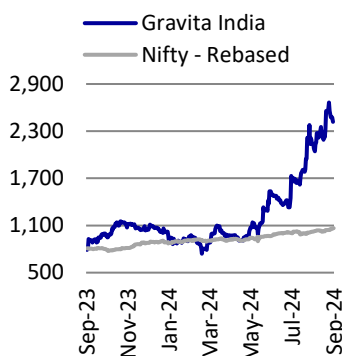
*Adjusted

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 (one-year)



Turning trash into triumph, globally

Gravita India Ltd (Gravita), one of the largest recycling companies in India, is well-positioned to benefit from strong industry tailwinds and healthy traction within the sector. Its Lead recycling vertical, which accounted for ~88% of revenue in FY24, is expected to achieve significant growth in the domestic market due to favorable regulatory changes. Additionally, the expansion of its geographical reach and product portfolio will be key drivers of its international business.

- Gravita is well poised to benefit from the recent favorable regulatory changes implemented this month. The introduction of Environmental Compensation (EC) for non-compliance with Extended Producer Responsibility (EPR) targets, along with the Reverse Charge Mechanism (RCM) under GST for metal scrap, is likely to improve the availability of domestic scrap for the organized recycling industry.
- Further, Gravita's subsidiary has executed a Memorandum of Understanding (MOU) to acquire an 80% stake in a ~17,000 MTPA waste tyre recycling facility in Romania for INR320m. The remaining 20% will be held by other partners based in Romania.
- Gravita's entry into the European recycling market has significantly expanded its total addressable market (TAM), with the European total waste recycling market valued at ~USD155b as of CY22. The strong geographical and product portfolio expansion will be its key growth lever going forward.

Regulatory tailwinds to boost domestic scrap availability

- The Central Pollution Control Board (CPCB) has introduced EC for lead acid batteries of INR18 per kg for non-compliance of EPR targets according to the battery waste management rules (BWMR), 2022.
- This penalty/compensation would ensure timely compliances by the battery manufacturers, resulting in higher collection of batteries and improved demand within the battery recycling space.
- In addition, the GST Council has introduced RCM on metal scrap recently, which is a huge boost for the organized recycling industry players.
- Earlier, the organized players were not able to procure from unorganized small-scale suppliers as they were not able to claim input credit on GST paid by them due to the non-compliance by such vendors.
- However, with the introduction of RCM, companies can directly pay the GST themselves. This will ensure higher availability of domestic scrap for the organized recycling companies.
- The ease in availability of domestic scrap aids in reducing higher freight costs incurred by the recycling companies and also reduces the working capital requirement due to lower transit days for inventory (imported inventory requires a higher transit period, thus increasing the inventory days). This, in turn, improves the return ratios for the companies.
- Gravita, being a large-scale recycler with a Pan India presence, will be a key beneficiary of these favorable regulatory changes within the industry.

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Diving into the European market: A small step that could lead to a giant leap!

- Gravita's step-down subsidiary, Gravita Netherlands BV (GNBV), has executed a MoU to acquire an 80% stake in a ~17,000 MTPA waste tyre recycling facility in Romania for INR320m.
- This acquisition will be carried out by forming a separate SPV where GNBV will hold an 80% stake (along with management control) and the remaining equity will be held by other partners based in Romania.
- We believe this acquisition is an initiative by Gravita to expand its recycling business across the larger European market, leveraging new market opportunities and establishing strategic partnerships to drive growth.
- Accordingly, with this first recycling plant in Europe, the company has significantly expanded its TAM and unlocked new growth avenues.
- Europe's tyre recycling market was estimated at ~USD871m in CY23 and is likely to reach USD1.2b by CY33 (clocking ~3.3% CAGR over the period).
- According to industry reports, the European waste recycling market size stood at ~USD155b as of CY22. Moreover, the European Recycling Industries Confederation (EuRIC) states that only ~39% of the collected waste is recycled in the EU, with ~32% recyclable waste being landfilled or incinerated. This underscores a significant scope of growth within the market for the existing as well as new players.
- Going forward, we expect the company's strong geographical (upcoming facilities in the US and Oman) as well as product portfolio (entering into steel, paper, and lithium ion) expansions will be a key growth lever.

Valuation and view

- Gravita is one of the key players within the burgeoning 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 fueled by favorable regulatory changes; 2) faster growth from the new segments (aluminum and plastic) and addition of the steel & paper segments; 3) robust capacity addition across segments; and 4) an improvement in the mix of value-added products.
- We increase our EPS estimates by 5%/7% for FY26/FY27E. We expect a revenue/EBITDA/PAT CAGR of 30%/32%/34% over FY24-27. **We value the stock at 40x Sep'26E EPS to arrive at our TP of INR2,900. We reiterate our BUY rating on the stock.**

Exhibit 1: Calculation of EC is based on the cost of handling, collection, and transportation as well as the cost of processing waste batteries

S. No.	Cost Components	INR
1.	Handling, Collection and Transportation	3,000 per tonne
2.	Processing	15,000 per tonne
Total Cost (per Tonne) = EC Charges		18,000
EC (per Kg) -		18

Source: CPCB, Company, MOFSL

Exhibit 2: Introduction of RCM on metal scrap would boost domestic scrap availability for organized players



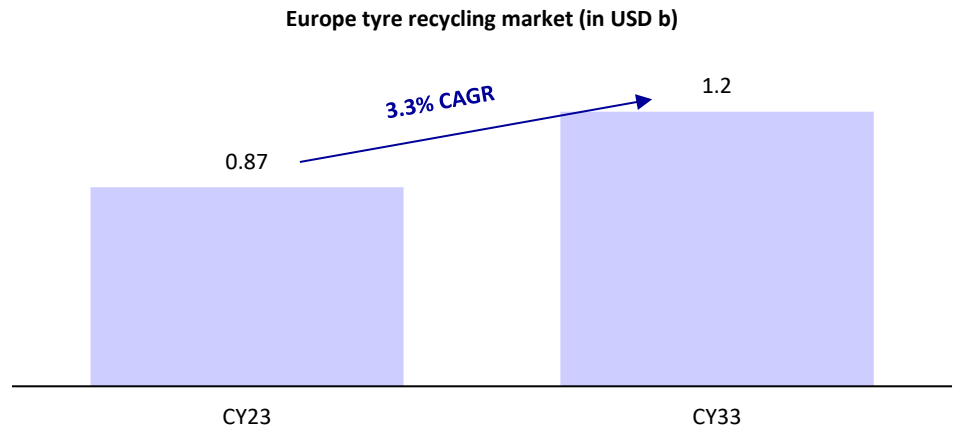
General GST Payment Process



RCM Under GST - Payment Process

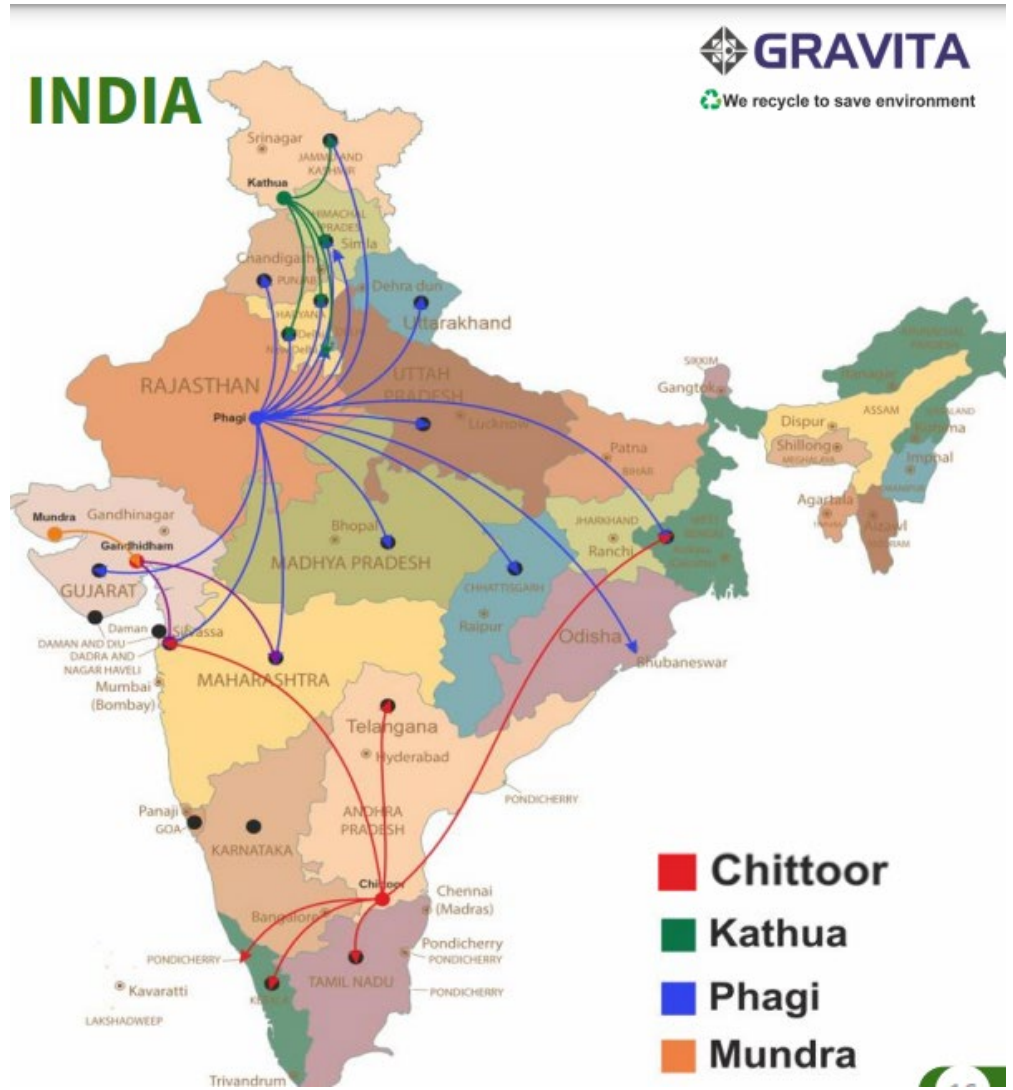
Source: Company, MOFSL

Exhibit 3: Europe tyre recycling market to reach USD1.2b by CY33



Source: Company, MOFSL

Exhibit 4: Gravita is a primary beneficiary of improved domestic scrap availability due to its pan-India network



Source: Company, MOFSL

Story in Chart

Exhibit 5: Revenue CAGR of ~30% over FY24-FY27E...

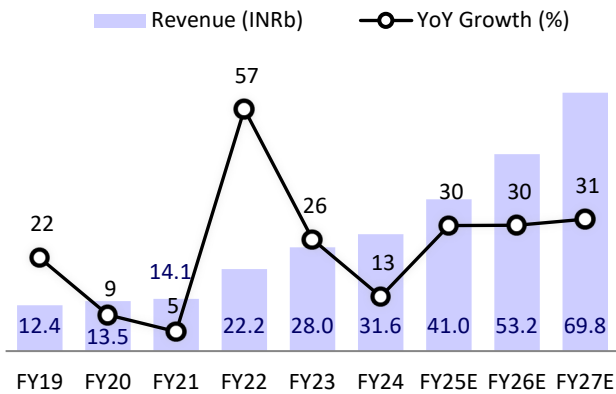


Exhibit 6: ...coupled with margin expansion...

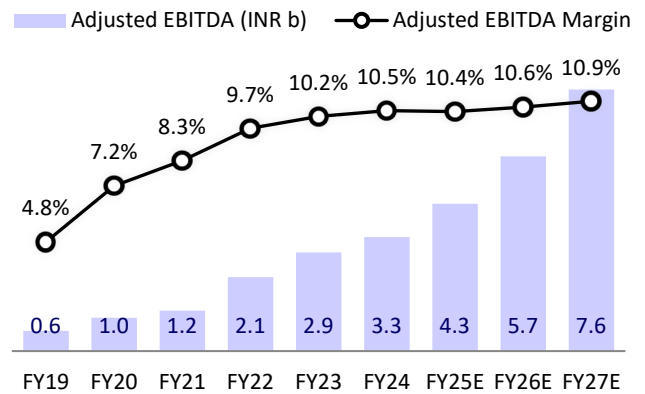


Exhibit 7: ...leading to robust earnings growth (at ~34% CAGR)

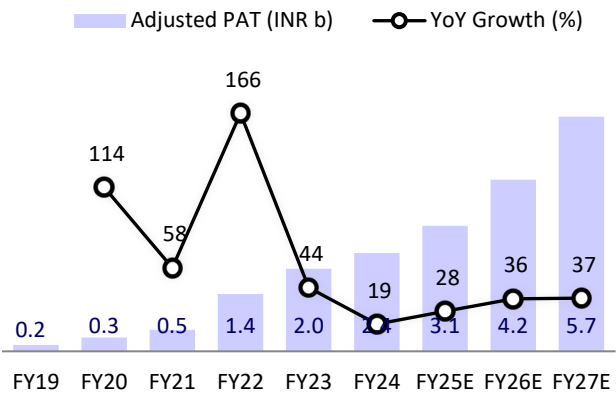


Exhibit 8: Reduction in net working capital leading to...

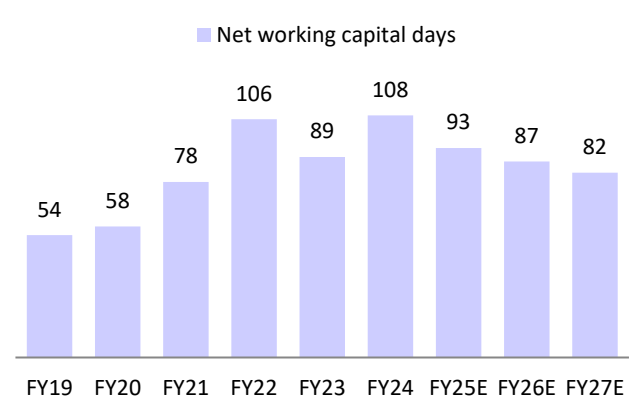


Exhibit 9: ...improved cash flow from operations

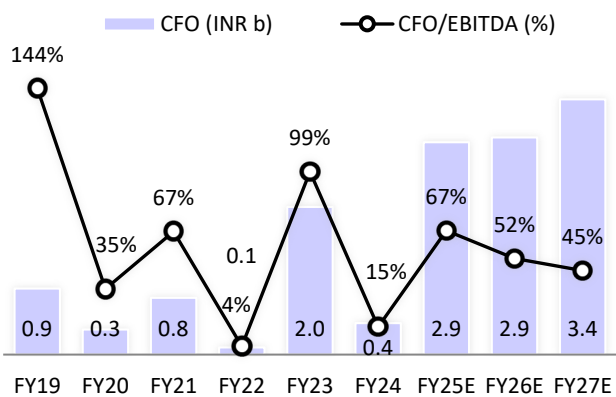
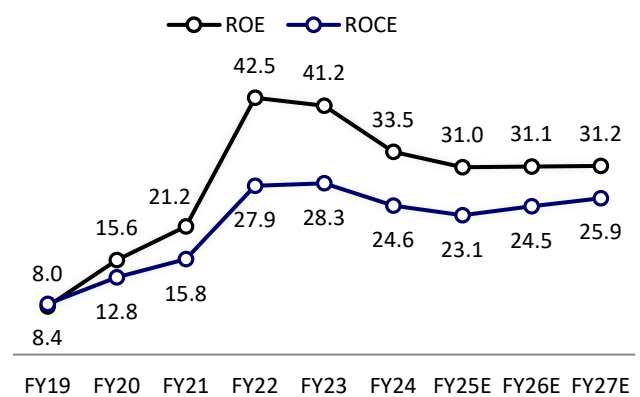


Exhibit 10: Healthy return ratios



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	40,986	53,191	69,786
Change (%)	22.0	8.5	4.6	57.2	26.4	12.9	29.7	29.8	31.2
RM Cost	10,574	11,126	11,586	17,899	23,391	25,612	32,788	42,552	55,689
Employees Cost	635	659	729	1,028	1,336	1,312	1,639	2,021	2,582
Other Expenses	590	738	633	1,078	1,259	1,848	2,284	2,966	3,923
Total Expenditure	11,799	12,523	12,948	20,005	25,986	28,772	36,711	47,539	62,194
% of Sales	95.0	92.9	91.8	90.3	92.8	91.0	89.6	89.4	89.1
EBITDA	619	955	1,150	2,154	2,020	2,836	4,274	5,651	7,592
Margin (%)	5.0	7.1	8.2	9.7	7.2	9.0	10.4	10.6	10.9
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	4,274	5,651	7,592
Margin (%)	4.8	7.2	8.3	9.7	10.2	10.5	10.4	10.6	10.9
Depreciation	116	181	203	206	240	380	431	591	772
EBIT	474	789	967	1,944	2,621	2,929	3,843	5,060	6,820
Int. and Finance Charges	262	314	310	380	435	492	502	480	463
Other Income	83	-5	52	83	90	304	170	200	250
PBT bef. EO Exp.	296	469	709	1,646	2,276	2,742	3,512	4,780	6,606
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	296	469	709	1,646	2,276	2,742	3,512	4,780	6,606
Total Tax	102	104	141	162	235	319	421	574	859
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	3,059	4,176	5,717
Adjusted PAT	155	332	525	1,394	2,011	2,392	3,059	4,176	5,717
Change (%)	-64.9	114.1	58.1	165.7	44.3	18.9	27.9	36.5	36.9
Margin (%)	1.2	2.5	3.7	6.3	7.2	7.6	7.5	7.9	8.2

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	11,226	15,333	20,980
Net Worth	1,993	2,252	2,689	3,869	5,889	8,374	11,364	15,471	21,119
Minority Interest	47	52	90	140	128	132	243	274	304
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	17,061	21,198	26,877
Gross Block	1,592	2,215	2,285	2,650	3,690	4,759	6,737	9,462	12,587
Less: Accum. Deprn.	227	399	562	738	957	1,337	1,768	2,359	3,131
Net Fixed Assets	1,365	1,817	1,724	1,913	2,733	3,423	4,969	7,103	9,456
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	13,253	15,567	19,496
Inventory	1,826	2,244	3,577	5,135	5,965	6,746	8,247	10,029	12,439
Account Receivables	965	675	594	1,097	1,370	2,643	2,246	2,769	3,441
Cash and Bank Balance	219	203	199	325	381	988	833	269	335
Loans and Advances	888	1,059	1,035	1,081	1,073	1,631	1,926	2,500	3,280
Curr. Liability & Prov.	1,160	1,020	1,849	2,036	2,555	2,065	2,477	3,211	3,790
Account Payables	987	874	1,357	329	895	675	905	1,172	1,534
Other Current Liabilities	102	65	376	1,515	1,457	1,379	1,557	2,021	2,233
Provisions	71	81	116	193	202	11	14	18	24
Net Current Assets	2,738	3,160	3,556	5,601	6,234	9,944	10,776	12,355	15,705
Misc Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	4,566	5,123	5,415	7,939	9,433	13,959	17,061	21,198	26,877

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	44.3	60.5	82.8
Cash EPS	3.9	7.4	10.5	23.2	32.6	40.1	50.5	69.0	94.0
BV/Share	29.0	32.6	38.9	56.0	85.3	121.3	164.6	224.1	305.8
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	1.2
Valuation (x)									
P/E	1,098.7	515.3	326.0	122.7	85.1	71.5	56.4	41.3	30.2
Cash P/E	629.3	333.3	235.0	106.9	76.0	61.7	49.5	36.2	26.6
P/BV	85.4	76.0	63.6	44.2	29.0	20.4	15.2	11.2	8.2
EV/Sales	13.9	12.9	12.3	7.9	6.2	5.6	4.3	3.3	2.5
EV/EBITDA	279.1	181.8	150.9	81.2	86.3	61.9	41.5	31.5	23.4
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
FCF per share	3.1	2.7	8.0	-8.8	13.5	-8.9	8.2	-3.1	5.1
Return Ratios (%)									
RoE	8.0	15.6	21.2	42.5	41.2	33.5	31.0	31.1	31.2
RoCE	8.4	12.8	15.8	27.9	28.3	24.6	23.1	24.5	25.9
RoIC	8.5	13.9	15.4	28.6	20.2	20.7	24.8	26.1	27.0
Working Capital Ratios									
Fixed Asset Turnover (x)	7.8	6.1	6.2	8.4	7.6	6.6	6.1	5.6	5.5
Asset Turnover (x)	2.7	2.6	2.6	2.8	3.0	2.3	2.4	2.5	2.6
Inventory (Days)	56	65	101	94	84	86	82	77	73
Debtor (Days)	28	18	15	18	18	31	20	19	18
Creditor (Days)	31	25	38	6	13	9	9	9	9
Leverage Ratio (x)									
Current Ratio	3.4	4.1	2.9	3.8	3.4	5.8	5.4	4.8	5.1
Interest Cover Ratio	1.8	2.5	3.1	5.1	6.0	6.0	7.7	10.5	14.7
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	3,512	4,780	6,606
Depreciation	116	181	203	206	240	380	431	591	772
Interest & Finance Charges	223	275	271	327	384	188	332	280	213
Direct Taxes Paid	-123	-111	-115	-149	-235	-319	-421	-574	-859
(Inc)/Dec in WC	430	-462	-302	-2,062	-822	-2,567	-987	-2,143	-3,284
CF from Operations	840	352	765	-32	1,843	424	2,866	2,934	3,449
Others	51	-14	0	128	154	0	0	0	0
CF from Operating incl EO	890	339	765	96	1,997	424	2,866	2,934	3,449
(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	-618	566	-216	349
(Pur)/Sale of Investments	0	0	0	4	-11	0	0	0	0
Others	14	6	19	3	21	-536	-150	200	250
CF from Investments	-664	-143	-194	-695	-1,054	-1,578	-2,450	-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	-480	-463
Dividend Paid	-98	-71	-74	-238	-43	-60	-69	-69	-69
Others	166	-52	-33	0	0	338	0	0	0
CF from Fin. Activity	-167	-212	-565	719	-874	1,760	-571	-549	-532
Inc/Dec of Cash	60	-16	6	121	69	606	-155	-564	66
Opening Balance	63	123	107	113	234	382	988	833	269
Other cash & cash equivalent	96	96	85	91	78	0	0	0	0
Closing Balance	219	203	198	325	382	988	833	269	335

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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

*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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