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India | Equity Research | Q2FY25 results review

Gravita India

Metals & Mining

In-line performance; regulatory tailwinds to aid performance

Gravita India's (GRAV) Q2FY25 performance was in line with our estimates. Key points: 1) Production volume rose 7.7% YoY aided by Lead (Pb), growing at 8.7% YoY. 2) Profitability was aided by LME-MCX arbitrage. 3) Capex plans largely on track with H1FY25 capex at INR 270mn. 4) Net debt/EBITDA was at 1.5x, as on end-Sep'24, compared to 1.6x at end-FY24. Management has maintained its long-term strategic growth and returns roadmap. In the near term, it expects regulatory tailwinds – reverse charge mechanism (RCM) and enhanced producer responsibility (EPR) – to aid scrap collection in the domestic market and ensure a level-playing field. We maintain **BUY** on GRAV with a DCF-based unchanged TP of INR 3,265.

Meets estimates

GRAV's Q2FY25 performance met our estimates. Despite volume growth of a mere 7.7% YoY, EBITDA (incl. hedging gains) and PAT were up 33% YoY and 22% YoY, respectively. Key points: 1) Volume rose 7.7% YoY at 48.67kte, led by Pb volume – up 8.7% YoY at 42.15kte. 2) EBITDA (including hedging gain) was up 33% YoY at INR 1.08bn. EBITDA was also aided by favourable LME-MCX arbitrage in case of Pb. 3) Contribution from value-added products stood at 47%, along with 140% YoY growth in the domestic availability of scrap. 4) H1FY25 capex stood at INR 270mn; however, H2FY25 capex is likely at INR 1–1.2bn. Management reiterated its FY28 vision of volume growth at 25% CAGR, RoCE of above 25% and profitability growth of more than 35%.

Thesis unchanged; capex and growth to continue

We believe that the long-term thesis for GRAV, centred around growth and high returns, remains intact. Key points: 1) Acquisition of rubber recycling plant in Romania provides the company a strategic footprint in Europe; it also plans to diversify into more verticals at the same plant. 2) Availability of domestic scrap is steadily increasing; thus, benefitting organised players. Implementation of RCM for battery scrap will likely further accelerate the same. 3) Enabling resolution of raising INR 10bn for any suitable M&A opportunities and additional capex (contingent on the pace of enhancement in scrap availability, pursuant to implementation of RCM).

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	28,006	31,608	39,407	48,186
EBITDA	1,976	2,836	4,529	6,202
EBITDA Margin (%)	7.1	9.0	11.5	12.9
Net Profit	2,041	2,423	3,356	4,680
EPS (INR)	30.0	35.6	49.4	68.8
EPS % Chg YoY	37.5	18.7	38.5	39.4
P/E (x)	72.4	61.0	44.0	31.6
EV/EBITDA (x)	76.3	53.6	33.3	24.2
RoCE (%)	20.9	20.8	27.3	28.3
RoE (%)	47.8	39.2	38.2	38.0

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Market Data

Market Cap (INR)	150bn
Market Cap (USD)	1,785mn
Bloomberg Code	GRAV IN
Reuters Code	GRAI.BO
52-week Range (INR)	2,700 /730
Free Float (%)	35.0
ADTV-3M (mn) (USD)	13.9

Price Performance (%)	3m	6m	12m
Absolute	50.0	123.0	118.2
Relative to Sensex	50.4	114.1	95.5

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

23-07-2024: [Q1FY25 results review](#)

23-07-2024: [Q1FY25 results review](#)

Outlook: Prospects intact; maintain BUY

The knee jerk reaction to the Q2FY25 results provides a good entry point for investors, as GRAV's long-term prospects remain intact. In our view, back-to-back hedging and opportunistic arbitrage gains are likely to maintain profitability. Besides, we envisage a 25% CAGR in volumes through to FY28E on average. We also like the management's focus on prudent growth and capex, which should aid RoCE surpass 25% by FY28E. Furthermore, regulatory tailwinds in India are likely to work in favour of GRAV and benefit the company in the near to medium term. We maintain **BUY** on GRAV with a DCF based unchanged TP of INR 3,265.

Key Risks

- Any adverse government policy on usage, handling and recycling may have an adverse impact.
- Geopolitical risks.
- Change in government's policies towards scrap procurement.

Exhibit 1: Gravita India Q2FY25 performance

(INR mn)	Q2FY25	Q2FY24	% Chg YoY	Q1FY25	% Chg QoQ	FY24	FY23	% Chg YoY
Net sales	9,274	8,362	10.9	9,079	2.2	31,608	28,006	12.9
Gross Margin	1,676	1,558	7.6	1,793	(6.5)	5,996	5,186	15.6
Gross Margin (%)	18.1%	18.6%		19.8%		19.0%	18.5%	
Employee cost	463	315	47.2	428	8.3	1,312.4	1,335.6	(1.7)
Other expenditure	578	517	11.8	489	18.2	1,847.7	1,874.1	(1.4)
EBITDA	635	726	(12.6)	877	(27.6)	2,836	1,976	43.5
Margin (%)	6.8%	8.7%		9.7%		9.0%	7.1%	
Adjusted EBITDA	1,008	758	33.0	890	13.3	3,099	2,770	
Adjusted EBITDA Margin (%)	10.9%	9.1%		9.8%		9.8%	9.9%	
Other Income	404	141	185.6	69	487.5	778	931	(16.4)
Depreciation	72	86	(16.2)	65	10.1	380	240	58.6
EBIT	967	782	23.7	880	9.8	3,234	2,667	21.2
Interest	120	112	7.0	130	(7.8)	492	391	25.8
PBT	847	670		751		2,742	2,276	
Tax expense:	128	82	56.9	71	81.3	319	235	35.6
PAT	719	588	22.2	680	5.8	2,423	2,041	18.7

Source: Company data, I-Sec research

Exhibit 2: Gravita India Q2FY25 operational performance

	Q2FY25	Q2FY24	% Chg YoY	Q1FY25	% Chg QoQ
Lead					
Production (Kte)	42.2	38.8	8.7	41.9	0.6
EBITDA/te (INR)	21,642	17,673	22.5	19,321	12.0
Aluminium					
Production (Kte)	3.5	3.4	3.3	2.5	42.9
EBITDA/te (INR)	18,386	11,679	57.4	19,414	(5.3)
Plastic					
Production (Kte)	3.0	3.0	(0.6)	3.2	(5.9)
EBITDA/te (INR)	10,497	11,060	(5.1)	10,077	4.2

Source: Company data, I-Sec research

Q2FY25 conference call takeaways

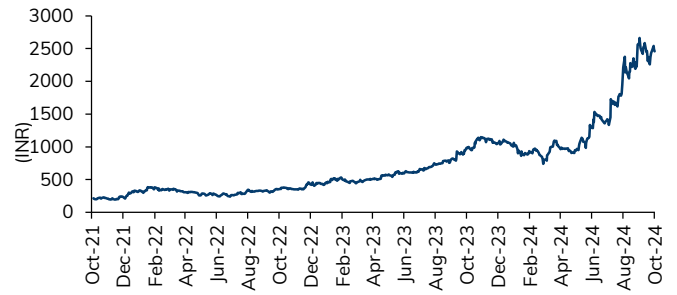
- Gravita's subsidiary, Gravita - Netherlands, has signed a MoU to acquire a waste rubber recycling plant in Romania – capacity of ~70ktpa.
- The acquisition marks Gravita's first recycling facility in Europe, which aligns with the company's vision of diversification and expansion aimed at replicating the recycling business across various geographies.
- The Board of Directors have approved raising funds of up to INR 10bn. These funds will be used towards additional capex, M&A opportunities, debt reduction and other general corporate purposes.
- At Mundra, progress on setting up a pilot project of lithium-ion battery recycling and the first Indian rubber recycling plant is going as per plan. Management expects it to be operational in H1FY26.
- Gravita is making steady progress towards its total capacity target to 0.5mnte by FY27.
- H1FY25 was ~INR300mn and an additional investment of ~INR 1,000mn–1,200mn is likely to be done in H2FY25.
- **Volume growth:** In Q2FY25, volume for lead and aluminium rose ~9% and ~3% YoY, respectively. Overall volume growth was at 7.7% YoY. In H1FY25, volume growth was ~17% YoY. Management expressed confidence that the growth rate is likely to be in the range of ~25% YoY in H2FY25.
- Due to strict government regulations under BWMR and EPR, the availability of domestic scrap is on the rise, leading to ~140% growth (YoY) in Q2FY25.
- EBITDA/te of lead and aluminium increased significantly by ~22% YoY and ~57% YoY, respectively. The rise in margins was achieved by leveraging arbitrage opportunities between international and domestic markets.
- Value-added products (VaP) contributed ~47% to the revenue which is in line with the vision of achieving 50% revenues from VaP by FY28.
- **Aluminum contract on MCX:** It is in process, as per management all the approvals to MCX have been received from finance ministry. Management is expecting the contract to be listed by Q4FY25. In H1FY25, the Aluminium capacity utilization rate was at ~45%. Management is guiding a slightly higher utilization rate of ~50% in H2FY25.
- Management is expecting RCM to be implemented on battery scrap soon on similar line as metal scarp. This would lead to shift from unorganized sector to organized sector and ensure transparency and tax compliances.
- Scrap procurement: ~37% from domestic and ~63% is from the overseas sources.
- Management has guided that paper recycling and steel recycling capacities are likely to be commissioned by FY27.
- Plastics recycling: Plastic is a little tricky as compared to other businesses, as new products are to be developed to meet the market demand. Management is guiding similar levels of volume of Plastic in Q3FY25 as Q2FY25.
- Sustainable EBITDA/kg for lead is INR 18-19 EBITDA/kg

Exhibit 3: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	66.5	63.7	64.8
Institutional investors	11.5	14.4	17.3
MFs and others	0.1	0.9	1.3
FIs/Banks	0.0	0.0	1.9
Insurance	0.0	0.1	0.1
FIIIs	11.4	13.4	14.0
Others	22.0	21.9	17.9

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	28,006	31,608	39,407	48,186
Operating Expenses	3,210	3,160	3,940	4,845
EBITDA	1,976	2,836	4,529	6,202
EBITDA Margin (%)	7.1	9.0	11.5	12.9
Depreciation & Amortization	240	380	349	511
EBIT	1,737	2,456	4,181	5,691
Interest expenditure	391	492	485	512
Other Non-operating Income	931	778	123	177
Recurring PBT	2,276	2,742	3,819	5,357
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	235	319	463	676
PAT	2,041	2,423	3,356	4,680
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,041	2,423	3,356	4,680
Net Income (Adjusted)	2,041	2,423	3,356	4,680

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	8,624	11,597	13,015	15,568
of which cash & cash eqv.	381	988	1,862	2,599
Total Current Liabilities & Provisions	2,249	1,894	2,237	2,502
Net Current Assets	6,375	9,703	10,778	13,066
Investments	11	165	165	165
Net Fixed Assets	2,664	3,421	5,358	7,967
ROU Assets	68	63	63	63
Capital Work-in-Progress	455	428	428	428
Total Intangible Assets	1	1	1	1
Other assets	229	349	349	349
Deferred Tax Assets	-	-	-	-
Total Assets	9,803	14,129	17,141	22,039
Liabilities				
Borrowings	3,445	5,451	5,094	5,297
Deferred Tax Liability	133	54	66	81
provisions	65	100	100	100
other Liabilities	143	19	19	19
Equity Share Capital	138	138	138	138
Reserves & Surplus	5,751	8,236	11,592	16,272
Total Net Worth	5,889	8,374	11,730	16,411
Minority Interest	128	132	132	132
Total Liabilities	9,803	14,129	17,141	22,039

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	7,578	8,634	9,079	9,274
% growth (YOY)	(4.0)	15.3	29.1	10.9
EBITDA	804	722	877	635
Margin %	10.6	8.4	9.7	6.8
Other Income	154	249	69	404
Extraordinaries	-	-	-	-
Adjusted Net Profit	615	694	680	719

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	2,032	386	4,001	4,167
Working Capital Changes	(786)	(2,487)	(189)	(1,536)
Capital Commitments	(1,061)	(1,687)	(2,285)	(3,120)
Free Cashflow	971	(1,300)	1,716	1,047
Other investing cashflow	7	108	-	-
Cashflow from Investing Activities	(1,054)	(1,578)	(2,285)	(3,120)
Issue of Share Capital	-	-	-	-
Interest Cost	(389)	(482)	(485)	(512)
Inc (Dec) in Borrowings	(433)	1,997	(357)	203
Dividend paid	(43)	(295)	-	-
Others	-	-	-	-
Cash flow from Financing Activities	(874)	1,209	(842)	(309)
Chg. in Cash & Bank balance	105	17	874	738
Closing cash & balance	339	320	1,232	1,970

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	30.0	35.6	49.4	68.8
Adjusted EPS (Diluted)	30.0	35.6	49.4	68.8
Cash EPS	33.5	41.2	54.5	76.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	86.6	123.1	172.5	241.3
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	26.4	12.9	24.7	22.3
EBITDA	(6.3)	43.5	59.7	36.9
EPS (INR)	37.5	18.7	38.5	39.4
Valuation Ratios (x)				
P/E	72.4	61.0	44.0	31.6
P/CEPS	64.8	52.7	39.9	28.5
P/BV	25.1	17.7	12.6	9.0
EV / EBITDA	76.3	53.6	33.3	24.2
P / Sales	5.3	4.7	3.8	3.1
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	18.5	19.0	21.5	22.9
EBITDA Margins (%)	7.1	9.0	11.5	12.9
Effective Tax Rate (%)	10.3	11.6	12.1	12.6
Net Profit Margins (%)	7.3	7.7	8.5	9.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.5	0.5	0.3	0.2
Net Debt / EBITDA (x)	1.5	1.5	0.7	0.4
Profitability Ratios				
RoCE (%)	20.9	20.8	27.3	28.3
RoE (%)	47.8	39.2	38.2	38.0
RoC (%)	22.3	22.1	29.9	31.9
Fixed Asset Turnover (x)	10.3	8.9	7.8	6.7
Inventory Turnover Days	102	90	85	80
Receivables Days	23	35	22	22
Payables Days	15	9	11	11

Source Company data, I-Sec research

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