AXIS SECURITIES

Initiating Coverage
25th September 2024

Gravita India Ltd.
Industrial Minerals

BUY
Target Price
3,000

Capitalizing on the Recycling Revolution

We are initiating coverage on Gravita India Ltd. (Gravita) with a BUY recommendation and a target price of Rs 3,000/share, implying an upside of 20% from the CMP. Established in 1992, Gravita India Ltd is a leading recycling company and one of the largest lead producers in India. The company's business is organized across four specialized verticals: Lead Recycling (flagship), Aluminum Recycling, Plastic Recycling and Turnkey Projects. The company is headquartered in Jaipur, India and has multiple scrap collection & recycling facilities within India and at overseas locations. The company generates the majority of its revenues from Lead recycling and is foraying in newer verticals which are likely to benefit from the global push for the adoption of circular economy. With its planned capacity additions, Gravita appears to be well-positioned to benefit from strong tailwinds in the sector. We believe Gravita provides a dual opportunity to benefit from the eminent growth of the recycling industry along with the rising preference for Sustainability/ESG-focused investments.

Investment Thesis

Growing domestic and global recycling market

The global waste and recycling market is expected to witness rapid growth in the coming years, driven by advancements in technology, tighter regulations, and rising demand for raw materials sourced from recycled products. However, the recycling industry remains largely unorganized with limited capacities. Despite this, there is significant potential for organized players like Gravita to capitalize on the untapped market. The potential market is expanding even faster, multiplying growth opportunities. According to a United Nations report, global electronic waste generation is rising five times faster than documented e-waste recycling, highlighting the increasing need for recycling facilities. The gap between the consumption and recycling of plastic and rubber is even larger, creating substantial opportunities for players in the recycling sector.

Conducive regulatory environment

Regulators globally have been increasingly focusing on recycling as it serves the dual purpose of reducing environmental impact and improving resource utilization efficiency, as the reuse of materials decreases dependency on primary sources. However, the recycling industry faces challenges such as high collection costs, a lack of formal channels, complexity in sorting waste, inconsistent feedstock properties, and potential safety concerns. In response, many countries, including India, have introduced significant measures like Extended Producer Responsibility (EPR), which holds producers accountable for managing their products throughout their lifecycle. Additionally, governments have implemented monetary measures, including incentives and penalties, such as those enforced under the Battery Waste Management Rules (BWMR). These regulatory efforts are expected to drive volume growth and aid the formalization of the market, benefiting organized players like Gravita.

Well-spread scrap collection and production network

Gravita has a strong global presence, operating 11 state-of-the-art manufacturing plants across 32 countries. Its network includes 31 dedicated yards and 1,700 touchpoints, enabling a robust scrap collection capacity exceeding 250,000 MT. As of FY24, the company had production and recycling capabilities of over 3,02,859 MT across various products. Gravita has also secured contracts for efficient pan-India scrap collection, allowing it to serve OEM customers near their facilities and facilitate exports through nearby ports, optimizing logistical costs. Additionally, the company operates manufacturing facilities in Africa and maintains a procurement network spanning five continents. This widespread and strategically positioned network enables Gravita to serve customers across geographies more efficiently than competitors with a localized presence.

Newer segments to accelerate growth further

As part of its "Vision 2028" strategy for future growth, the company is expanding its focus beyond traditional lead, aluminium, plastic, and rubber recycling to include lithium, steel, and paper recycling. Gravita plans to leverage its expertise and capabilities in safe and reliable recycling, combined with its existing geographic reach, to facilitate a smooth entry into these new verticals. This diversification is expected to drive revenue growth, enhance cash flows, and improve liquidity. Under the "Vision 2028" strategy, the company aims to achieve 30%+ non-lead business, 25%+ volume CAGR, 35%+ profitability CAGR, 50% contribution from value-added products, and 30%+ renewable power usage.

Valuation & Recommendation

We initiate coverage on Gravita India Ltd. (Gravita) with a BUY recommendation. This is supported by a) Its dominant share in a growing market, b) Steady improvement in profitability, c) Regulatory tailwinds, and d) Expanding offerings. The stock currently trades at 31x FY27E EPS. We value the stock at 37x FY27E EPS and initiate coverage with a BUY rating, setting a target price of Rs 3,000/share, implying an upside of 20% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	FY24A	FY25E	FY26E	FY27E
Net Sales	3,161	4,085	5,141	6,267
EBITDA (Adj.)	330.6	431.2	586.3	746.7
Net Profit	242.3	299.7	420.7	561.1
EPS (Rs)	34.6	43.4	60.9	81.3
P/E (x)	71.3	57.6	41.0	30.8
EV/EBITDA (x)	62.7	46.2	34.0	26.4
ROE (%)	33%	31%	32%	32%
Net Profit	35%	31%	33%	34%

Source: Company, Axis Securities Research

(CMP as of 24th September, 2024)

CMP (Rs)	2,496
Upside /Downside (%)	20%
High/Low (Rs)	2,700/730
Market cap (Cr)	17,259
Avg. daily vol. (1 Yr) Shrs.	3,68,481
No. of shares (Cr)	6.90

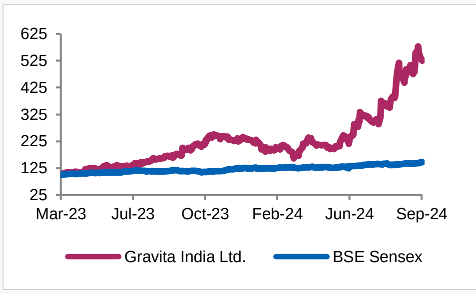
Shareholding Pattern (%)

	Dec-23	Mar-24	Jun-24
Promoter	66.5	66.5	63.4
FIIs	10.6	11.1	13.4
DIIs	0.4	0.4	2.6
Public	21.1	20.6	19.2
Others	1.5	1.5	1.5

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	3,161	4,085	5,141
EBITDA (Adj.)	331	431	586
Net Profit	242	300	421
EPS (Rs)	34.6	43.4	60.9
P/E (x)	71	58	41
EV/EBITDA (x)	63	46	34
ROE (%)	33	31	32
ROCE (%)	35	31	33

Relative performance



Source: Ace Equity, Axis Securities Research

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Gravita's Story in Charts

Exhibit 1: Steady increase in capacity over the past few years

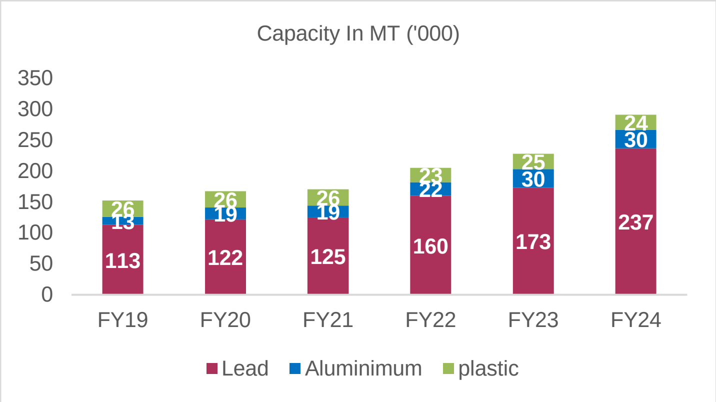
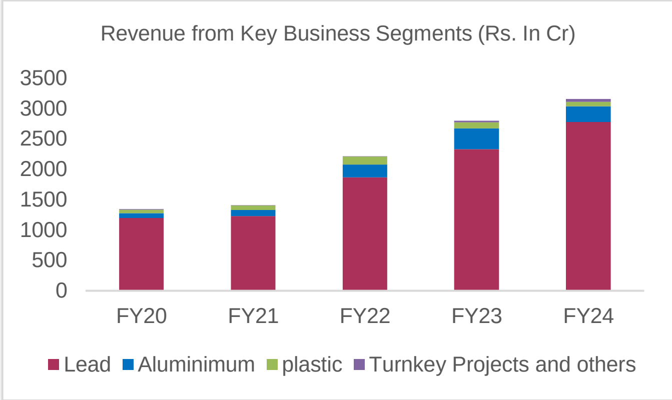


Exhibit 2: Leading to revenue growth



Source: Company, Axis Securities Research

Exhibit 3: Further capacity additions planned…

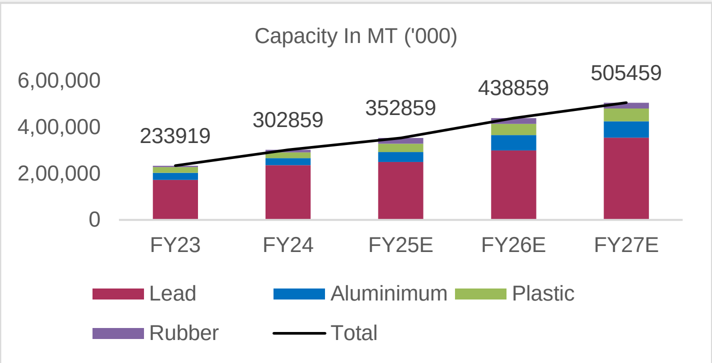
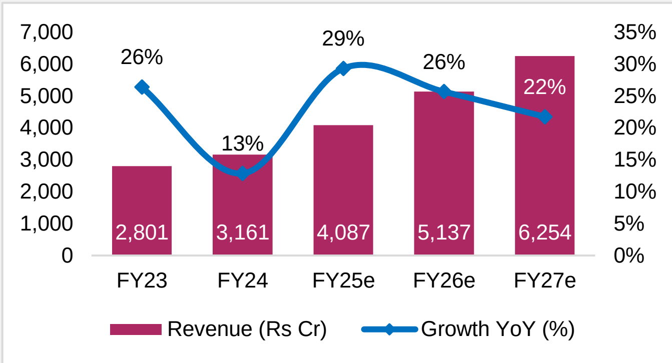


Exhibit 4: …which is expected to propel growth



Source: Company, Axis Securities Research

Exhibit 5: Scale of economies and high-value products to improve EBITDA margins

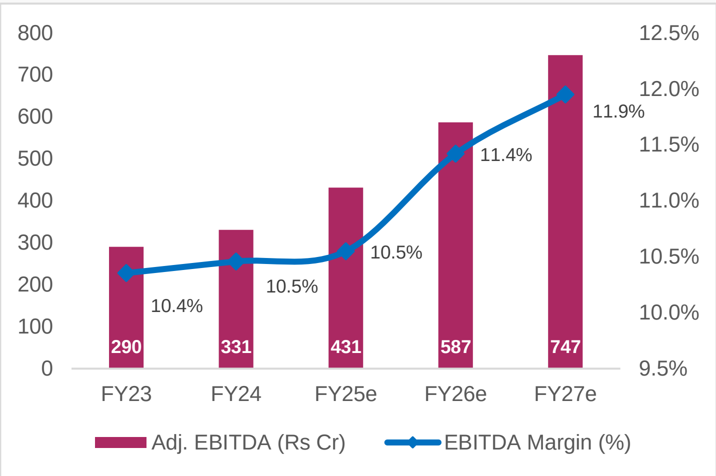
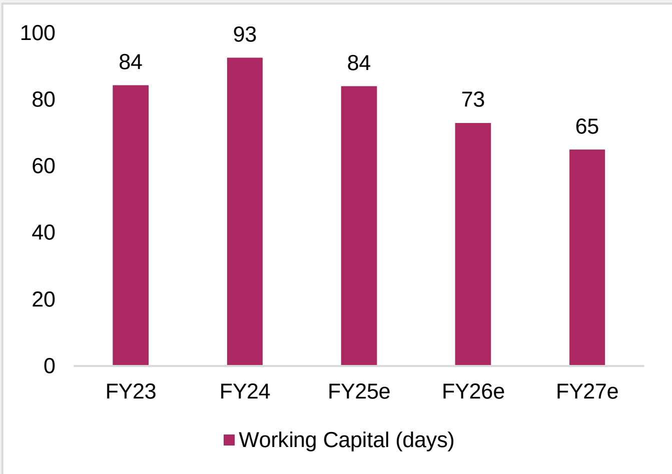


Exhibit 6: WC requirements to ease due to barter arrangements (finished products against scrap) and better scrap availability



Source: Company, Axis Securities Research

GRAVITA INDIA LTD.

Gravita India Limited is a prominent player in the global recycling industry, specializing in the recycling of lead, aluminium, plastic, and rubber. Headquartered in Jaipur, Rajasthan, India, the company operates multiple recycling plants both domestically and internationally. As of FY24, Gravita had 11 recycling plants and 31 owned scrap yards, with an annual recycling capacity exceeding 3 Lc tonnes and a scrap collection capacity of 2.5 Lc tonnes.

The company also provides turnkey solutions designed to deliver complete, efficient, and sustainable recycling plants, tailored to meet specific client needs. These solutions encompass all aspects of the recycling process, from initial design and equipment supply to installation, commissioning, and ongoing support. In FY24, the company generated 88% of its revenue from the lead segment, 8% from aluminium, and 2% from plastic. Contribution from turnkey projects was less than 1%, as a significant portion of the work done under the turnkey segment is identified as intersegment revenue.

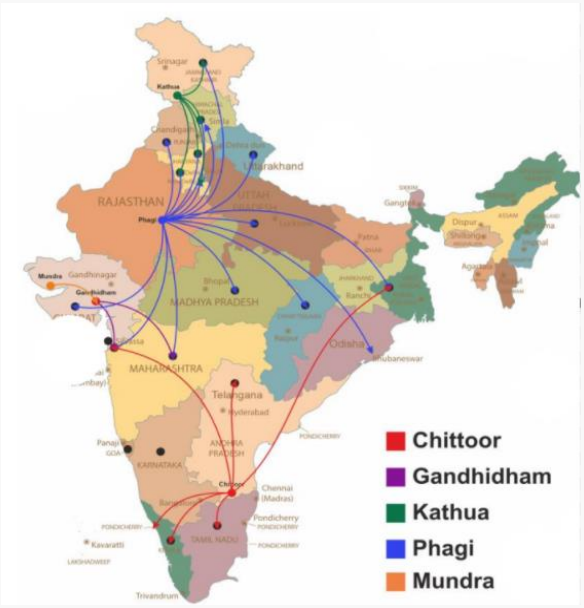
Established in 1992 by first-generation entrepreneur Mr. Rajat Agrawal, Gravita has grown to become one of the leading integrated recycling companies

Exhibit 7: Key Milestones

- **1994** – Commenced operations through commercializing lead recycling plant in Jaipur.
- **2001** – Established first overseas recycling unit in Sri Lanka.
- **2007** – Set up first recycling unit in Ghana.
- **2010** – Successful listing at the BSE and NSE.
- **2013** – Extended manufacturing of value added products at Jaipur plant.
- **2015** – Diversified into plastic recycling
- **2016** – Achieved further diversification by venturing into aluminium recycling.
- **2019** – Started aluminium and plastic recycling facilities in Africa.
- **2021** – Established new recycling facility at Mudra port
- **2022** – Expanded portfolio by venturing into rubber recycling and became a MCX empaneled brand.
- **2023** – Extended manufacturing of value added products at Africa.

Source: Company, Axis Securities Research

Exhibit 8: Gravita's Customer Network in India



Source: Company, Axis Securities Research

Exhibit 9: Gravita's Global Presence

Corporate HQ

Jaipur, India

Manufacturing Facilities

Asia

India: Kathua (J&K), Jaipur (Rajasthan), Jaipur SEZ (Rajasthan, Chittoor (Andra Pradesh), Mundra (Gujarat)

Sri Lanka: Mirigama

Africa: Ghana (Accra), Senegal (Dakar), Mozambique (Maputo), Tanzania (Dar-es-salam), Togo (Lome)

Procurement Network

Asia, Europe, Africa, America, Australia

Source: Company, Axis Securities Research

Exhibit 10: Gravita's Existing Business Segment

Business Segments	Overview	% of FY24 Revenue	Capacity (Total: 3,02,859 MTPA)
 **Lead**	• Gravita collects lead scrap from various sources, then segregates and sorts the scrap materials through rigorous quality inspections. This is followed by the smelting and refining of lead, which is then manufactured into various value-added products based on customer specifications. • Value-added products: Customized Lead Alloy, Lead Sheet, Lead Bricks, Red Lead, Lead Oxide	88%	Lead Recycling Capacity: 2,36,559 MT Lead Recycled: 1,48,501 MT
 **Aluminium**	• Similar to lead, Gravita also recycles and manufactures Aluminium alloys. • Aluminum recycling is equally promising, driven by the material's extensive use in the automotive, aerospace, and packaging industries, along with advancements in recycling technologies that improve efficiency. • Value-Added Products: Customized Aluminium Alloys, Aluminium ingots	8%	Aluminium recycling capacity: 30,000 MT Aluminium Recycled: 10,778 MT
 **Plastic**	• Gravita collects plastic scrap and segregates it with quality inspections. Following shredding and reprocessing, the plastic is manufactured into various value-added products, emphasizing contributions to sustainable environmental practices. • Value-Added Products: Plastic Granules, Pet Flakes - Food grade,polypropylene granules, polycarbonate, HDPE, ABS granules.	2%	Plastic Recycling Capacity: 24,300 MT Plastic recycled: 8,501
Turnkey Projects	• Gravitas turnkey solutions provide complete, efficient, and sustainable recycling plants, customized to meet the particular needs of clients. These solutions cover all aspects of the recycling process, from initial design and equipment supply to installation, commissioning, and ongoing support. • Gravita is one of the leading Turnkey project suppliers for Lead & Aluminium recycling. • Executed more than 70+ turnkey projects globally including Qatar, UAE, Saudi Arabia, Poland, Chile	1%	

*Rubber Capacity 12,000 MT used for captive consumption

Key Customers

Exhibit 11: Key Customers

Source: Company, Axis Securities Research

Note: All trademarks, logos and brand names are the property of theirrespective owners, logos used in this report are for identification purposes only.

Key Competitive Strengths

Gravita enjoys the benefits of high entry barriers, which coupled with its geographic presence gives it a competitive edge.

High Entry Barriers

One of the core competitive advantages for the company is that its business is well-protected by significant barriers to entry that are inherently in place. As a result, the company can safeguard its market share while also having the potential to expand faster compared to any potential new entrants. Major entry barriers include:

- **Specialized industryknowledge**:Gravita has decades of experience in the recycling industry, which enables it to offer turnkey solutions to its clients. Any new player may find it challenging to develop the same technology and expertise, thereby restricting competition to a limited number of players.
- **Lengthy OEM approvals**:The recycled products, such as lead and aluminium, are primarily used by OEMs (Original Equipment Manufacturers), who often have very specific requirements regarding the quality and composition of raw materials. Onboarding as a supplier for these customers requires multiple approvals and trials, making customer acquisition a tedious and lengthy process.
- **Established multinationalprocurement and customer networks**:Given the lengthy approval processes and regulatory requirements (licenses, etc.), most customers tend to remain with their existing suppliers. Gravita has partnered with many of its customers for years, establishing itself as a preferred supplier in most cases and limiting the ability of newer players to acquire customers.
- **Necessarygovernment licenses for imports**: Regulatory bodies set stringent norms for granting licenses for the import of waste to prevent misuse and avoid the import of hazardous materials. Obtaining such licenses may be challenging for new players with little or no experience in the industry.

Advantageous Geographical Presence

Recently, Gravita has expanded the capacity of its battery recycling unit in Chittoor, Andhra Pradesh, increasing it by 26,440 metric tonnes per annum to a total of 64,640 metric tonnes per annum. This plant capitalizes on the abundant domestic scrap available from permanent telecom players, UPS, OEMs, IT, IPS, and waste scrap from the automobile sector. In addition to Gravita's existing production and scrap collection network, this expansion provides the ability to serve customers across various regions in India, offering a key advantage over local players.

For instance, a client with a battery production facility in South India may have the responsibility to collect scrap from products supplied nationwide. Gravita, due to its pan-India presence, can efficiently collect scrapped batteries from multiple locations and deliver recycled lead directly to the customer's site, thereby reducing logistical costs. The company also maintains procurement networks and production facilities outside India, allowing it to source scrap from overseas markets, which is often cheaper compared to local options.

In-house Capabilities & Integrated Facilities

Over the years, the company has developed capabilities to design and build recycling equipment and plants internally, eliminating dependence on external EPC companies. In fact, Gravita's Turnkey Projects segment, which assists other companies in setting up recycling facilities, generates the majority of its revenues internally. This strategy reduces the company's reliance on external entities to enhance or modify capabilities and minimizes lead times. It also allows the company to conduct end-to-end processing on the collected scrap. For example, in the case of lead, the company begins with the breakdown of batteries and concludes by providing value-added products such as red lead. This approach decreases customers' dependence on multiple vendors, positioning Gravita as a preferred supplier while enabling the production of higher margins on value-added products.

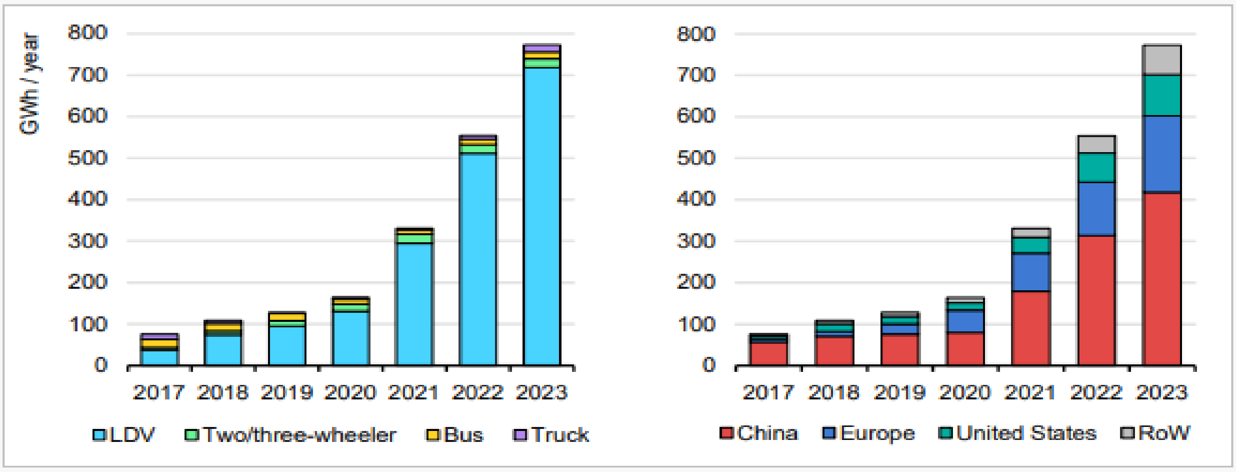
Key Growth Drivers

Growing Demand for Lead-based Batteries

As per the Global EV Outlook, nearly 14 million new electric cars were registered globally in 2023, bringing the total number of electric vehicles on the roads to 40 million. Electric car sales in 2023 increased by 3.5 million compared to 2022, reflecting a 35% YoY growth. However, the demand is primarily concentrated in major markets such as China, Europe, and the United States. While growth in these markets is expected to continue, demand may accelerate as penetration increases in other regions. The rising demand for electric vehicles (EVs) is anticipated to drive the demand for batteries, which use lead as a key raw material. Given the toxic properties of lead, utilizing recycled lead batteries may help minimize environmental impact while reducing raw material costs.

Rising demand for recycled products coupled with regulatory tailwinds to drive growth

Exhibit 12: Electric vehicle battery demand by mode and region, 2017-2023

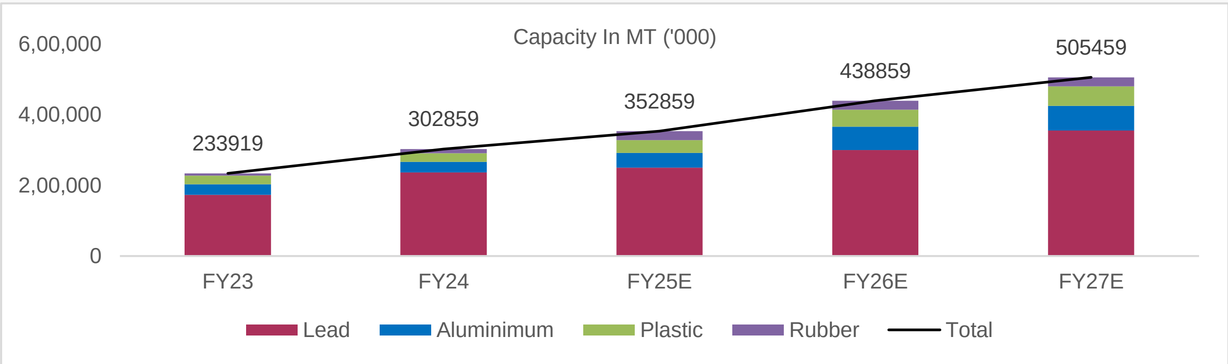


Source: www.iea.org- Global EV Outlook 2024, Axis Securities Research
Notes: LDV = light-duty vehicle, including cars and vans; RoW = rest of the world. GWh = Gigawatt hour.

Capacity Addition with Increasing Contribution from Aluminium and Plastics

Gravita plans to increase its current capacity from approximately 300,000 TPA (Tonnes per annum) to 500,000 TPA by FY27. This expansion will enable the company to meet the rising demand for recycled lead while also enhancing contributions from other segments such as Aluminium, Plastic, and Rubber. In September 2024, the company announced that a step-down subsidiary has executed a Memorandum of Understanding (MOU) to acquire a Waste Tyre Recycling plant in Romania from an existing entity, with a capacity of approximately 17,000 MTPA. This facility will mark Gravita's first recycling operation in Europe, further expanding its footprint and allowing for revenue diversification. The management anticipates that a significant portion of revenue growth will come from the Aluminium and Plastics segments, providing access to largely untapped markets through its existing network—an essential growth driver moving forward. The resulting operating leverage is also expected to support margin improvements in the future.

Exhibit 13: 5,00,000+ TPA Capacity Planned by FY27



Source: Company, Axis Securities Research

Regulatory Tailwinds

With the rising awareness of electronic waste generated globally, regulators are implementing measures not only to reduce waste but also to incentivize recycling. In India, regulatory actions such as the Battery Waste Management Rules (BWMR) and Extended Producer Responsibility (EPR) have gained significant traction in the recycling industry. The BWMR was amended in 2024 and became effective in Jun'24. In addition to establishing mandatory waste battery collection targets and requirements for refurbishment or recycling, the amendments set ambitious goals for using recycled materials in battery production.

Exhibit 14: Minimum Use of Recycled Materials as per BWMR

Type of Battery				
	2027-28	**2028- 29**	**2029-30**	**2030-31 onwards**
Portable	5%	10%	15%	20%
Electric Vehicle	5%	10%	15%	20%
	2024-25	**2025-26**	**2026-27**	**2027-28 onwards**
Automotive	35%	35%	40%	40%
Industrial	35%	35%	40%	40%

Source: www.cpcb.nic.in, Axis Securities Research

These rules mandate that battery manufacturers collect and recycle the batteries they sell. The Central Pollution Control Board (CPCB) has also notified Environmental Compensation (EC) guidelines for lead-acid and lithium-ion (Li-ion) batteries within the framework of the BWMR. Under these regulations, ECs will be imposed for non-fulfillment of targets. Consequently, demand for recycling is likely to increase further as targets become more stringent. Gravita has established a robust network to collect scrapped batteries across the country and supply the recycled material at locations close to customers' manufacturing facilities. Currently, Gravita has partnerships with several major players in the Indian battery and inverter market and is in the process of forming additional partnerships.

In addition to battery recycling, the government continues to implement measures to facilitate the evolution of the overall recycling industry in India. For instance, the GST council recommended the introduction of a Reverse Charge Mechanism on metal scrap, making the buyer liable to pay tax directly to the government. This is expected to accelerate the formalization of the addressable scrap market, which will be beneficial for Gravita. It may also reduce some competition from unorganized players. Overall, Gravita appears well-positioned to benefit from regulatory efforts aimed at formalization and growth within the recycling industry.

Value-Added Products to Improve Margins

As part of the company's "Vision 2028," Gravita aims to achieve at least 50% of its revenues (45% in FY24) from Value Added Products such as customized lead alloys, lead sheets, lead bricks, red lead, lead oxide, customized aluminium alloys, aluminium ingots, plastic granules, PET flakes (food grade), and rubber granules. These products provide Gravita with a higher share of the value chain, generate superior margins, and enable the company to cater to diverse industrial applications, thereby widening its customer base. Moving forward, profitability is expected to improve due to the increasing share of Value Added Products.

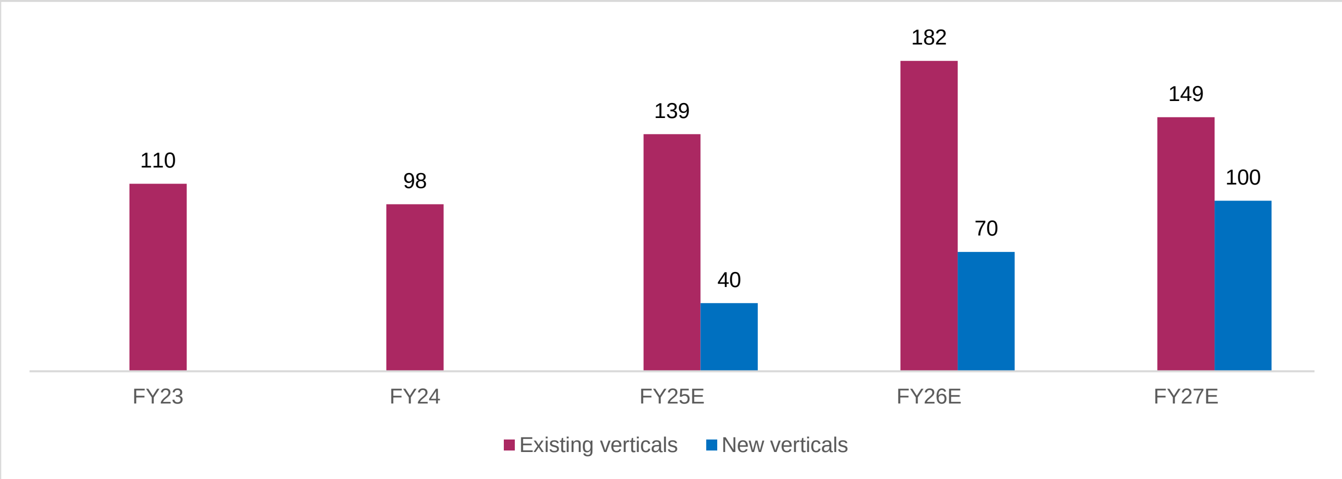
Exhibit 15: Gravita's Valued Added Product Offerings

Source: Company, Axis Securities Research

New Verticals to Improve Long-term Prospects

Gravita is establishing a pilot project for lithium-ion recycling and its first tyre recycling plant in India at Mundra, both of which are expected to be operational in H1FY26. Additionally, the company is setting up a paper recycling plant, with steel recycling plants anticipated to be operational by FY27. Gravita has also announced the acquisition of a Waste Tyre Recycling plant in Romania with a capacity of approximately 17,000 MTPA. The addressable market for these products is largely untapped, providing significant opportunities for Gravita while enabling the diversification of its revenue base.

Exhibit 16: Planned Capex in New Verticals



Source: Company, Axis Securities Research

Peer Comparison/Key Competitors

The direct competition from organized players in the recycling industry in India is limited, while unorganized players account for a large portion of the market due to the nature of the industry. For Gravita, Pondy Oxides &Chemicals Ltd. and Nile Ltd. may be considered the closest competitors.

Exhibit 17: Peer Comparison

	Gravita	Pondy Oxides & Chemicals	Nile Ltd.
Brief Description	Established in 1992, Gravita India Ltd is into Lead Recycling (flagship), Aluminum recycling, Plastic recycling and Turnkey projects.	Pondy Oxides and Chemicals Limited is an India-based company, engaged recycling of lead, copper, aluminium and plastic. The company has 28+ years of experience, with 500+ employees.	Established in 1984, Nile Limited is an India-based company engaged in the secondary manufacturing pure lead and lead alloys.
Offerings	Lead and lead alloys (88% of revenue), Aluminium and aluminium alloys (8% of revenue), Plastics and Turnkey solutions.	Lead and lead alloys (88% of revenue), Aluminium and aluminium alloys (8% of revenue), Plastics and Turnkey solutions.	Lead and Lead Alloys
Geographical Presence	Manufacturing facilities in India, Sri Lanka and Africa. Customer network in over 70 countries, ~40% revenue from exports.	Manufacturing facilities in India. ~60% of sales are generated from export markets across 20+ export destinations.	Manufacturing facilities within India. Exports ~ 6%.
Capacity	Total capacity - 3,02,859 TPA Lead: 2,36,599TPA Aluminium: 30,000TPA Plastic: 24,300TPA Rubber: 12,000TPA	Total capacity -1,59,000 TPA Lead: 1,32,000 TPA Aluminium: 12,000TPA Plastic: 9,000 TPA Copper: 6,000 MTPA	Total capacity -1,59,000 MTPA (Lead Recycling)
Market Cap	Rs. 17,253 Cr	Rs. 2,583 Cr	Cr. 690
FV	Rs. 2	Rs. 10	Rs. 10
Annual Revenue	Rs 3,161 Cr	Rs 1,523 Cr	Rs. 838 Cr
Annual EBITDA	Rs. 331 Cr	Rs. 77 Cr	Rs. 46 Cr
EBITDA Margin	10.5%	5.1%	5.4%

Source: Company, Axis Securities Research. (Figures as of FY24, approximate numbers used.)

Management Team

Name	Experience
Dr. M.P. Agarwal *Chairman*	Dr. M.P. Agarwal serves as the Chairman of the company. After completing his M.B.B.S. in 1956 and M.D. in General Medicine, Dr. Agarwal dedicated over three decades to public service in the Department of Medical & Health, Government of Rajasthan. Driven by a passion for business and innovation, he embarked on a journey in lead manufacturing and trading alongside his technocrat son, accumulating over 30 years of invaluable experience in the non-ferrous metals industry.
Mr. Rajat Agrawal *Founder & Managing Director*	Mr. Rajat Agrawal is the founder and Managing Director of the company. He holds a Bachelor of Engineering degree from MNIT, Jaipur, and possesses over 32 years of rich experience in establishing and managing manufacturing operations. Mr. Agrawal has also attended the OPM, an advanced management program at Harvard Business School, USA. He has played a pivotal role in transforming the Indian recycling industry with his progressive outlook.
Mr. Yogesh Malhotra Whole Time Director and CEO	Mr. Yogesh Malhotra is the Whole Time Director and CEO of the company. He brings over 30 years of experience and expertise in global markets to Gravita. Mr. Malhotra holds a B.E. (Mechanical) degree from MNIT, Jaipur, and an MBA from NUS, Singapore, which form the foundation of his extensive practical knowledge. With a distinguished career spanning top national and multinational organizations such as Bluestar, Castrol, and Eurochem, Mr. Malhotra's leadership acumen is exceptional.
Mr. Naveen Prakash Sharma Executive Director	Mr. Naveen Prakash Sharma is an Executive Director of the company, bringing over 30 years of experience in the metal and mining industry. He holds a B.E. in Metallurgy from MNIT, Jaipur, and an MBA from R.A. Poddar Institute of Management, Jaipur. Mr. Sharma's educational background and extensive industry experience equip him to contribute significantly to the company's operations and strategic direction.
Mr. Vijay Kumar Pareek Executive Director	Mr. Vijay Kumar Pareek is an Executive Director of the company, bringing over 30 years of invaluable sales and marketing experience. He possesses a strong educational foundation, holding a B.E. in Metallurgy (Gold Medalist) from MNIT, Jaipur, and an MBA from Global U21, Singapore. Mr. Pareek joined Gravita in 2012, following successful tenures at renowned organizations such as Larsen & Toubro, Grasim, and Aditya Birla Group. His extensive experience and leadership in sales and marketing significantly contribute to the company's growth and strategic initiatives.
Mr. Sunil Kansal *Chief Financial Officer*	Mr. Sunil Kansal is the CFO of the company, possessing three decades of experience in the financial domain. As a Chartered Accountant, he also holds Bachelor's and Master's Degrees in Commerce from Rajasthan University, demonstrating a strong educational foundation. Mr. Kansal joined Gravita in 2008, bringing a wealth of knowledge in financial management and strategic planning, which he honed during his tenure at Jaipur Rugs Company Pvt. Ltd. His expertise plays a crucial role in guiding the company's financial strategies and operations.

Key Risks & Mitigation

The company implements strategic steps along with traditional mitigation mechanisms to address conventional as well as emerging risks.

Industry Risk

The company primarily focuses its product marketing towards battery manufacturers and galvanizers within the country, while also exporting to other nations. Consequently, a significant portion of its revenues is generated from customers in these regions and within the lead industry. Economic downturns or factors affecting the economic stability of these customer regions could pose risks to the company's revenue growth. To mitigate this risk, the company emphasizes diversifying its customer base and expanding contracts with existing customers to drive revenue growth. Gravita addresses pricing pressures from competitors by enhancing operational efficiency, implementing quality control measures, and pursuing cost reduction initiatives.

Competition Risk

The lead and lead products markets are experiencing rapid changes and are highly competitive. The company anticipates that competition may increase in the future and acknowledges that competitors in India and globally present challenges to its market position. However, the company believes it is well-positioned to strengthen its position as a leading recycler, owing to its competitive edge in offering a diverse range of top-quality products, deep industry expertise, efficient management practices, broad geographical presence, adherence to standard operating procedures, strong partnerships with esteemed clients, and a proven track record of delivering superior products while consistently meeting deadlines.

Technology Risk

The company is also subject to the risk of technological obsolescence. It recognizes that continuous evaluation of technological advancements necessitates investments to adopt the latest prevailing technologies. The company has implemented a range of measures to enhance efficiency and technological capabilities and claims to have cultivated significant in-house technical knowledge for producing red lead, lead powder, lead sheets, and lead alloys. It aims to continuously seek superior products to boost productivity and lower costs, with a key goal of addressing obsolescence and introducing innovative new products.

Commodity Price Risk

Prices of Gravita's end products are linked to major international and domestic benchmarks, namely the London Metal Exchange (LME) and the Multi Commodity Exchange of India Limited (MCX), and are heavily influenced by global economic conditions and demand-supply dynamics. Fluctuations in commodity prices and demand may affect revenues, cash flow, and reserves. Gravita considers exposure to commodity price fluctuations to be an integral part of its business strategy, with a usual policy of selling its products at monthly average prices linked to the LME and MCX. To minimize the price risk associated with the procurement of major raw materials for finished goods, the company employs hedging strategies. In exceptional circumstances, strategic hedging may be undertaken with prior approval from the company management and the Internal Hedging Committee. Additionally, if required, the company seeks the expertise of external consultants. Gravita closely monitors commodity markets to assess the impact of price fluctuations on earnings, largely relying on its ability to attract, train, motivate, and retain highly skilled professionals, particularly in the recycling space, including technical personnel, project managers, and project leaders.

Foreign Exchange Rate Fluctuation Risk

Currency exchange rate risk arises from the company's international sales and purchases. Fluctuations in the company's functional currency against major foreign currencies can impact its revenue. A depreciation of the functional currency may lead to increased costs for imports and borrowing. The company's assets, earnings, and cash flows are significantly influenced by movements in foreign currencies, particularly the US dollar. Gravita has developed a module for foreign exchange management to monitor, measure, and hedge currency risk liabilities. The treasury team reviews forex-related matters periodically and recommends necessary actions as required by the business, operating within the overall framework of natural hedging due to exports. The company strives to achieve asset-liability offset for foreign currency exposures, hedging only the net outstanding position. It utilizes forward exchange contracts to mitigate the effects of exchange rate movements on foreign currency-denominated assets and liabilities. The sources of foreign exchange risk include outstanding amounts payable for imported raw materials, capital goods, and other supplies, as well as financing transactions denominated in foreign currencies. The hedge mechanisms are reviewed periodically to ensure that risks from fluctuating currency exchange rates are appropriately managed.

Regulation Risk

The company faces heightened risks in its global expansion efforts, including challenges in complying with varying regulations, restrictions on importing and exporting goods and technologies, and potential complications arising from overlapping tax systems. Unfavourable regulatory changes or inconsistent enforcement of existing policies, such as the Battery Waste Management Rules (BWMR) and Plastic Waste Management Rules (PWMR), could result in slower-than-anticipated demand growth. The company asserts that it has implemented a robust process, with assistance from industry experts and consultants, to establish a wholly-owned subsidiary. Furthermore, it has instituted a policy requiring functional heads and country heads to provide regular compliance certificates to the board, ensuring adherence to all relevant laws and regulations.

Information Technology Risk

The escalating dependence on information technology increases the likelihood of security breaches, which could lead to the misuse of funds and assets. Such breaches have the potential to disrupt operations or result in more severe consequences. Gravita has established an IT security framework that undergoes regular reviews. Various safeguards and policies are implemented to protect its network from cybersecurity threats.

Sustainbility/ESG Risk

Environment, social, and governance (ESG) risk encompasses non-financial risks related to environmental sustainability, reputation or brand, legal compliance, technological factors, product or service quality, labour practices, ethical conduct, and strategic considerations. The company conducts regular audits and assessments to ensure ongoing compliance. It has expanded its product portfolio through recycling initiatives and has installed a solar energy generation system at its manufacturing facilities in India. This installation is expected to assist the company in achieving its vision of reducing carbon emissions. Additionally, the Environmental Management System adopted at its plants is accredited with the International Standard ISO 14001:2015.

Outlook & Valuation

Well-placed to tap the significant growth potential in the Industry – Initiate with BUY

Strong revenue and profitability growth driven by strong Industry tailwinds and capacity additions/new products.

The recycling industry presents significant growth potential, with Gravita positioned at the forefront to capitalize on this opportunity. The company has consistently increased its recycling capacity and intends to expand it further. Additionally, it plans to enter new areas of recycling, which is expected to drive revenue growth.

In terms of margins, Gravita has maintained steady margins in the lead segment; however, margins in the Aluminium segment have been volatile due to fluctuating metal prices. To mitigate this, the company plans to leverage Aluminium Alloy contracts listed on exchanges for hedging, ensuring stable margins in the Aluminium segment. Furthermore, Gravita is focusing on increasing the share of Value-added Products, which generate higher margins (2-2.5% at the EBITDA level). This, combined with the benefits of increasing economies of scale, is likely to enhance profitability.

The management has projected a CAGR of 25% in volume growth and 35% in profit growth over the next three years, citing its growth plans.

Considering the strong industry tailwinds and the company's growth plans, we estimate revenue/EBITDA/EPS CAGR growth of 25%/31%/33% over FY24-FY27E. **We value the stock at 37x FY27E EPS reflecting the strong growth potential and initiate coverage with a BUY rating on the stock with a target price of 3,000/share, implying an upside of 20% from the CMP.**

Industry Dynamics

Lead Recycling

Recycling of key industrial input materials is a key step towards a sustainable future as it reduces dependence on primary sources while minimizing the impact while minimizing waste!

Lead is utilized across a wide range of industries, primarily derived from the mineral galena through a roasting process. In contemporary applications, the most significant use of lead is in lead-acid batteries, which are essential for automobiles, backup power systems, and various industrial applications. Additional uses of lead include radiation shielding in medical facilities, applications in firearms, and construction materials.

However, the global lead industry is confronted with numerous challenges stemming from economic, environmental, and regulatory factors. Growing awareness of the environmental impact and toxic properties of lead is prompting regulatory bodies to enforce stricter regulations governing lead usage and its associated emissions. Governments around the world are adopting more stringent standards, particularly concerning manufacturing, recycling, and waste management processes. This shift towards heightened regulation is shaping the industry's landscape, compelling companies to innovate and adapt to meet these evolving compliance requirements.

The demand for lead is primarily fueled by the automotive and energy storage sectors. With the ongoing transition towards electric vehicles (EVs) and the emergence of newer battery technologies such as lithium-ion, the demand for lead-acid batteries is projected to increase, leading to a rise in overall lead consumption. However, it is noteworthy that proven lead ore resources are concentrated in a few geographical regions, which could impact supply dynamics.

According to Gravita's annual report, global demand for refined lead metal is expected to grow by 1.9% in 2024, reaching approximately 13.42 Mn tonnes. Following a decline of 3.8% in 2023, apparent usage in the United States is forecasted to experience a partial recovery of 0.7% in 2024. In Europe, lead usage increased by 6.7% in 2023, benefiting from a resurgence in automotive production, and a further rise of 1% is anticipated in 2024. Similarly, China's demand rose by 2% last year and is projected to grow by an additional 1.6% in 2024. Increases in lead consumption are also expected in India, Japan, the Republic of Korea, and Mexico, underscoring the positive growth trajectory of the lead market across various regions.

Similarly, the recycled lead market size has grown steadily in recent years and is expected to grow from $17.39 Bn in 2024 to $19.55 Bn in 2028 at a compound annual growth rate (CAGR) of 3.0%.The increase observed in the historical period can be attributed to factors such as the heightened demand for lead-acid batteries, the implementation of closed-loop recycling systems, an increase in the availability of scrap lead, fluctuations in lead prices and economic factors, and government incentives promoting recycling initiatives.

Aluminium Recycling

Aluminium has a wide range of applications across various industries due to its lightweight, corrosion-resistant, and recyclable properties. China is the largest producer, contributing more than half of the world's Aluminium production, while the United States, Russia, Canada, and India are also significant producers.

Aluminium is highly recyclable, with about 75% of all Aluminium ever produced still in use today. Recycling Aluminium saves approximately 95% of the energy required to produce new Aluminium from raw materials, making it an environmentally friendly metal. Its versatility positions Aluminium as a preferred choice in various industries, including transportation (automobiles, aerospace), construction (windows, doors, facades), packaging (cans, foil), electrical engineering (wires, cables), and consumer goods (appliances, cookware). The global Aluminium market size was valued at $229.85 Bn in 2023 and is projected to grow from $243.89 Bn in 2024 to $393.70 Bn by 2032 (Source: Fortune Business Insights). Increasing governmental efforts to reduce carbon emissions and promote sustainability are encouraging industries to embrace secondary Aluminium.

Exhibit 18: Advantages of Secondary Aluminium

- Reduced energy consumption
- Low carbon emissions
- Cost savings
- Resource conservation
- Infinite recyclability
- High quality
- Supports circular economy
- Environment-friendly product perception

Source: Company, Axis Securities Research

In India, the automobile, power, railways, packaging, consumer durables, and construction sectors are the key demand drivers for the recycling Aluminium industry. The demand for India's lower carbon-intensive recycled Aluminium products has increased daily, driven by newer applications and a growing appetite for environmentally-friendly products. The higher usage of scrap serves as another lever for decarbonisation. Given the rising consumption and the associated benefits, the recycled Aluminium industry is expected to experience significant growth in the coming years.

Other Recycling

Plastic: The global plastics market size reached US$ 634.8 Bn in 2023. It is expected to grow to US$ 829.7 Bn by 2032, exhibiting a CAGR of 2.93% during 2024-2032 (Source: www.imarcgroup.com). Major factors propelling the market include increasing product demand across various industries, rapid technological advancements, significant economic growth in emerging markets, rising demand for recyclable and biodegradable plastics, and the imposition of various regulations by governments.

Tyre (Rubber): Old tires present a challenging waste management issue due to the large volume produced, the durability of the tires, and the ecologically problematic components that can occupy valuable space in landfills. As a result, regulatory bodies are encouraging tyre recycling. Aside from use as fuel, the primary end use for tyres remains ground rubber. Every year, over 1.6 Bn new tyres are generated, with approximately 1 Bn waste tyres produced. However, the recycling industry processes only around 100 million tyres annually. In India, approximately 1.5 million tons of end-of-life tyres (ELT) are generated each year, with only 450,000 tons recycled by the formal sector (source: mrai.org.in). Pyrolysis oil generated from rubber recycling serves as an alternative energy source, suitable for use as boiler fuel or electric power generation. Additionally, carbon black can be utilized in mixtures for various applications, including metallurgy, the production of paints and building materials, and the manufacture of fuel briquettes.

In addition to the key recycled materials discussed above, there is growing traction in the recycling of various ferrous and non-ferrous metals, paper, e-waste, and building and construction waste. India's rapid urbanization and emphasis on domestic manufacturing are expected to drive demand for these materials in the future. The recycling industry offers a sustainable alternative to primary consumption and is anticipated to receive strong support from both the government and industry participants moving forward.

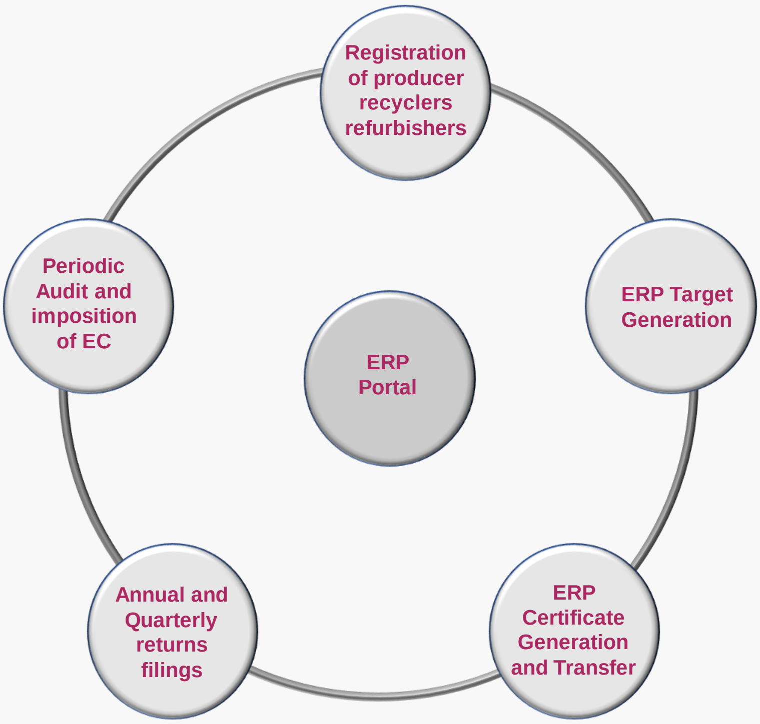
Regulatory Support

Government incentives and regulatory mandates have significantly increased recycling rates and facilitated waste management globally in recent years. The concept of Extended Producer Responsibility (EPR) was first introduced in Sweden in 1990 by Thomas Lindhqvist, who presented it in a report to the Swedish Ministry of the Environment. This concept has since gained widespread acceptance worldwide, with India adopting it in the early 2000s through the launch of the National Environmental Policy (NEP) in 2006.

Regulatory policies are expected to be a key factor behind the formalization and growth of the recycling industry

In 2011, the Ministry of Environment and Forests (MoEF) notified the E-waste (Management and Handling) Rules, making it mandatory for producers to manage their e-waste. The MoEF also mandated producers to manage their plastic waste through the Plastic Waste Management Rules in 2016. Furthermore, the Ministry published the Battery Waste Management Rules (BWMR) on August 24, 2022, to ensure the environmentally sound management of waste batteries. As part of its efforts, the government has introduced a centralized online portal for the exchange of EPR certificates between producers and recyclers/refurbishers to fulfil the obligations of producers.

Exhibit 19: EPR Portal for Battery Waste Management



Source: Company, Axis Securities Research

The BWMR were further amended in 2023 and 2024to widen the scope of applicability. These rules are expected to help formalize the sector, address the issues associated with scrap collection and propel the growth of the industry.

Key Features of the BMWR

- It has brought in the concept of a 'minimum percentage of recovery of materials' from waste batteries. Mandates minimum yearly recovery targets for EPR.
- Prohibits the producer from sending batteries to landfilling or incineration, mandatesrecycling and refurbishment.
- Promotes recycling by all the target stakeholders—manufacturers, producers, collection centres, importers, re-conditioners, re-furbishers, dismantlers, assemblers, dealers, recyclers, auctioneers, vehicle service centres, consumers and bulk consumers.
- Reinforces the stand of several state EV policies thatemphasized battery recycling and 'urban mining' through the establishment of working groups, incentives, or subsidies.
- Empowers the producer to delegate its responsibility to a third party with respect to the collection and disposal of waste.
- Provision for setting up a centralised online platform for the exchange of EPR certificates among the producers and recyclers of e-waste.
- It also envisages that the manufacturing of new batteries would necessarily have certain components of the recycled battery.
- Penalty in the form of the 'Polluter Pay Principle' would be levied upon the person who would not abide by the concept of EPR.
- The fund derived from environmental compensation will be used to recycle uncollected and non-recycled waste batteries.

Recently, the GST Council (India) introduced the reverse charge mechanism (RCM) forthesupply of metal scrap by an unregistered person to a registered person. The reverse charge mechanism (RCM) in the Goods and Services Tax (GST) on metal scrap is expected to benefit organized players in several ways as it gives a level playing field for organized metal scrap recyclers compared to unorganized lead recyclers who evaded GST earlier. The RCM is also likely to create a transparent system that allows companies to access a wider market for scrap procurement.

AXIS SECURITIES

Financials (Consolidated)

Profit & Loss

(Rs. Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	**2,801**	**3,161**	**4,085**	**5,141**	**6,267**
Growth (%)	26.4	12.9	29.2	25.9	21.9
Raw Material Expense	2,282	2,561	3,252	4,088	4,952
Employee Expense	134	131	149	188	229
Power & Fuel Expense	18	0	0	0	0
Other Operating Expense	165	185	299	346	426
Operating Profit	**202**	**284**	**384**	**519**	**660**
Growth (%)	-6	40	35	35	27
Operating Margin (%)	7.2	9.0	9.4	10.1	10.5
Hedging Income	88	47	47	67	87
EBITDA (Adj.)	**290**	**331**	**431**	**586**	**747**
EBITDA (Adj.) Margin (%)	10.4	10.5	10.6	11.4	11.9
Other Income	5	31	5	5	5
Depreciation	24	38	42	58	63
EBIT	**271**	**323**	**394**	**533**	**689**
Interest Cost	44	49	55	57	54
Profit Before Tax	**228**	**274**	**339**	**476**	**635**
Tax	24	32	39	55	74
Profit After Tax	**204**	**242**	**300**	**421**	**561**
Growth (%)	37.5	18.7	23.7	40.4	33.4
Share of Profit of an associate/OCI	**-3**	**-3**	**0**	**0**	**0**
Net Profit (Adjusted)	**201**	**239**	**300**	**421**	**561**
EPS	**29**	**35**	**43**	**61**	**81**

Source: Company, Axis Securities Research

Balance Sheet (Rs. Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Equity Share Capital	14	14	14	14	14
Reserves & Surplus	575	824	1087	1457	1946
Minority Interest and Others	13	13	13	13	13
Net Worth	**602**	**851**	**1114**	**1484**	**1973**
Non-Current Liabilities	**112**	**261**	**311**	**311**	**261**
Long-Term Borrowings	93	251	301	301	251
Other Non-Current Liabilities	19	10	10	10	10
Current Liabilities	**492**	**490**	**536**	**577**	**625**
ST Borrowings, Current Maturity	255	297	297	297	297
Other Current Liabilities	237	194	239	280	329
Total (Equity and Liabilities)	**1205**	**1602**	**1962**	**2372**	**2860**
Non-Current Assets	**342**	**426**	**564**	**755**	**942**
Fixed Assets (Net Block)	319	391	529	720	907
Non-Current Investments	8	9	9	9	9
Long-Term Tax Assets	0	5	5	5	5
Other Non-Current Assets	8	8	8	8	8
Current Assets	**864**	**1176**	**1398**	**1617**	**1918**
Cash & Bank Balances	30	36	119	202	358
Inventories	596	675	851	971	1114
Receivables	137	264	227	243	244
Other Current Assets	100	201	201	201	201
Total (Assets)	**1205**	**1602**	**1962**	**2372**	**2860**

Source: Company, Axis Securities Research

Cash Flow (Rs. Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
PBT	**228**	**274**	**339**	**476**	**635**
Depreciation &amortisation	24	38	42	58	63
Interest expense	39	49	55	57	54
Interest / Dividend Recd	-1	-28	0	0	0
Other Adjustments	15	4	0	0	0
(Inc)/Dec in working capital	-82	-245	-93	-95	-95
Tax paid	-24	-50	-39	-55	-74
CF from operating activities	**200**	**42**	**303**	**441**	**582**
Capital expenditure	-106	-98	-180	-250	-250
(Purchase) / Sale of Investments	-1	-15	0	0	0
Income from investments and others	2	-44	0	0	0
CF from investing activities	**-105**	**-158**	**-180**	**-250**	**-250**
Inc/(Dec) in share capital	0	0	0	0	0
Inc/(Dec) in debt	-43	199	50	0	-50
Dividends & Interest paid	-43	-78	-91	-108	-126
Other Financial Activities	-1	0	0	0	0
CF from financing activities	**-87**	**121**	**-41**	**-108**	**-176**
Net cash flow	**7**	**5**	**83**	**83**	**157**
Opening balance	23	30	36	119	202
Other Bank Balance	0	0	0	0	0
Closing balance	**30**	**36**	**119**	**202**	**358**

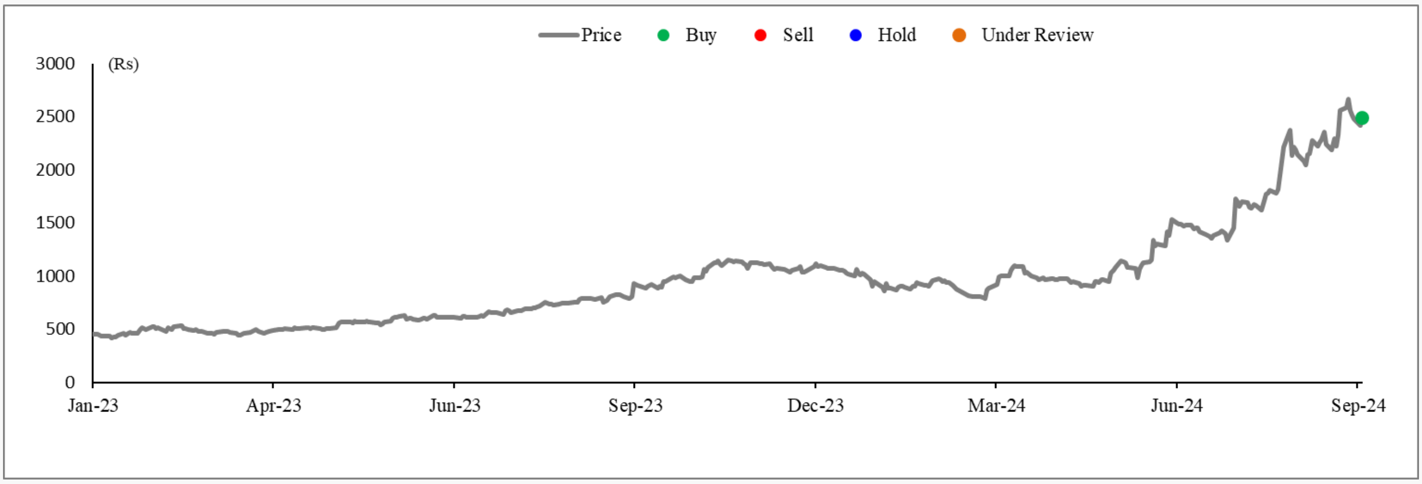
Source: Company, Axis Securities Research

Ratio Analysis (%)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Per share data					
No. of shares (Cr)	6.9	6.9	6.9	6.9	6.9
BVPS (INR)	87.1	123.2	161.4	214.9	285.7
CEPS (INR)	33.0	40.6	49.5	69.4	90.4
DPS (INR)	4.4	5.2	7.4	10.4	13.6
Financial Stability Ratios					
RoE (%)	40.1	32.9	30.5	32.4	32.5
RoCE (%)	41.0	35.4	31.1	32.6	33.8
Debt/Equity (x)	0.6	0.6	0.5	0.4	0.3
EBIT/Interest (x)	6.2	6.6	7.2	9.4	12.8
Turnover Ratios					
Asset turnover (x)	2.3	2.0	2.1	2.2	2.2
Sales/Net FA (x)	8.8	8.1	7.7	7.1	6.9
Receivable days	15.9	22.9	20.0	17.0	14.0
Inventory days	76.9	79.5	75.0	68.0	64.0
Payable days	8.4	9.8	11.0	12.0	13.0
Working capital days	84.3	92.6	84.0	73.0	65.0
Asset turnover (x)	15.9	22.9	20.0	17.0	14.0
Liquidity Ratios					
Current ratio (x)	1.8	2.4	2.6	2.8	3.1
Quick ratio (x)	0.5	1.0	1.0	1.1	1.3
Interest cover (x)	6.2	6.7	7.2	9.4	12.6
Net debt/Equity (x)	0.5	0.6	0.4	0.3	0.1
Valuation (x)					
PE	84.6	71.3	57.6	41.0	30.8
PEG (x) YoY growth	2.3	3.8	2.4	1.0	0.9
P/BV	28.7	20.3	15.5	11.6	8.7
EV/EBITDA	87.0	62.7	46.2	34.0	26.4
EV/Sales	6.3	5.6	4.3	3.4	2.8
EV/EBIT	64.8	55.0	45.0	33.1	25.3

Source: Company, Axis Securities Research

Gravita India Ltd. Price Chart and Recommendation History



Date	Reco	TP	Research
25-Sep-24	BUY	3000	Initiating Coverage

Source: Axis Securities Research

Disclosures:

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Ratings	**Expected absolute returns over 12 – 18 months**
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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