

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR2,174 TP: INR2,800 (+29%) Buy

Traction in the lead business to drive growth

Operating performance in-line with estimates

- Gravita India (GRAVITA) reported revenue growth of ~11% YoY in 2QFY25, led by healthy growth in the lead (up 12% YoY) and aluminum (up 17% YoY) verticals. Adjusted EBITDA margin expanded 140bp YoY to 10.9%, led by operating leverage and better RM sourcing during the quarter.
- Going forward, the company is expected to witness healthy growth led by accelerated traction in the core lead business, which can be attributed to the higher domestic scrap availability (due to penalty on non-compliance of EPR and RCM under GST on metal scrap) and improvement in the aluminum business following the availability of new hedging mechanism (MCX contract expected to list by 4QFY25).
- We largely maintain our FY25E/FY26E EPS estimates. We reiterate our BUY rating on the stock with a TP of INR2,800 (40x Sep'26E EPS).

Operating leverage and better RM sourcing expand margins

- Consolidated revenue grew 11% YoY to INR9.3b (est. INR10.1b) in 2QFY25. Consolidated sales volume grew 8% YoY to 48.6KMT.
- In 2QFY25, the company witnessed an arbitrage opportunity between international and domestic markets, led by higher domestic prices. (i.e., GRAVITA chose to import more scrap to India rather than selling it overseas to benefit from higher domestic prices). This enabled the company to generate better margins. Adjusted EBITDA margin expanded 140bp YoY to 10.9% (est. 10%).
- Adjusted EBITDA grew 27% YoY to INR1b (in-line with est.) during the quarter. Adj. PAT grew 24% YoY to INR720m (in-line with est.)
- **Lead business** revenue grew 12% YoY to INR8.4b, led by 9% YoY volume growth, reaching 42.2KMT in 2QFY25. EBITDA/MT stood at INR21,642 (up 22% YoY). **Aluminum business** revenue grew 17% YoY to INR688m. Volumes stood at 3.5KMT, up 3% YoY, while EBITDA/MT increased 57% YoY to INR18,386. **Plastic business** revenue and volume declined 1% YoY to INR192.2m and 3KMT, respectively, in 2QFY25. EBITDA/MT declined 5% YoY to INR10,497.
- For 1HFY25, revenue/adj. EBITDA/adj. PAT grew 19%/30%/27% YoY to INR18.3b/INR1.9b/INR1.4b. Based on our estimates, implied revenue/EBITDA growth for 2HFY25 is 24%/20% YoY, led by traction in the core lead business due to higher domestic scrap availability.

Highlights from the management commentary

- **Outlook:** The company expects to clock ~25% CAGR for its sales volume (with lead volumes clocking ~17-20% CAGR and Aluminum/Plastic volumes clocking CAGR at a higher range of ~35-40%). Further, it aims to clock over 35% PAT CAGR with RoCE of more than 25%.
- **Capex:** GRAVITA's pilot project of lithium-ion battery recycling and its first Indian rubber recycling plant in Mundra are progressing well in line with the schedule and are likely to be operational by 1HFY26. The company has incurred a capex of INR300m in 1HFY25, with ~INR1-1.2b to be spent in 2HFY25.

Bloomberg	GRAV IN
Equity Shares (m)	69
M.Cap.(INRb)/(USDb)	150.1 / 1.8
52-Week Range (INR)	2700 / 730
1, 6, 12 Rel. Per (%)	-7/113/93
12M Avg Val (INR M)	545

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	38.4	49.0	62.5
Adj. EBITDA	4.1	5.4	7.1
Adj. EBITDA Margin (%)	10.7	11.1	11.3
Adj. PAT	3.0	4.1	5.5
Cons. Adj. EPS (INR)	43.0	59.9	80.3
EPS Gr. (%)	24	39	34
BV/Sh. (INR)	163	222	301

Ratios

Net D:E	0.3	0.2	0.1
RoE (%)	22.9	25.4	26.9
RoCE (%)	30.2	31.1	30.7

Valuations

P/E (x)	53.5	38.4	28.6
EV/EBITDA (x)	44.0	29.8	22.6

Shareholding pattern (%)

As on	Sep-24	Jun-24	Sep-23
Promoter	63.4	63.4	66.5
DII	3.2	2.6	0.4
FII	15.5	14.9	11.4
Others	18.0	19.2	21.7

Note: FII includes depository receipts

- **Fund Raise:** The Board has approved fundraising of up to INR10b, which will be utilized for additional capex, M&A opportunities, debt reduction, and other general corporate purposes. The company is focusing on M&A activities within the Indian lead recycling space. It is also seeking to tap into the food grade bottle-to-bottle rPET recycling opportunity in India.

Valuation and view

- GRAVITA, being a key player in the burgeoning recycling industry in India, is expected to report robust earnings growth in the medium term on account of: 1) accelerated growth in the lead recycling segment fueled by favorable regulatory changes; 2) higher growth rate in 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 largely maintain our FY25E/FY26E EPS estimates. We expect a revenue/EBITDA/PAT CAGR of 26%/29%/32% over FY24-27E. We reiterate our BUY rating on the stock with a TP of INR2,800 (40x Sep'26E EPS).

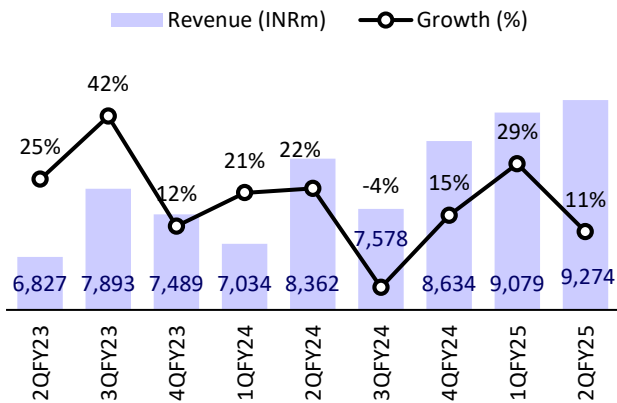
Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY24				FY25				FY24	FY25	FY25E 2QE	Var. %
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales	7,034	8,362	7,578	8,634	9,079	9,274	9,412	10,618	31,608	38,383	10,051	-8
YoY Change (%)	5.6	44.2	11.0	9.4	29.1	10.9	24.2	23.0	12.9	21.4	20.2	
Total Expenditure	6,349	7,563	6,681	7,705	8,166	8,259	8,387	9,455	28,298	34,268	9,041	
Adjusted EBITDA	685	798	897	929	912	1,015	1,024	1,163	3,309	4,115	1,010	1
Margins (%)	9.7	9.5	11.8	10.8	10.1	10.9	10.9	11.0	10.5	10.7	10.0	
Depreciation	79	86	90	125	65	72	85	90	380	312	85	
Interest	127	112	130	124	130	120	125	130	492	504	132	
Other Income	132	69	61	42	33	23	30	45	304	131	35	
PBT before EO Expense	612	670	738	722	751	847	844	988	2,742	3,430	828	
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	612	670	738	722	751	847	844	988	2,742	3,430	828	
Tax	86	82	123	28	71	128	106	129	319	433	103	
Rate (%)	14.1	12.2	16.7	3.9	9.4	15.1	12.5	13.1	11.6	12.6	12.5	
Minority Interest & Profit/Loss of Asso. Cos.	5	10	12	4	7	-1	15	10	31	31	9	
Reported PAT	521	579	603	690	673	720	724	849	2,392	2,966	715	
Adj PAT	521	579	603	690	673	720	724	849	2,392	2,966	715	1
YoY Change (%)	26.0	36.1	35.2	37.4	29.3	24.4	20.1	23.1	18.9	24.0	23.7	
Margins (%)	7.4	6.9	8.0	8.0	7.4	7.8	7.7	8.0	7.6	7.7	7.1	

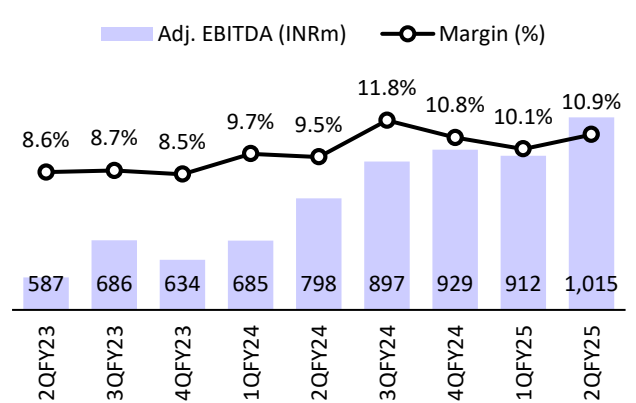
Key Exhibits

Exhibit 1: Consolidated order book trend



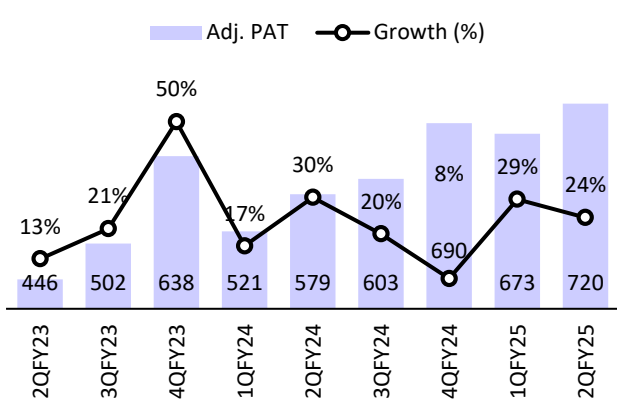
Source: Company, MOFSL

Exhibit 2: Consolidated revenue trend



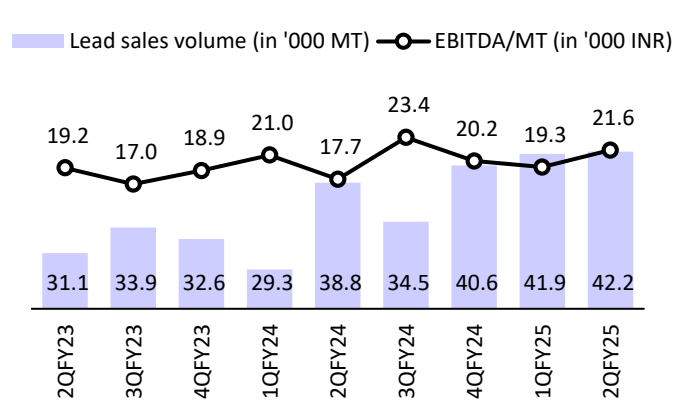
Source: Company, MOFSL

Exhibit 3: Consolidated EBITDA trend



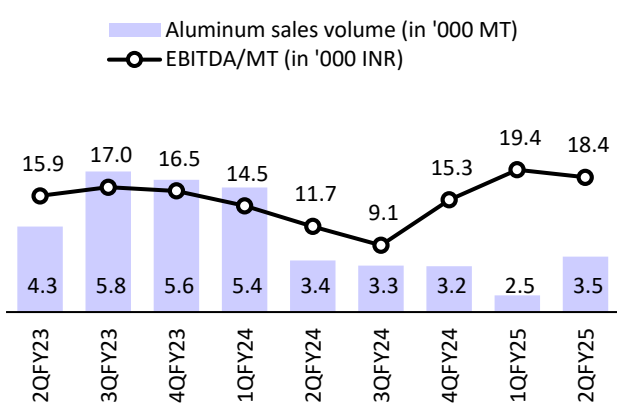
Source: Company, MOFSL

Exhibit 4: Consolidated Adj. PAT trend



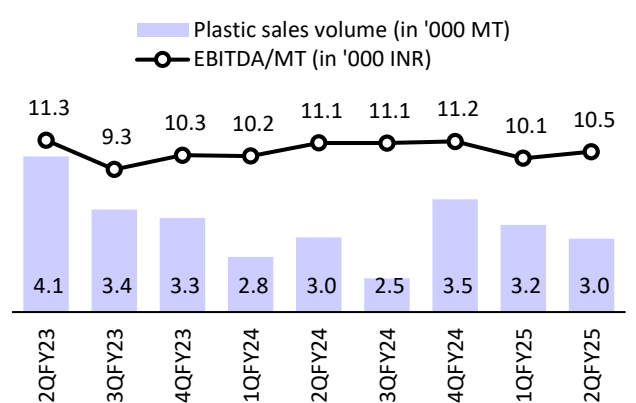
Source: Company, MOFSL

Exhibit 5: Product-wise revenue mix



Source: Company, MOFSL

Exhibit 6: End-user industry-wise revenue mix



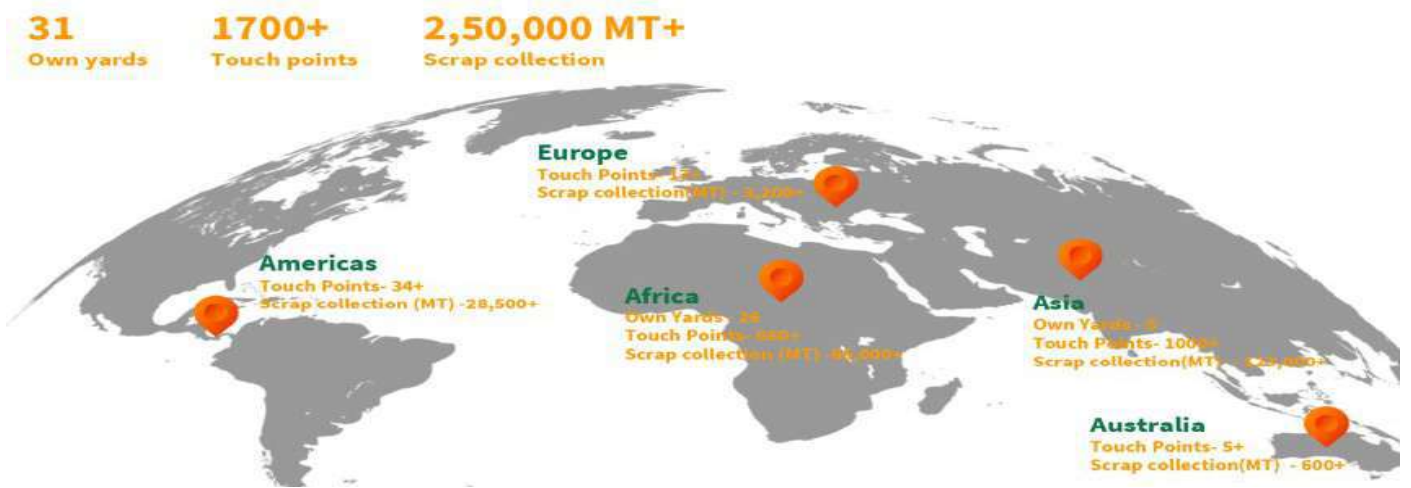
Source: Company, MOFSL

Exhibit 7: Widespread manufacturing presence



Source: MOFSL, Company

Exhibit 8: Deep routed procurement network



Source: MOFSL, Company

Exhibit 9: Diversified global customer network



Source: MOFSL, Company



Highlights from the management commentary

Lead

- Domestic scrap availability is expected to increase due to the introduction of EPR regulation and RCM rules. In 2QFY25, the company witnessed ~140% growth in domestic scrap availability on a YoY basis.
- The EPR certificate will not serve as a revenue or profit stream for the company; however, the EPR regulation will help with the scrap availability in the domestic market.
- The company expects EBITDA per kg of ~INR18-19 to be sustainable for the lead business (which will be higher for FY25 as the company has leveraged arbitrage opportunities between international and domestic markets during 1HFY25). In the longer run, with some improvement, this will further increase to INR19-20 per kg.

Arbitrage opportunity in 2QFY25

- The company typically sells the production from its overseas facility to international customers (located in proximity to the facility).
- However, when the price of a commodity shoots up in the Indian market, the company discourages selling the product to overseas customers but rather imports it to India to capitalize on the arbitrage opportunity.
- The company then conducts a value addition process and sells these value-added products in India at a higher price, leading to much higher margins for the company.
- GRAVITA seized this opportunity in 2QFY25 and transferred the materials to India. This resulted in lower volumes but better margins during the quarter.

Aluminum

- The listing of the Aluminum contract on MCX is in progress and approval for the same has been received from the finance industry.
- The company expects this contract to list by 4QFY25.
- The company expects higher capacity utilization (over 50%) in this vertical in 2HFY25.

Europe acquisition

- GRAVITA's step-down subsidiary Gravita, Netherlands has signed a memorandum of understanding to acquire a waste rubber recycling plant in Romania from an established local entity.
- This European acquisition is a small one with a capacity of ~17,000 MT. The company expects ~60-70% utilization within this plant.
- This is a strategic move, where the company aims to expand its capacity and business operations in Europe.

Fund Raise

- The Board of Directors has approved fundraising of up to INR10b.
- These funds, if required, will be raised for additional capex, M&A opportunities, debt reduction, and other general corporate purposes.

Capacity expansion

- The company's progress on establishing a pilot project of lithium-ion battery recycling and its first Indian rubber recycling plant in Mundra is proceeding according to the plan. It expects them to be operational in 1HFY26.
- GRAVITA is making steady progress toward its goal of increasing its capacity to over 0.5 MMT per annum by FY27. The company has strong investment plans of INR6b, which include capex for both existing and new verticals.
- The company has incurred a capex of INR300m in 1HFY25 with ~INR1-1.2b to be spent in 2HFY25.

Guidance

- The company expects to clock ~25% CAGR for its sales volume (with lead volumes clocking ~17-20% CAGR and Aluminum/Plastic volumes clocking a CAGR at a higher range of ~35-40%).
- Volume growth each year will be in-line with this long-term guidance, barring 3-4% deviation.
- The company aims to expand its existing verticals while diversifying into new sectors, such as lithium ion steel and paper recycling.
- It aims to clock profitability CAGR of over 35% and ROCE of over 25%.
- It expects to increase its non-lead business share to over 30% and increase the share of value-added products to over 50%.

Others

- Value-added products accounted for ~47% of the revenue during the quarter.
- Domestic battery scrap procurement stood at ~37% in 2Q, while the remaining 63% was accounted for by imported overseas scrap.
- The company expects exponential growth in the plastic segment after its product portfolio (value-added products) stabilizes.
- Absolute finance cost and depreciation will increase sequentially. However, the growth rate will be lower than the EBITDA growth rate, leading to even better PAT growth.
- The company is open for inorganic acquisition in all verticals (existing as well as new). With RCM and EPR regulations emerging, the company will focus on domestic acquisitions, especially in the lead business.
- The company is also focused on tapping into the food grade bottle-to-bottle rPET recycling opportunity in India. Margins and RoCE for rPET business are higher than the core lead business. In the rPET business, inventory levels will not be high as scrap is available domestically.
- The company has been facing logistics issues over the last 2-3 quarters; however, it is not a material concern for the company.
- Historically, imported scrap has been cheaper for the company compared to domestic scrap procurement. However, with an increase in the availability of domestic scrap, the company's domestic procurement is increasing. It expects this trend to continue going forward.

Valuation and View

- GRAVITA, being a key player in the burgeoning recycling industry in India, is expected to report robust earnings growth in the medium term on account of: 1) accelerated growth in the lead recycling segment fueled by favorable regulatory changes; 2) higher growth rate in 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 largely maintain our FY25E/FY26E EPS estimates. We expect a revenue/EBITDA/PAT CAGR of 26%/29%/32% over FY24-27E. We reiterate our BUY rating on the stock with a TP of INR2,800 (40x Sep'26E EPS).

Exhibit 10: Summary of our revised estimates

Earnings change (INR m)	Old		New		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	40,081	51,963	38,383	48,972	-4%	-6%
EBITDA	4,200	5,625	4,115	5,438	-2%	-3%
Adj. PAT	3,019	4,169	2,966	4,136	-2%	-1%

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	38,383	48,972	62,485
Change (%)	22.0	8.5	4.6	57.2	26.4	12.9	21.4	27.6	27.6
RM Cost	10,574	11,126	11,586	17,899	23,391	25,612	30,706	38,933	49,613
Employees Cost	635	659	729	1,028	1,336	1,312	1,836	2,155	2,687
Other Expenses	590	738	633	1,078	1,259	1,848	2,142	2,446	3,100
Total Expenditure	11,799	12,523	12,948	20,005	25,986	28,772	34,684	43,534	55,400
% of Sales	95.0	92.9	91.8	90.3	92.8	91.0	90.4	88.9	88.7
EBITDA	619	955	1,150	2,154	2,020	2,836	3,699	5,438	7,085
Margin (%)	5.0	7.1	8.2	9.7	7.2	9.0	9.6	11.1	11.3
Other Income (Operational) - Commodity and Forex Hedging	-29	15	20	-4	841	474	416	0.0	0.0
Adjusted EBITDA	590	970	1,170	2,149	2,860	3,309	4,115	5,438	7,085
Margin (%)	4.8	7.2	8.3	9.7	10.2	10.5	10.7	11.1	11.3
Depreciation	116	181	203	206	240	380	312	447	591
EBIT	474	789	967	1,944	2,621	2,929	3,803	4,991	6,494
Int. and Finance Charges	262	314	310	380	435	492	504	456	333
Other Income	83	-5	52	83	90	304	131	200	250
PBT bef. EO Exp.	296	469	709	1,646	2,276	2,742	3,430	4,735	6,411
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	296	469	709	1,646	2,276	2,742	3,430	4,735	6,411
Total Tax	102	104	141	162	235	319	433	568	833
Tax Rate (%)	34.4	22.0	19.9	9.8	10.3	11.6	12.6	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	2,966	4,136	5,547
Adjusted PAT	155	332	525	1,394	2,011	2,392	2,966	4,136	5,547
Change (%)	-64.9	114.1	58.1	165.7	44.3	18.9	24.0	39.4	34.1
Margin (%)	1.2	2.5	3.7	6.3	7.2	7.6	7.7	8.4	8.9

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	11,133	15,200	20,678
Net Worth	1,993	2,252	2,689	3,869	5,889	8,374	11,271	15,338	20,816
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	4,951	4,451	2,951
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	16,468	20,065	24,074
Gross Block	1,592	2,215	2,285	2,650	3,690	4,759	6,337	8,087	10,087
Less: Accum. Deprn.	227	399	562	738	957	1,337	1,649	2,096	2,686
Net Fixed Assets	1,365	1,817	1,724	1,913	2,733	3,423	4,688	5,991	7,400
Capital WIP	462	147	135	425	455	428	750	1,000	1,000
Total Investments	0	0	0	0	11	165	165	165	165
Curr. Assets, Loans & Adv.	3,898	4,181	5,405	7,638	8,789	12,008	13,191	15,860	18,895
Inventory	1,826	2,244	3,577	5,135	5,965	6,746	7,792	9,184	11,080
Account Receivables	965	675	594	1,097	1,370	2,643	2,419	2,818	3,424
Cash and Bank Balance	219	203	199	325	381	988	1,177	1,557	1,454
Loans and Advances	888	1,059	1,035	1,081	1,073	1,631	1,804	2,302	2,937
Curr. Liability & Prov.	1,160	1,020	1,849	2,036	2,555	2,065	2,327	2,951	3,387
Account Payables	987	874	1,357	329	895	675	855	1,073	1,366
Other Current Liabilities	102	65	376	1,515	1,457	1,379	1,459	1,861	2,000
Provisions	71	81	116	193	202	11	13	17	21
Net Current Assets	2,738	3,160	3,556	5,601	6,234	9,944	10,864	12,909	15,508
Appl. of Funds	4,566	5,123	5,415	7,939	9,433	13,959	16,468	20,065	24,074

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	43.0	59.9	80.3
Cash EPS	3.9	7.4	10.5	23.2	32.6	40.1	47.5	66.4	88.9
BV/Share	29.0	32.6	38.9	56.0	85.3	121.3	163.2	222.1	301.5
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	1,020.2	478.5	302.7	113.9	79.0	66.4	53.5	38.4	28.6
Cash P/E	584.3	309.5	218.2	99.3	70.6	57.3	48.4	34.7	25.9
P/BV	79.3	70.5	59.1	41.1	27.0	19.0	14.1	10.4	7.6
EV/Sales	12.9	12.0	11.4	7.3	5.8	5.2	4.2	3.3	2.6
EV/EBITDA	259.4	169.0	140.3	75.5	80.2	57.6	44.0	29.8	22.6
Dividend Yield (%)	0.0	0.0	0.0	0.2	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	21.0	17.5	22.4
Return Ratios (%)									
RoE	8.0	15.6	21.2	42.5	41.2	33.5	30.2	31.1	30.7
RoCE	8.4	12.8	15.8	27.9	28.3	24.6	22.9	25.4	26.9
RoIC	8.5	13.9	15.4	28.6	20.2	20.7	22.1	27.7	29.1
Working Capital Ratios									
Fixed Asset Turnover (x)	7.8	6.1	6.2	8.4	7.6	6.6	6.1	6.1	6.2
Asset Turnover (x)	2.7	2.6	2.6	2.8	3.0	2.3	2.3	2.4	2.6
Inventory (Days)	56	65	101	94	84	86	82	77	73
Debtor (Days)	28	18	15	18	18	31	23	21	20
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	5.7	5.4	5.6
Interest Cover Ratio	1.8	2.5	3.1	5.1	6.0	6.0	7.5	10.9	19.5
Net Debt/Equity	1.1	1.2	0.9	0.9	0.5	0.5	0.3	0.2	0.1
	54	58	78	106	89	108	96	89	84
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	3,430	4,735	6,411
Depreciation	116	181	203	206	240	380	312	447	591
Interest & Finance Charges	223	275	271	327	384	188	373	256	83
Direct Taxes Paid	-123	-111	-115	-149	-235	-319	-433	-568	-833
(Inc)/Dec in WC	430	-462	-302	-2,062	-822	-2,567	-732	-1,664	-2,702
CF from Operations	840	352	765	-32	1,843	424	2,950	3,205	3,550
Others	51	-14	0	128	154	0	0	0	0
CF from Operating incl EO	890	339	765	96	1,997	424	2,950	3,205	3,550
(Inc)/Dec in FA	-677	-149	-212	-702	-1,064	-1,042	-1,500	-2,000	-2,000
Free Cash Flow	213	190	553	-606	933	-618	1,450	1,205	1,550
(Pur)/Sale of Investments	0	0	0	4	-11	0	0	0	0
Others	14	6	19	3	21	-536	-189	200	250
CF from Investments	-664	-143	-194	-695	-1,054	-1,578	-1,689	-1,800	-1,750
Issue of Shares	0	1	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	183	-193	1,294	-442	1,974	-500	-500	-1,500
Interest Paid	-235	-272	-265	-336	-389	-492	-504	-456	-333
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	-1,073	-1,025	-1,902
Inc/Dec of Cash	60	-16	6	121	69	606	189	380	-103
Opening Balance	63	123	107	113	234	382	988	1,177	1,557
Other Cash & Cash Equivalent	96	96	85	91	78	0	0	0	0
Closing Balance	219	203	198	325	382	988	1,177	1,557	1,454

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SELL	< - 10%
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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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