January 13, 2023

Gravita India Limited: [ICRA]A (Positive)/[ICRA]A2+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]A(Positive); assigned
LT – Fund Based – Term Loans	119.59	[ICRA]A (Positive); assigned
LT – Fund Based – Unallocated	10.81	[ICRA]A (Positive); assigned
ST – Non fund based – Others	31.60	[ICRA]A2+; assigned
LT – Fund based – CC	193.00	[ICRA]A (Positive); assigned
LT/ST – Interchangeable Fund based – Others	(167.49)^	[ICRA]A (Positive)/[ICRA]A2+; assigned
LT/ST – Interchangeable Non-fund based – Others	(25.50)^	[ICRA]A (Positive)/[ICRA]A2+; assigned
Total	**355.00**	

**Instrument details are provided in Annexure-I*

^sub-limit of cash credit limits

Rationale

The assigned ratings for Gravita India Limited (GIL) favourably factor in its diversified and strategically located manufacturing facilities, resulting in freight cost savings, healthy relationship with key customers and extensive procurement network, marked by a diversified supplier base and distribution channels. The ratings also factor in the healthy financial risk profile, supported by consistent revenue growth and improving operating margins on the back of rising volumes and higher share of value-added products. Additionally, GIL's risk management strategy to hedge its entire lead inventory through forward cover reduces margin volatility. The company has also been able to reduce its working capital cycle by limiting the quantum of imported scrap and increasing the share of tolling business, which supported its cash flow generation. Together with healthy return metrics, the same resulted in comfortable debt coverage indicators with an interest cover of ~6 times and DSCR of ~3 times in H1 FY2023.

The Positive outlook assigned to the long-term rating reflects ICRA's expectation that the company's credit profile is expected to improve in the near term, supported by higher share of value-added products and healthy volumetric growth, which would enhance the operating profits and cash flows, thereby further supporting the credit metrics.

While assigning the ratings, ICRA also takes cognisance of the ongoing capacity expansion plans at an estimated outlay of around Rs. 250 crore over the next three years, which will increase the company's total capacity by ~2,15,700 tpa. Given that the operating cash flows would largely be deployed to fund a substantial portion of the capex, the long-term debt requirement is expected to be low. Consequently, the company's capital structure and debt coverage indicators are expected to remain comfortable. Post the expansion, the company will benefit from the increased scale and other operational synergies, which would further strengthen its overall operating profile.

The ratings are, however, constrained by the intense competition in the industry due to the presence of many organised and unorganised players. ICRA also notes that the overseas operation, primarily African business, has significantly increased in the past few years with commencement of new plants as well as expansion of existing capacities. The increased footprints will expose the company to geopolitical risks. Ability of the management to handle diverse geographies and associated regulatory risks would be critical from credit perspective and would remain a key monitorable. Further, the company is exposed to risks associated with changes in government policies related to environmental norms. In addition, fluctuations in raw material prices impact profitability. While the company takes forward cover for lead business, the company remains exposed to commodity risks in the aluminium and plastic recycling business. The company is also exposed to client concentration risk with the top 10 customers contributing ~65% to the total revenue in FY2022.

Key rating drivers and their description

Credit strengths

Established geographical presence and strategically located manufacturing units – The company has diversified presence across India (five plants located in Jaipur, Chittoor, Gandhidham, Kathua and Mundra) and seven plants overseas in Africa (Ghana, Mozambique, Senegal, Tanzania and Togo), Central America (Nicaragua) and Asia (Sri Lanka) with a recycling capacity of 2,28,919 MTPA for lead, aluminum, plastics and rubber. The plants have been set up closer to ports (for freight cost savings) and/or battery manufacturers/ industrial hubs (for easy customer access and lower distribution costs). Further, diversified presence helps to take delivery of scrap in a different region and supply lead from another plant that is the closest to the customer's factory resulting in significant cost savings for its customers.

Healthy improvement in scale and margins in FY2022; likely to continue in FY2023 – On a consolidated basis, the company reported a consistent revenue growth and improving profit margins with rising volumes along with increased capacities and improved sales realisation. In terms of profitability, EBIDTA margins also increased with more focus on value-added products, which are more margin accretive. VAP's revenue share increased to Rs. 928 crore (~42% of sales) from Rs. 618 crore in FY2021. The company has also been able to reduce its working capital cycle on the back of an efficient working capital management. ICRA expects sustained healthy performance in the current fiscal, supported by higher share of value-added products and healthy volumetric growth on the back of optimal utilisation of its capacities.

Comfortable risk management policies on lead recycling, however, the company is still exposed to commodity risks on aluminium and plastic recycling –The company entirely hedged its exposure for lead through forward contract of both sales (back-to-back) and core inventory. The same results in stable operating margins of the company. However, the company remains exposed to commodity risks on aluminium and plastic as both aluminium and plastics are alloyed products for which hedging is not available at present, exposing the company to raw material price volatility.

Long experience of promoter in the business – GIL's promoters have experience of over two decades in the lead recycling business.

Credit challenges

Stiff competition from both unorganised and organised players – The domestic lead alloy manufacturing industry is intensely competitive with the presence of many unorganised players as the products are low value additive in nature. Intense competition exerts pricing pressure on the company. However, the company is more focused on value-added products to offset the same.

Risks associated with change in government policies related to environment concerns – GIL is exposed to regulatory risks as lead is a hazardous metal and recycling is a highly polluting process. Further, adverse government policies affecting business fundamentals could remain a concern. Thus, change in government policies impacting GIL's operations will remain a key monitorable.

High client concentration risk – The top ten customers contributed ~65% to the total revenue in FY2022. However, GIL's long relationships with these companies mitigate the customer concentration risk to some extent.

Environmental and Social Risks

Given the safety and environmental concerns associated with lead, which is a hazardous material, the industry remains exposed to the risk of tightening regulatory norms for recycling and waste material handling and disposal. GIL is ISO 9001:2005 and ISO 14000:2015 certified and has relevant statutory approvals for its various plants, including from the Ministry of Environment and pollution control boards.

Further, operating responsibly is crucial and instances of non-compliance with the environmental, health and safety norms could have an adverse impact on the local community, which could manifest in the form of protests, constraining GIL's ability to operate or expand its capacity. GIL has not experienced/ reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitored.

Liquidity position: Adequate

GIL's liquidity position is adequate**,** with unencumbered cash and cash equivalents of close to Rs. 18 crore and cushion of ~Rs. 92 crore in working capital limits as on September 30, 2022. ICRA expects the company's accruals to remain sufficient to meet debt repayment obligations of ~Rs. 34 crore in FY2023. Further, ICRA estimates that the company will be able to generate healthy free cash flows in FY2023, after accounting for working capital as well as capex requirements.

Rating sensitivities

Positive factors – GIL's rating can be upgraded if the company continues to maintain a healthy scale and sustain a healthy margin and working capital intensity along with diversification in its customer base. Specific trigger for a rating upgrade would be an interest cover of more than 7.0 times on a sustained basis.

Negative factors – Pressure on GIL's rating may arise in case of a significant decline in its profitability and cash accruals. Any stretch in the working capital cycle, or large debt-funded capex, exerting pressure on the liquidity position, may also trigger a rating downgrade. Specific trigger for a rating downgrade would be an interest cover below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GIL, the details of which have been enlisted in Annexure II.

About the company

Incorporated in 1992, with its first plant set up in Jaipur (Phagi) by Mr. Rajat Agrawal, GIL is in the business of recycling lead acid batteries, lead scrap, aluminium scrap, plastic scrap and rubber scrap. The company carries out smelting of lead battery scrap/ lead concentrate to produce secondary lead metal, which is further transformed into pure lead, specific lead alloy, lead oxides (lead sub oxide, red lead and litharge) and value-added products like lead sheets, lead powder, lead shot etc. The company is headquartered in Jaipur with 13 recycling plants located in Rajasthan, Gujarat, Andhra Pradesh, Jammu & Kashmir, Sri Lanka (Mirigama export zone), Ghana (Accra), Mozambique (Maputo), Senegal (Dakar), Tanzania (Dar-es-Salam), Togo and Nicaragua (Managua) with an aggregate ~2,28,000+ MT recycling capacity for lead, aluminium, plastic and rubber (rubber unit was set up in FY2023; consumed internally as of now).

Key financial indicators (Consolidated)

GIL (Consolidated)	FY2021	FY2022	H1FY2023
Operating income	1,409.8	2,215.9	1,317.6
PAT	56.8	148.3	89.6
OPBDIT/OI	8.6%	9.9%	11.1%
PAT/OI	4.0%	6.7%	6.8%
Total outside liabilities/Tangible net worth (times)	1.6	1.5	1.0
Total debt/OPBDIT (times)	2.3	2.1	1.2
Interest coverage (times)	3.9	5.8	6.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 13, 2023	-	-	-
1	Issuer rating	Long-term	-	-	[ICRA]A (Positive)	-	-	-
2	Fund Based -Term Loans	Long-term	119.59	119.59	[ICRA]A (Positive)	-	-	-
3	Fund Based - Unallocated	Long-term	10.81	-	[ICRA]A (Positive)	-	-	-
4	Fund based – CC	Long-term	193.00	-	[ICRA]A (Positive)	-	-	-
5	Non fund based – Others	Short-term	31.60	-	[ICRA]A2+	-	-	-
6	Interchangeable-Fund based – Others	Long-term/ Short term	(167.49)^	-	[ICRA]A (Positive)/ [ICRA]A2+	-	-	-
7	Interchangeable - Non-fund based – Others	Long-term/ Short term	(25.50)^	-	[ICRA]A (Positive)/ [ICRA]A2+	-	-	-

^sub-limit of cash credit limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA
Fund Based -Term Loans	Simple
Fund Based – Unallocated	NA
Fund based – CC	Simple
Non fund based – Others	Very Simple
Interchangeable-Fund based – Others	Simple
Interchangeable -Non-fund based – Others	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Jun-16	-	FY2023	0.41	[ICRA]A (Positive)
NA	Term Loan 2	Oct-19	-	Jan-27	30.80	[ICRA]A (Positive)
NA	Term Loan 3	Dec-22	-	Sep-26	37.50	[ICRA]A (Positive)
NA	Term Loan 4	Feb-20	-	Oct-26	13.03	[ICRA]A (Positive)
NA	ECLGS 1	Sep-22	-	May-26	10.95	[ICRA]A (Positive)
NA	ECLGS 2	Jan-22	-	Dec-27	11.05	[ICRA]A (Positive)
NA	ECLGS 3	Jul-22	-	Jun-26	8.40	[ICRA]A (Positive)
NA	ECLGS 4	Apr-24	-	Feb-28	7.45	[ICRA]A (Positive)
NA	Fund Based - Unallocated	-	-	-	10.81	[ICRA]A (Positive)
NA	Non fund based – Others	-	-	-	31.60	[ICRA]A2+
NA	Fund based – CC	-	-	-	193.00	[ICRA]A (Positive)
NA	Interchangeable-Fund based – Others	-	-	-	(167.49)^	[ICRA]A(Positive)/ [CRA]A2+
NA	Interchangeable -Non-fund based – Others	-	-	-	(25.50)^	[ICRA]A (Positive)/ [ICRA]A2+
NA	Issuer rating	-	-	-	-	[ICRA]A (Positive)

Source: Company; ^sub-limit of cash credit limits

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Subsidiary/ Associate/ Joint Venture	GIL Ownership	Consolidation Approach
Gravita India Limited	Parent	100% (rated entity)	Full Consolidation
Gravita Infotech Limited	Wholly owned subsidiary	100%	Full Consolidation
Noble Build Estate Private Limited	Wholly owned subsidiary	100%	Full Consolidation
Gravita Ghana Limited	Wholly owned subsidiary	100%	Full Consolidation
Gravita Senegal SAU	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Gravita Mozambique LDA	Wholly owned stepdown subsidiary	Gravita Netherlands BV 96.38%, Gravita Global Pte Limited 3.62%	Full Consolidation
Gravita Global Pte. Limited	Wholly owned subsidiary	100%	Full Consolidation
Gravita Netherlands B.V	Wholly owned stepdown subsidiary	100% (through Gravita Global PTE Limited)	Full Consolidation
Navam Lanka Limited	Step down subsidiary	52% (through Gravita Netherlands BV)	Full Consolidation
Gravita Nicaragua S.A	Wholly owned stepdown subsidiary	Gravita Netherlands BV 95%, Gravita Global Pte Limited 5%	Full Consolidation
Gravita Ventures Limited	Wholly owned stepdown subsidiary	99% (through Gravita Netherlands BV)	Full Consolidation
Gravita USA Inc	Wholly owned stepdown subsidiary	100% (Through Gravita Netherlands BV)	Full Consolidation
Gravita Jamaica Limited	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Recyclers Ghana Limited	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Gravita Mali SA	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation

Company Name	Subsidiary/ Associate/ Joint Venture	GIL Ownership	Consolidation Approach
Gravita Tanzania Limited	Wholly owned stepdown subsidiary	Gravita Netherlands BV 99%, Gravita Global Pte Limited 1%	Full Consolidation
Mozambique Recyclers LDA	Wholly owned stepdown subsidiary	Gravita Netherlands BV 98%, Gravita Global Pte Ltd 2%	Full Consolidation
Gravita TOGO SAU	Wholly owned stepdown subsidiary	100% by Gravita Netherlands BV	Full Consolidation
Recyclers Gravita Costa Rica SA	Wholly owned stepdown subsidiary	100% (Gravita Netherlands BV)	Full Consolidation
Pearl Landcon Private Limited (till August 12, 2022)	Associate	25% by Gravita Infotech Limited	Equity Method
M/s Gravita Infotech	Wholly owned subsidiary	49% Gravita India Limited and 51% Gravita Infotech Limited	Full Consolidation
M/s Recycling Infotech LLP	Wholly owned subsidiary	51% Gravita India Limited and 49% Gravita Infotech Limited	Full Consolidation
M/s Gravita Metal Inc	Wholly owned subsidiary	95% Gravita India Limited and 5% Gravita Infotech Limited	Full Consolidation
Gravita Employee Welfare Trust	Trust		

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Prerna Aggarwal
+91 124 4545 380
prerna.aggarwal1@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches