October 05, 2023

Gravita India Limited: Ratings upgraded and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT – Fund based – Term loans	69.54	69.54	[ICRA]A+(Stable); upgraded from [ICRA]A and outlook revised to Stable from Positive
LT – Unallocated	85.46	85.46	[ICRA]A+(Stable); upgraded from [ICRA]A and outlook revised to Stable from Positive
LT – Fund based – Others	200.00	200.00	[ICRA]A+(Stable); upgraded from [ICRA]A and outlook revised to Stable from Positive
LT/ST – Interchangeable – Fund based/Non-fund based – Others	(150.00)^	(150.00)^	[ICRA]A+(Stable)/ [ICRA]A1; upgraded from [ICRA]A/[ICRA]A2+ and outlook revised to Stable from Positive
Issuer rating	-	-	[ICRA]A+(Stable); upgraded from [ICRA]A and outlook revised to Stable from Positive
Total	**355.00**	**355.00**	

**Instrument details are provided in Annexure I*

^sub-limit of fund-based limits

Rationale

The ratings upgrade factors in ICRA's expectation of a healthy performance of Gravita India Limited (GIL) in FY2024, after a material improvement in FY2023, owing to a likely increase in sales volume post-commissioning of new capacities and favourable recycling demand outlook. In Q1 FY2024, the sales volumes improved by ~18% and the volumes are expected to increase by ~20% in FY2024. Owing to a significant increase in scale and steady operating margins at ~10%, the absolute profits and debt coverage metrics are expected to remain healthy in FY2024. Going forward, continued focus on value-added products is likely to support the operating margins of the entity. Although the company is continuously investing to expand its recycling capacities both in domestic and overseas markets, the long-term debt requirement is expected to be low owing to healthy net cash accruals expected in the near- to medium-term. GIL's liquidity position also remained comfortable with an average utilisation of 64% of fund-based limits in the last twelve months, ending July 2023, and cash and bank balance of ~Rs. 107 crore, as of August 31, 2023.

The ratings continue to favourably factor in its diversified and strategically located manufacturing facilities, resulting in freight cost savings, healthy relationships with key customers and an extensive procurement network, marked by a diversified supplier base and distribution channels. 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 its tolling business, which supported GIL's cash flow generation. Moreover, recent exercises to reduce the overall cost of funds, including raising overseas term loan at a competitive rate, is likely to benefit the entity, going forward.

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 the 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 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. Moreover, 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. Although the company takes forward cover for lead business, it remains exposed to commodity risks in the aluminium and plastic recycling business.

The Stable outlook on the long-term rating reflects ICRA's expectation that higher share of value-added products and healthy volumetric growth would support GIL's operating profits and credit metrics.

Key rating drivers and their description

Credit strengths

Healthy performance expected in FY2024, owing to the ramp of new capacities and an increase in share of value-added products – On a consolidated basis, the company reported healthy revenue growth and stable profit margins with rising volumes along with increased capacities and improved sales realisation. The operating profits and cash accruals continue to improve with more focus on value-added products (VAP), which are high-margin accretive. VAP's revenue share increased to Rs. 1,218 crore (~43% of sales) in FY2023 from Rs. 928 crore in FY2022. The company has also been able to reduce its working capital cycle due to 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 an improvement in capacity utilisation of its enhanced capacities.

Established geographical presence and strategically located manufacturing units – The company has a diversified presence across India (4 plants located in Jaipur, Chittoor, Kathua and Mundra) and 6 plants overseas in Africa (Ghana, Mozambique, Senegal, Tanzania and Togo), and Asia (Sri Lanka) with a recycling capacity of 2,87,059 MTPA for lead, aluminium, 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). Moreover, GIL's diversified presence allows it to take delivery of scrap from one region and supply lead from another plant that is the closest to the customer's factory, resulting in significant cost savings for its customers.

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 a forward contract of both sales (back-to-back) and core inventory. The same results in stable operating margins for 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 key promoter, Mr. Rajat Agrawal, has extensive experience of around three decades in the lead recycling business. Further, the company has an established track record of operations marked by extensive procurement network with a diversified supplier base and distribution channels.

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 the 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. Moreover, adverse government policies affecting business fundamentals could remain a concern. Thus, a change in government policies impacting GIL's operations will remain a key monitorable.

Exposure to geopolitical risk – Gravita has a diversified presence and ICRA notes that the overseas operation, primarily African business, has significantly increased in the past few years with the commencement of new plants and expansion of existing capacities. The increased footprint exposes the company to geopolitical risks. Any volatility in geopolitical relations can have a significant impact on the business.

Environmental and social risks

Given the safety and environmental concerns associated with lead, 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.

Moreover, operating responsibly is crucial and instances of non-compliance with the environmental, health and safety norms can adversely impact 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. 107 crore and a cushion of around Rs. 60 crore in working capital limits as of August 31, 2023. ICRA expects the company's accruals to remain sufficient to meet debt repayment obligations of around Rs. 60-65 crore (including prepayment of term loans) in FY 2024. Moreover, ICRA estimates that the company will be able to generate healthy free cash flows in FY2024, after accounting for working capital as well as capex requirements.

Rating sensitivities

Positive factors - The ratings may be upgraded in case of a substantial increase in revenue and profitability while maintaining a healthy liquidity position and strong debt coverage metrics.

Negative factors - Pressure on GIL's ratings may arise in case of a significant decline in its profitability and cash accruals or any disruption in operations due to geopolitical issues. 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 6.0 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 and other such products. The company is headquartered in Jaipur with ten recycling plants located in Rajasthan, Gujarat, Andhra Pradesh, Jammu & Kashmir, Sri Lanka (Mirigama export zone), Ghana (Accra), Mozambique (Maputo), Senegal (Dakar), Togo and Tanzania (Dar-es-Salam) with an aggregate ~2,87,059 MT recycling capacity for lead, aluminium, plastic and rubber (rubber set-up in FY2023; consumed internally as of now).

Key financial indicators

Consolidated	FY2022	FY2023	Q1FY2024
Operating income	2,215.9	2,857.4	720.0
PAT	148.5	202.7	52.6
OPBDIT/OI	10.0%	9.7%	11.1%
PAT/OI	6.7%	7.1%	7.3%
Total outside liabilities/Tangible net worth (times)	1.5	1.0	
Total debt/OPBDIT (times)	2.1	1.5	
Interest coverage (times)	5.8	6.4	6.3

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 (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jun 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 5,2023	Jul 20, 2023	Jan 13, 2023	N/A	N/A
1	Issuer rating	Long term	-	-	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	-	-
2	Fund-based Term Loans	Long term	69.54	69.54	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	-	-
3	Fund Based - Unallocated	Long term	85.46	-	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	-	-
4	Fund based – CC	Long term	-	-	-	-	[ICRA]A (Positive)	-	-
5	Non fund based – Others	Short term	-	-	-	-	[ICRA]A2+	-	-
6	Fund based – Others	Long term	200.00	-	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-	-	-
7	Interchangeable- Fund based/Non- fund based – Others	Long- term/	(150.00)^	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A2+	-	-	-

		Short term							
8	**Interchangeable- Fund based – Others**	Long-term/ Short term	-	-	-	-	**[ICRA]A (Positive)/ [ICRA]A2+**	-	-
9	**Interchangeable - Non-fund based – Others**	Long-term/ Short term	-	-	-	-	**[ICRA]A (Positive)/ [ICRA]A2+**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA
Fund Based- Term loans	Simple
Fund Based- Unallocated	NA
Fund based- Others	Simple
Interchangeable-Fund based/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	Oct-19	-	Jan-27	26.22	[ICRA]A+ (Stable)
NA	Term Loan 2	Dec-22	-	Sep-26	32.50	[ICRA]A+ (Stable)
NA	Term Loan 3	Feb-20	-	Oct-26	10.82	[ICRA]A+ (Stable)
NA	Unallocated	-	-	-	85.46	[ICRA]A+ (Stable)
NA	Fund based – Others	-	-	-	200.00	[ICRA]A+ (Stable)
NA	Interchangeable- Others	-	-	-	(150.00)^	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Issuer rating	-	-	-	-	[ICRA]A+ (Stable)

Source: Company; ^sub-limit of fund-based 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 (till 5th April 2023)	Wholly owned stepdown subsidiary	Gravita Netherlands BV 99.95%, Gravita Global Pte Limited 0.03%	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 Conakry SAU (from 14 June 2023)	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Green Recyclers Mozambique LDA	Wholly owned stepdown subsidiary	Gravita Netherlands BV 99%, Gravita Global Pte Limited 1%	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
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		

Source: Company

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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

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