June 24, 2024

Gravita India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT – Fund based – Term loans	69.54	65.00	[ICRA]A+(Stable); reaffirmed
LT – Unallocated	85.46	-	-
LT – Fund based – Others	200.00	400.00	[ICRA]A+(Stable); reaffirmed/assigned for enhanced amount
LT/ST – Interchangeable – Fund-based/Non-fund based – Others	(150.00)^	(340.00)^	[ICRA]A+(Stable)/[ICRA]A1 reaffirmed/assigned for enhanced amount
Issuer rating	-	-	[ICRA]A+(Stable); reaffirmed
Total	**355.00**	**465.00**	

**Instrument details are provided in Annexure-I, ^sub-limit of fund-based limits*

Rationale

The reaffirmation of the ratings for Gravita India Limited (GIL) favourably factors in its established track record, marked by an extensive procurement network and a diversified supplier base and distribution channel. The manufacturing facilities of GIL are diversified and strategically located, resulting in freight cost savings and better client connect with the key customers. Additionally, GIL's risk management strategy to hedge its entire lead inventory through forward cover reduces the margin volatility.

The ratings factor in the company's strong performance in FY2024, marked by a ~12% growth in operating income at Rs. 3,199.0 crore, on a consolidated basis, with healthy volume growth in the lead division along with improved sales realisation. Further, continued focus on value-added products has supported the operating margin, which increased to 10.5% in FY2024 from 9.5% in FY2023. ICRA expects a sustained strong performance in the current fiscal, supported by a higher share of value-added products and healthy volumetric growth on the back of optimal utilisation of its capacities. The debt coverage metrics are expected to remain comfortable owing to steady operating margins at ~10-11% as also the leverage ratio (total debt/operating profits) at 1-1.5 times in FY2025. Although the company is continuously investing to expand its recycling capacities both in the domestic and overseas markets, the long-term debt requirement is estimated to be low owing to the healthy net cash accruals expected in the near to medium term.

The ratings are, however, constrained by 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. The expanded footprint exposes the company to geopolitical risks. The ability of the management to handle the diverse geographies and the associated regulatory risks would be critical from a 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 the profitability. Although the company takes forward cover for the lead business, it remains exposed to commodity risks in the aluminium and plastic recycling businesses. The expected commencement of the hedging mechanism for aluminium through the Multi Commodity Exchange (MCX) is likely to reduce the volatility in the business to an extent.

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

Key rating drivers and their description

Credit strengths

Established geographical presence and strategically located manufacturing units - The company has a diversified presence across India (four plants in Jaipur, Chittoor, Kathua and Mundra) and six plants overseas in Africa (Ghana, Mozambique, Senegal, Tanzania and Togo), and Asia (Sri Lanka) with a recycling capacity of 3,02,859 MTPA for lead, aluminium, plastics and rubber. The plants have been set up closer to the 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 the 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 clients.

Healthy financial risk profile - At a consolidated level, GIL reported a healthy operating income of Rs. 3,199.0 crore in FY2024, compared with Rs. 2,857.4 crore in FY2023, mainly on account of higher lead sales volume and realisations. The operating margins improved to 10.5% in FY2024 from 9.7% in FY2023 on the back of improving sales of value-added products. The capital structure and coverage indicators have also been healthy with total debt/operating profit of 1.8 times as on March 31, 2024 (1.5 times in FY2023) and interest coverage of 6.5 times (6.4 times in FY2023).

Comfortable risk management policies on lead recycling; remains exposed to commodity risks in aluminium and plastic recycling - The company entirely hedges its exposure for lead through a forward contract of both sales (back-to-back) and the core inventory. The move results in stable operating margins for the company. However, GIL remains exposed to commodity risks in aluminium and plastic as both are alloyed products for which hedging is not available at present, exposing the company to raw material price volatility. The expected commencement of the hedging mechanism for aluminium through the Multi Commodity Exchange (MCX) is likely to reduce the volatility in the business to an extent.

Long experience of promoter - 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, marked by an extensive procurement network with a diversified supplier base and distribution channel.

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 impact.

Vulnerable to regulatory risks – GIL is exposed to regulatory risks as lead is a hazardous metal and recycling is a highly polluting process. Moreover, adverse Government policies affecting the business fundamentals could remain a concern. Thus, a change in the Government's 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 the existing capacities. The expanded 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 on recycling and waste material handling and disposal. GIL is ISO 9001:2005 and ISO

14000:2015 certified and has the relevant statutory approvals for its various plants, including from the Ministry of Environment and the 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 at 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 cash/bank and liquid investments of around Rs. 100 crore and a cushion of around Rs. 200 crore in fund-based working capital bank limits as on March 31, 2024. ICRA expects the company's accruals to remain sufficient to meet its debt repayment obligations of around Rs. 40 crore in FY2025 and Rs. 90 crore in FY2026. Moreover, ICRA estimates that the company will be able to generate healthy free cash flows in FY2025, after accounting for working capital as well as capex requirements.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a substantial increase in revenues 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 a large debt-funded capex, exerting pressure on the liquidity position may also trigger a downgrade. A specific trigger for 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

Gravita India Limited (GIL) was incorporated in 1992 with the 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 has its headquarters in Jaipur with 10 recycling plants across 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 ~3,02,859-MT recycling capacity for lead, aluminium, plastic and rubber (rubber set-up in FY2023; consumed internally as of now).

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	2,857.4	3,199.0
PAT	204.1	242.3
OPBDIT/OI	9.7%	10.5%
PAT/OI	7.1%	7.6%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	1.5	1.8
Interest coverage (times)	6.4	6.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					Jun 24,2024	Oct 5,2023	Jul 20, 2023	Jan 13, 2023	N/A
1	Issuer rating	Long term	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	-
2	Fund-based term loans	Long term	65.00	57.61	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	-
3	Fund based - Unallocated	Long term	-	-	-	[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	400.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-	-
7	Interchangeable-Fund-based/Non-fund based – Others	Long-term/ Short term	(340.00)^	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A2+	-	-
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+	-

Note: Amounts in Rs. Crore, ^sub-limit of fund-based limits

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	FY2024	8.10%	FY2030	65.00	[ICRA]A+ (Stable)
NA	Fund based – Others	-	-	-	400.00	[ICRA]A+ (Stable)
NA	Interchangeable- Others	-	-	-	(340.00)^	[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 S.A.U	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 April 5, 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 June 14, 2023)	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Gravita Gulf DMCC (from August 3, 2023)	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Gravita Dominicana S.A.S. (from August 10, 2023)	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Recyclers South Africa (PTY) Ltd (from October 10, 2023)	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
Green Recyclers LLC (from October 25, 2023)	Wholly owned stepdown subsidiary	51% (through Gravita Netherlands BV)	Full Consolidation

Company Name	Subsidiary/ Associate/ Joint Venture	GIL Ownership	Consolidation Approach
Green Recyclers Mozambique LDA	Wholly owned stepdown subsidiary	Gravita Netherlands BV 99%, Gravita Global Pte Limited 1%	Full Consolidation
Gravita Mali SA (till August 21, 2023)	Wholly owned stepdown subsidiary	100% (through Gravita Netherlands BV)	Full Consolidation
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
Gravita Infotech	Wholly owned subsidiary	49% Gravita India Limited and 51% Gravita Infotech Limited	Full Consolidation
Recycling Infotech LLP	Wholly owned subsidiary	51% Gravita India Limited and 49% Gravita Infotech Limited	Full Consolidation
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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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.

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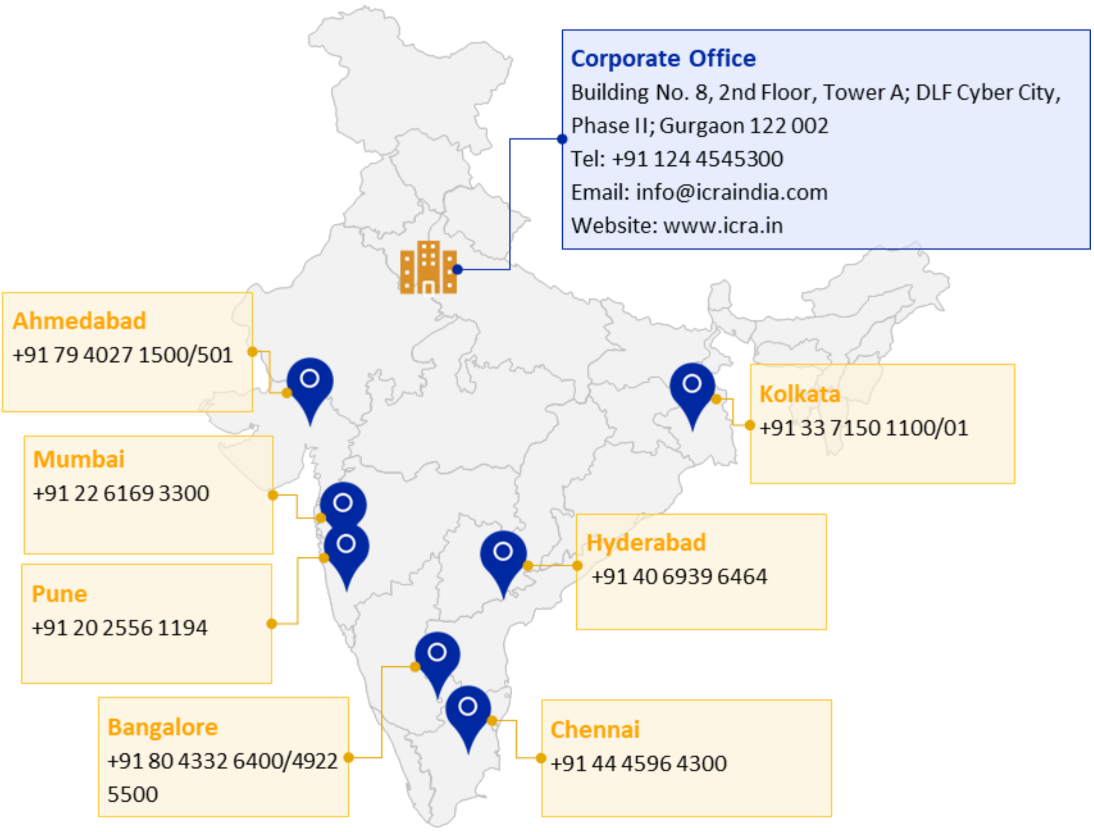

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