

# Gravita India

BSE Code: 533282

CMP : ₹181

Face Value : ₹2

Target price: ₹270

HP\* : Two years

## About The Company

Our Pearl Pick for the month of April is Gravita India Limited. The company is a leader in integrated operations of non-ferrous metals and plastics, having recycling, manufacturing and turnkey business in more than 7 countries in the continents of Asia, Africa and America. Its products cater to auto, telecom, power, nuclear and medical industry. It derives 62 per cent revenue from international market and 38 per cent from domestic market. Its product mix comprises of refined lead (33.4 per cent), lead alloy (25.08 per cent), others (18.2 per cent), remelted lead (15.7 per cent), aluminium (6.4 per cent) and lead value-added products (0.60 per cent). The company is having total installed capacity of 123,019 MTPA as of FY17.

## Why to Invest

**Well-positioned player in the market :** In India, there are not many serious national players in the waste recycling business and Gravita is the largest player. It collects lead-based scraps, its biggest business contributor accounting for 80 per cent of its sales in India and international markets are lead batteries, UPS, inverters etc. It collects these lead-based products, recycles them and sells them to companies like Exide, Amara Raja and many others in domestic and international markets who use lead as raw material. The company is experimenting and working on disruptive ways to collect waste to remove the inefficiency and catch a larger share of the market, which is largely unorganised (40 per cent).

**Focus on plastic recycling business :** The company has started commercial production of PPCP granules at its Andhra Pradesh plant in April 2018 having annual capacity of 1200 MTPA. The production from this plant will furnish the needs of injection moulding and non-oven fabric industry globally. PPCP granules are widely used in plastic chemical industry. Going ahead, the company is planning to increase the capacity of the said plant to 6000 MTPA by installing two more plastic recycling lines. Furthermore, it has started production of PET flakes at Jamaica with a total capacity of 4800 MTPA. This plant is likely to contribute Rs. 10 crore to topline. The installation of these plants will help the company to tap the market opportunities in plastic recycling business.

**Value-added products to cater to new segments :** The company has started commercial production of lead tetra oxide (commercially known as 'red lead oxide') at its Jaipur unit, with total capacity of 7500 MTPA. It is a value-added product and it will benefit the company by catering to new segments like ceramic tiles, crystal glass, anti-corrosive paints and inverters and solar batteries. It is also exploring opportunities in other categories like e-waste including lithium and other categories to leverage its know-how and technological advantages.

**Robust capacity expansion :** The company is mainly focusing on capacity expansion of its lead and aluminium business. It is planning to expand its lead capacity by 47 per cent to 155,419 MTPA in domestic market and 81 per cent to 67,200 MTPA internationally by FY19E. Also, it is planning to enhance its aluminium capacity by 100 per cent in domestic market to 24,000 MTPA and 125 per cent to 10,800 MTPA internationally by FY19E.

**Robust orders from international players :** The company has received orders worth Rs. 300 crore for supplying of 18,000 MT of pure lead and lead bullion from Kyen Resources, Singapore. This order is likely to be executed by FY19E,

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\* HP : Holding Period

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and with the execution of this order, the company expects the utilisation level to increase to 60-65 per cent from the current capacity utilisation of 55 per cent. Moreover, it has received orders amounting to Rs 250 crore from Luminous Power Technologies Pvt. Ltd., the leader in energy management for supplying various lead products. This order is likely to be executed in 2018. We expect the order inflow to continue and will strengthen the company's topline as well as bottomline going ahead.

## Industry development

The world lead mine production was forecast to rise by 4.3 per cent to 4.92 million tonnes in 2017. Of the global lead demand of 12 million MT in 2016-17, the Indian lead demand was 0.9 million MT. India accounts for 10 per cent of total world lead production. India has a sufficient capacity of lead smelting and refining. India will lead the demand for lead for the next five years supported by growth in automobile, telecom and power sectors.

## Investing in the stock

The company has a share capital of Rs 13.69 crore with promoters' holdings at 72.81 per cent. Therefore, the available free float comes to 1.86 crore shares. The two-week average traded quantity comes to around 49,000 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the below table.

Price	Accumulation
140-160	30 per cent
130-140	25 per cent
110-130	25 per cent
<110	20 per cent

## Financial performance

During 9MFY18 period, the company's consolidated revenue came in at Rs 655 crore, registering an increase of 44.6 per cent YoY. Its EBITDA for 9MFY18 jumped by 72.6 per cent YoY to Rs 64 crore and EBITDA margin for 9MFY18 stood at 9.7 per cent. The PAT for 9MFY18 came in at Rs 36 crore, a jump of 60.1 per cent YoY. Looking at Q3FY18, we see that revenue jumped by 44.5 per cent to reach Rs 241 crore, while EBITDA rose by 33.8 per cent to Rs 19 crore. Further, its net profit came in at Rs 10 crore, up by 31.5 per cent YoY.

## Valuation and outlook

The company is trading at TTM P/E of 46.8x with TTM EPS of Rs. 3.87. We expect revenue to show traction led by diversified portfolio and increasing focus on plastic recycling business. Also, continuing order inflow will improve company's topline as well as bottomline going ahead. Also, the company's robust capacity expansion is likely to augur well for the company. Considering all these aspects, we see an upside of 50 per cent with a target price of Rs. 270 over the next two years.

Inc/Exp Statement(Consolidated) (Rs in Crore)					
Description	201703	201603	201503	201403	201303
Net Sales	655.68	431.20	501.29	517.18	399.58
Total Income	656.63	435.40	505.92	518.40	402.35
Total Expenditure	598.23	413.95	481.82	478.12	364.04
PBIDT	58.40	21.45	24.10	40.28	38.31
PAT	32.96	5.48	9.58	21.63	23.50
Dividend %	30.00	10.00	10.00	40.00	40.00
Adj. EPS(Rs)	4.43	0.64	0.97	3.13	2.79

**Quarter On Quarter (Consolidated) (Rs in Crore)**

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	240.90	224.67	7.22	175.54	37.23
Total Expenditure	221.84	198.90	11.53	162.39	36.60
PBITD (Excl OI)	19.06	25.77	-26.03	13.15	45.00
PAT	10.47	14.22	-26.39	8.20	27.73
PBITDM% (Excl OI)	7.91	11.47	-31.04	7.49	5.61
PBITDM%	7.96	11.65	-31.67	7.92	0.51
PATM%	4.35	6.33	-31.28	4.67	-6.85
Adj. EPS(Rs)	1.48	1.95	-24.10	1.11	33.33

