Gravita India Limited

June 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	16.69	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Reaffirmed; Outlook revised from Stable**
Long-term/Short-term Bank Facilities	197.00	**CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)**	**Reaffirmed; Outlook revised from Stable**
Short-term Bank Facilities	77.00	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total facilities	**290.69 (Rupees Two Hundred Ninety crore and Sixty Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Gravita India Limited (GIL) continues to take into account its established track record of operations in lead recycling and smelting industry with wide geographical presence, experienced and professional management and its operational synergy with subsidiaries at multiple locations along with benefit derived from its license to import lead acid battery scrap. The ratings also take cognizance of increase in its total operating income (TOI) in FY19 (refers to the period April 1 to March 31) along with its moderate capital structure and liquidity; and reputed customer base with whom it has agreements for supplying its lead products.

The ratings, however, continue to remain constrained on account of its working capital-intensive nature of operations, customer concentration risk and limited pricing flexibility due to low value addition along with susceptibility to fluctuation in lead prices and weak entry barriers. The ratings are further constrained on account of risk associated with execution and stabilisation of operations of its on-going projects, foreign exchange fluctuation risk, regulatory risk pertaining to duty structure and compliance with environmental norms and inherent cyclicality associated with the end-user industry. The ratings are further constrained by moderation in its profitability margins and debt coverage indicators during FY19, which were also inferior to what was previously envisaged.

GIL's ability to stabilize operations of its newly constructed facilities, increase its scale of operations by generating envisaged returns from its enhanced capacity along-with significant and sustained improvement in its profitability and debt coverage indicators in the backdrop of volatile lead prices, efficient management of its working capital and continuous compliance with prescribed environmental norms would be the key rating sensitivities.

Outlook: Negative

The revision in the outlook on the rating of GIL from 'Stable' to 'Negative' is on account of expected moderation in its profitability and debt coverage indicators going forward owing to sharp decline in lead prices in the international market. However, the outlook on its rating may be revised to 'Stable' in case the company is able to improve its profitability margin and debt coverage indicators amidst declining metal prices going forward.

Detailed description of the key rating drivers

Key rating strengths

Growth in scale of operations in FY19: GIL's consolidated total operating income (TOI) has increased by around 22% on y-o-y basis to Rs.1247.18 crore in FY19 mainly due to increase in sales volume across lead, aluminium and plastic products on account of healthy demand from respective customers.

Long term contracts with reputed end user players providing revenue visibility: GIL has signed a contract with Amara Raja Batteries Limited for lead acid battery scrap collection and recycling arrangements which is expected to benefit GIL in terms of easy availability of raw material at lower logistics cost, reduction in operating cycle with minimal requirement of working capital resulting in likely savings in interest cost and assured off-take of finished product. Furthermore, GIL has also entered into agreement with few of the lead industry players over the last one year for supply of lead ingots/alloys.

Established track record of operations with wide geographical presence: GIL has an established track record of operations in the lead recycling and smelting industry since 1992. Over the period, GIL has set up plants at eight different locations under

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

standalone operations as well as under various subsidiaries in order to be in close proximity to raw material sources which improves its accessibility and mitigate regulatory risk related to operating in single location.

Experienced and professional management: Dr. Mahaveer Prasad Agrawal (Chairman) and Mr. Rajat Agrawal (Managing Director) have vast experience of more than two decades in the lead metal and lead recycling industry.

Operational synergy with subsidiaries: Overseas subsidiaries of GIL in African countries have only lead smelting capacity while subsidiaries in America are largely into PET recycling and scrap collection and major portion of their sales are routed through GIL providing operational synergy. GIL has the license for import of battery scrap. However, its overseas subsidiaries are exposed to geo-political risks given their location in the African regions.

Moderate capital structure and debt coverage indicators: GIL's overall gearing though improved; stood moderate at 1.24 times as on March 31, 2019 as against 1.33 times as on March 31, 2018. GIL's debt coverage indicators though deteriorated, continued to remain moderate with total debt to GCA of 6.89 times as on March 31, 2019 (4.39 times as on March 31, 2018) while PBILDT interest coverage declined to 2.75 times in FY19 (4.57 times in FY18) on account of decline in operating profitability and higher interest expenses.

Key rating weakness

Decline in profitability margins: PBILDT margin of GIL has declined by 335 bps on y-o-y basis to 5.78% in FY19 on account of increase in cost of raw material consumed which the company was unable to fully pass on to its customers. Also, the profitability of the company remains susceptible to volatility in prices of lead which is driven by its international demand-supply scenario. Its profitability was further impacted by continued loss-incurring operations of its plastic division during FY19. PAT margin also declined by 312 bps on y-o-y basis in FY19 due to increase in interest and depreciation expenses along with one-time loss on sale of investment recognized by the company in Q4FY19. Resultantly, gross cash accruals (GCA) also declined from Rs.58.43 crore in FY18 to Rs.36.52 crore in FY19. The profitability margins also remained significantly inferior compared to what was previously envisaged for FY19.

Customer concentration; albeit some of them being very reputed: Sales to top 10 customers constituted around 59% of its TOI (consolidated) in FY18 (65% in FY17) depicting moderate customer concentration risk. GIL exports its products to around 29 countries with major exports being made to U.S.A., Japan and Indonesia. Some of the customers of GIL are reputed which include Luminous Power Technologies Private Limited, Exide Industries Limited and KEI Industries Limited.

Raw material price fluctuation risk: The company's profitability is vulnerable to volatility in prices of lead which have exhibited high volatility in the past. GIL's profitability got impacted in the past on account of its inability to pass on higher raw material purchase cost to its customers due to its limited bargaining power with customers. While sales realisation tends to decline with declining trend in price of lead (on LME) the scrap procurement expenses and conversion charges are largely fixed in nature, thereby impacting its operating margin adversely. With sharp decline being witnessed in international lead prices during March to May 2019, GIL's profitability is expected to moderate further in the medium term. Also, to ensure uninterrupted supply of lead, the company in some cases pays a premium over prevailing price to its suppliers of scrap. However, in order to mitigate the raw material price volatility risk to some extent, the company hedges its raw material by adopting different hedging strategies for different types of orders. GIL's management has further articulated that unlike in the past they plan to actively hedge against aluminium price volatility going forward. Ability of the company to effectively manage the volatility in prices of raw materials and timely pass on the increase in raw material price to its customers would be crucial with regard to credit perspective.

Foreign exchange fluctuation risk: The company uses forward contracts to hedge its foreign currency exposure which is in the form of imports, exports and foreign currency borrowings. The company hedges part of its open position apart from the portion which is hedged naturally by entering into forward contracts. Hence, the risk persists for balance un-hedged portion.

Project implementation and stabilisation risk: GIL had earlier planned to execute projects of about Rs.78 crore on consolidated level during four year period (FY19-FY22). Apart from these projects, the company was in the process of setting up smelting and refining unit for lead at Ghana with installed capacity of 12,000 MT and smelting unit for aluminium and lead with installed capacity of 6,000 MT at Tanzania towards which the company had envisaged total capex of Rs.26 crore. The company has dropped its Mundra Project for the short term and is in the process of shifting its lead refining unit from Gandhidham to Mundra which is expected to get completed by July 2019. The company envisages to save logistics cost as Mundra plant would be closer to the Mundra port and the company will also save the lease rentals being paid for Gandhidham facility. Furthermore, the company has started commercial production of lead from newly constructed manufacturing unit at Tanzania with installed capacity of 3000 MT from April 2019 and is expected to commence recycling of aluminium with installed capacity of 6000 MT in short time. Moreover, the company has also completed construction of lead smelting and refining unit at Ghana unit under its newly formed subsidiary- Recyclers Ghana Limited and commercial production from the same has started with installed capacity of 6,000 MT. The same would be further increased by 6,000 MT by July 2019. There have been delays in completion of these projects as the same were earlier envisaged to get completed by Q4FY19. Ability of the company to timely complete the remaining capex without any cost overrun and stabilize operations from these units so as to achieve optimum capacity utilization would be crucial.

Regulatory risk pertaining to duty structure and compliance with environmental norms: Lead is hazardous in nature and can cause serious damage to the environment. To safeguard against this, the Ministry of Environment and Forests (MoEF) has framed Batteries (Management and Handling) Rules, 2001. These rules specify that only those who possess environmentally sound management systems and are registered with the MoEF / Central Pollution Control Board (CPCB) are allowed to carry out battery recycling. Although GIL being a CPCB certified company has an advantage over unorganized sector, any violations of stringent pollution control norms can adversely affect the operations of the company. Moreover, any change in duty structure on lead products including battery scrap can impact the viability of its operations. The company has also become a member of International lead Association (ILA) which is expected to benefit it in terms of worldwide recognition.

Inherent cyclicality associated with end user industry: Lead alloys find its primary application in the manufacturing of lead acid batteries for its use in automobiles, invertors, solar power systems, etc. with automobile industry being the major end user industry for lead acid batteries. Hence, GIL is exposed to inherent cyclicality associated with automobile industry. However, the growth in power back-up industry will have a favourable impact on the lead industry which augurs well for the companies like GIL.

Liquidity: GIL's operations are working capital intensive in nature marked by 91% average utilization of working capital borrowings during 12 month period ended April, 2019. Liquidity position of GIL stood moderate marked by a moderate current ratio of 1.10 times as on March 31, 2019. The company had free cash balance of around Rs.12.28 crore at consolidated level and Rs.3.87 crore at standalone level as on March 31, 2019. Its liquidity is also likely to be supported through the debt of around Rs.17 crore that it has been sanctioned from banks/lenders towards reimbursement of its already completed capex in Chittoor, Jamaica and Nicaragua during FY18; the same is expected to be utilized for meeting its working capital requirement.

Industry Outlook: The lead industry in India is poised to perform well on the back of good demand prospects in long term. India's growing telecom industry and on-going infrastructure development has boosted the industrial battery demand, as is the case with an expanding photovoltaic market which is planned to reach 227 GW by 2022. The automobile sector, the telecom sector and the power sector (solar, wind and invertors) will be the main demand drivers for lead usage. Lead prices are influenced by the global economic conditions and the geopolitical conditions of the major producing countries & major utilizing countries. Mine and metal demand-supply dynamics, inventory levels and currency fluctuations also play into determining lead prices. Price of lead has been declining since the start of FY19 with the trend continuing in Q1FY20. The global on-going trade wars, fluctuation of the dollar and fears of a global slowdown have been dragging the prices of lead.
The growth in aluminium consumption is likely to be driven by the growth in power transmission and the automobile sector. Demand from the building & construction activities is also likely to pick up due to the affordable housing for all program; whereas demand from the packaging sector is likely to support the domestic demand. However, the aluminium prices will continue getting affected due to changing macros on account of recent trade wars which will impact the global demand supply dynamics.
Going forward, organised players with strong sourcing ability with better operating efficiencies, geographically diversified clientele and a conservative forex/working capital management policy are likely to exhibit relatively stable credit profiles.

Analytical Approach- Consolidated. For analysis purpose, we have considered consolidated financials of GIL as there are operational synergies between parent GIL and its subsidiaries. Details of subsidiaries considered in GIL's consolidation have been given in **Annexure 3.**

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Factoring Linkages in ratings

About the company

Incorporated in 1992, GIL is a listed public limited company promoted by Dr Mahaveer Prasad Agrawal and Mr Rajat Agrawal. GIL is engaged in the manufacturing and trading of lead and lead-based products. Under manufacturing operations, the company carries out smelting of lead ore/lead concentrate/lead battery scrap to produce primary and secondary lead metal, which is transformed into pure lead, specific lead alloy, lead oxides (lead sub-oxide, red lead, and litharge) and lead products like lead sheets and lead pipes. Over the past few years, the company has also ventured into recycling of aluminium and plastic scrap. The company also provides turnkey solutions for development of plant and machinery for lead manufacturing units.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)*
Total operating income	1018.29	1247.18
PBILDT	92.91	72.06
PAT	47.64	19.39
Overall gearing (times)	1.33	1.24
Interest coverage (times)	4.57	2.75

*A: Audited; *as per abridged financials published on the stock exchange*

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	197.00	CARE A-; Negative / CARE A2+
Fund-based - LT-Term Loan	-	-	January-2023	16.69	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	65.00	CARE A2+
Fund-based - ST-Standby Line of Credit	-	-	-	12.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	197.00	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (26-Nov-18) 2)CARE A-; Positive / CARE A2+ (08-Oct-18)	1)CARE A-; Positive / CARE A2+ (07-Aug-17)	1)CARE A-; Stable / CARE A2+ (22-Feb-17) 2)CARE A- / CARE A2+ (25-Apr-16)
2.	Fund-based - LT-Term Loan	LT	16.69	CARE A-; Negative	-	1)CARE A-; Stable (26-Nov-18) 2)CARE A-; Positive (08-Oct-18)	1)CARE A-; Positive (07-Aug-17)	1)CARE A-; Stable (22-Feb-17) 2)CARE A- (25-Apr-16)
3.	Non-fund-based - ST-BG/LC	ST	65.00	CARE A2+	-	1)CARE A2+ (26-Nov-18) 2)CARE A2+ (08-Oct-18)	1)CARE A2+ (07-Aug-17)	1)CARE A2+ (22-Feb-17) 2)CARE A2+ (25-Apr-16)
4.	Fund-based - ST-Standby Line of Credit	ST	12.00	CARE A2+	-	1)CARE A2+ (26-Nov-18) 2)CARE A2+ (08-Oct-18)	1)CARE A2+ (07-Aug-17)	1)CARE A2+ (22-Feb-17) 2)CARE A2+ (25-Apr-16)

Annexure-3

Name of the subsidiary	% of Holding as on March 31, 2018
Gravita Infotech Limited (Formerly known as M/s Gravita Exim Ltd)	100.00
M/s Gravita Metals	100.00
M/s Gravita Metal Inc	100.00
M/s Gravita Infotech (Formerly known as M/s Gravita Technomech)	100.00
M/s Recycling Infotech LLP	100.00
Gravita Employee Welfare Trust	100.00
Noble Build Estate Private Limited	100.00
Gravita Ghana Limited	100.00
Gravita Mozambique LDA	100.00
Gravita Global Pte Limited	100.00
Navam Lanka Limited	52.00
Gravita Netherlands BV	100.00
Gravita Senegal S.A.U	100.00
Gravita Nicaragua S.A.	100.00
Gravita Jamaica Limited	100.00
Gravita Ventures Limited	100.00
Gravita USA Inc.	100.00
Gravita Mali SA	100.00
Gravita Cameroon Ltd.	100.00
Gravita Mauritania SARL	100.00
Recyclers Gravita Costa Rica SA	100.00
Gravita Tanzania Limited	100.00
Recyclers Ghana Ltd.	100.00
Mozambique Recyclers LDA	100.00
Gravita Dominican SAS	100.00

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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