Gravita India Limited

October 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	16.69	**CARE A-; Positive (Single A Minus; Outlook: Positive)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	197.00 (enhanced from 136.50)	**CARE A-; Positive/CARE A2+ (Single A Minus; Outlook: Positive/ A Two Plus)**	**Reaffirmed**
Short-term Bank Facilities	77.00	**CARE A2+ (A Two Plus)**	**Reaffirmed**
	290.69 (Rupees Two Hundred Ninety crore and Sixty Nine lakh only)		

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Gravita India Limited (GIL) takes 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 license for import of lead acid battery scrap. The ratings also take cognizance of improvement in scale of operations resulting to increase in cash accruals post stabilisation of Chittoor unit, moderate capital structure, moderate debt coverage indicators and liquidity position, and reputed customer base with benefits expected to be derived from agreements entered with reputed players for supply of 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 with susceptibility to fluctuation in international lead prices and weak entry barriers. The ratings are further constrained on account of risk associated with execution of on-going project, foreign exchange fluctuation risk, regulatory risk pertaining to duty structure and compliance with environmental norms and inherent cyclicality associated with the end-user industry.

GIL's ability to complete the newly undertaken project within the envisaged time and cost parameters, increase its scale of operations by generating envisaged returns from its enhanced capacity along-with improvement in profitability in the light of volatile lead prices, efficient management of its working capital and continuous compliance with prescribed environmental norms would be the key rating sensitivities.

Outlook: Positive

The positive outlook is on account of expected improvement in scale of operations while maintaining profitability on account of various initiatives taken to improve operating efficiency as well as agreements entered by the company with its customers for supply of lead products along with expectation of timely completion of on-going projects without any cost overrun. However, the outlook may be revised to 'Stable' in case of delay in implementation of on-going projects or undertaking of any large debt funded capex apart from envisaged additions and deterioration in financial performance.

Detailed description of the key rating drivers

Key rating strengths

Significant growth in scale of operations in FY18; though profitability margins moderated

GIL's consolidated total operating income (TOI) has significantly increased by around 55% on y-o-y basis to Rs.1018.29 crore in FY18 mainly due to increase in sales volume as well as increase in sales realization of lead products following stabilization of operations of its Chittoor unit which was also supported by healthy demand for lead products and increase in international lead prices.

GIL's PBILDT margin has declined marginally by 12 bps on y-o-y basis in FY18 on account of marginally higher raw material consumed cost which the company was unable to fully pass on to its customers. Also, the profitability of the company remains volatile on account of volatility in prices of lead which is an international commodity. PAT margin also declined albeit by higher 67 bps in FY18 due to increase in interest and depreciation expenses. Gross cash accruals (GCA) has increased from Rs.43.12 crore in FY17 to Rs.58.43 crore in FY18 on the back of increase in scale of operations and improvement in profitability in absolute terms.

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

New 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 provide benefits to 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 savings in interest cost and assured off-take of finished product. Further, GIL has also entered into agreement with few of the lead industry players over the last one year for supply of lead ingots/alloys. All these orders are expected to strengthen top line as well as bottom line of the company going forward.

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 standalone operations as well as under various subsidiaries in order to be in close proximity to raw material sources, 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 obtained license for the import of battery scrap.

Moderate capital structure and debt coverage indicators
GIL's overall gearing though deteriorated but continued to remain moderate at 1.33 times as on March 31, 2018 mainly due to increase in working capital borrowings in order to support its growing scale of operations. GIL's debt coverage indicators continued to remain moderate as on March 31, 2018.

Key rating weakness
Working capital intensive operations
GIL's operations are working capital intensive as net working capital formed 70% of operating capital employed as on March 31, 2018. Liquidity position of GIL stood moderate marked by a moderate current ratio as on March 31, 2018. The company's utilization of working capital borrowings also remained moderate at 79% during 12 month period ended August, 2018.

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. However, in order to mitigate the raw material price volatility risk, the company has changed its pricing policy with a back to back raw material procurement arrangement. Ability of the company to 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 majority of its foreign currency exposure which is in the form of imports, exports and foreign currency borrowings. The company hedges majority of its open position apart from portion which is hedged naturally by entering into forward contracts. Hence, the risk persists for balance unhedged portion.

Project implementation risk
GIL has planned to execute projects of about Rs.78 crore on consolidated level in the next four years to increase its scale of operations which would be funded through debt of Rs.52.67 crore and balance Rs.25.33 crore through internal accruals spread across four years ended FY22. The company has not yet achieved financial closure for the said projects. These expansion plans of GIL expose it to inherent project risk apart from increasing the debt levels with increasing working capital requirement. In light of the above, GIL's ability to timely complete the said projects without any cost overrun and generate optimum returns from the added facility is crucial from the credit perspective.

Regulatory risk pertaining to duty structure and compliance with environmental norms
Lead is hazardous in nature and can cause serious damage to the environment. 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.

Industry Outlook:
The lead industry in India is poised to perform well on the back of good demand prospects. 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. Lead will continue witnessing a robust demand, driven mainly by the automotive and industrial battery segments. India’s automobile market is expanding fast and is expected to play a significant role in leading demand growth going forward. The automobile sector, the telecom sector and the power sector (solar, wind and invertors) will be the main demand drivers for lead usage.
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 more stable credit profiles.

Analytical Approach-Consolidated
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE’s Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
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)	FY17 (A)	FY18 (A)
Total operating income	656.81	1018.29
PBILDT	60.67	92.91
PAT	35.14	47.64
Overall gearing (times)	1.08	1.33
Interest coverage (times)	5.73	4.57

Status of non-cooperation with previous CRA: NA
Any other information: None
Rating History (Last three years): Please refer Annexure-2

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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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-Term Loan	-	-	Jan-2023	16.69	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	65.00	CARE A2+
Fund-based - LT/ ST-Cash Credit	-	-	-	197.00	CARE A-; Positive / 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	197.00	CARE A-; Positive / CARE A2+	-	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-; Positive	-	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+ (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+ (07-Aug-17)	1)CARE A2+ (22-Feb-17) 2)CARE A2+ (25-Apr-16)	-

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CIN - L67190MH1993PLC071691