CARE Ratings
Professional Risk Opinion

Gravita India Limited

December 03, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	15.50	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	7.00	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Reaffirmed
Long Term / Short Term Bank Facilities	-	-	Reaffirmed and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed and Withdrawn
Total Bank Facilities	**22.50 (Rs. Twenty-Two Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1; The rating assigned to part of the bank facilities have been withdrawn on receipt of request for Withdrawal of rating from client and No Objection Certificate/No dues certificate from the respective lenders

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gravita India Limited (GIL) continue to derive strength from experienced management, established track record of operations in lead recycling and smelting industry with wide geographical presence and its operational synergy with subsidiaries at multiple locations. The ratings also factor in increase in scale of operations and profitability margins in FY20 (refers to the period April 01 to March 31) and H1FY21. The ratings are further underpinned by its moderate capital structure and debt coverage indicators and its reputed customer base.

The ratings, however, continue to remain constrained on account of its limited pricing flexibility due to low value addition nature of its business and weak entry barriers; along with susceptibility of its profitability to volatility in metal prices. The ratings are further constrained on account of moderate customer concentration, foreign exchange fluctuation risk, regulatory risk pertaining to duty structure, requirement of compliance with stringent environmental norms and inherent cyclicality associated with the end-user industry.

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Stable [Triple B Plus; Outlook: Stable] and 'CARE A2' [A Two] assigned to part of the bank facilities of GIL with immediate effect. The above action has been taken at the request of GIL and 'No Objection Certificate' and 'No dues certificate' received from the banks that have extended the facilities rated by CARE.

Key rating sensitivities

Positive factors

- Healthy volume driven growth in its total operating income with PBILDT margin higher than 8.5% on sustained basis through implementation of effective hedging policy and practices in the backdrop of volatile metal prices
- Improvement in capital structure with overall gearing of less than 1 times on sustained basis

Negative factors

- Significant decline in total operating income (TOI) and fall in PBILDT margin below 6% on sustained basis
- Overall gearing deteriorating beyond 1.50 times on sustained basis
- Deterioration in debt coverage indicators with total debt to GCA or more than 6 times or PBILDT interest coverage of less than 2 times
- Risk arising out of non-compliance with prescribed environmental norms

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management: Dr. Mahaveer Prasad Agrawal (Chairman) and Mr. Rajat Agrawal (Managing Director) have vast experience of more than two decades in the lead recycling industry. Top management is supported by a team of experienced professionals. The company has also developed a strong centralized information system at Jaipur by implementing SAP which helps it in the day to day decision making.

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

Established track record of operations with wide geographical presence: GIL has an established track record of operation in the lead recycling and smelting industry since 1992. Over the period, GIL has set up plants at eleven different locations under standalone operations as well as under various subsidiaries (both in India and abroad) in order to be in close proximity to key raw material sources which improves its accessibility and partially mitigates regulatory risk arising from environmental concerns of operating in a single location.

Operational synergy with subsidiaries: Overseas subsidiaries of GIL in African countries have only lead smelting capacity while its subsidiaries in America are largely into PET recycling and scrap collection with major portion of their sales being routed through GIL providing operational synergy. Furthermore, the company has come up with a new lead smelting and refining facility at Ghana as well as a new lead smelting and aluminum recycling facility at Tanzania during FY20. GIL benefits from its license for import of battery scrap in to India. However, its overseas subsidiaries are exposed to geo-political risks given their location in the African regions.

Increase in scale of operations and profitability margins in FY20: The total operating income of the company grew by around 8% on y-o-y basis to Rs.1348.71 crore in FY20 mainly due to increase in sales volume of lead and plastic products following increase in their demand. The sales volume of lead and plastic products grew by around 19% and 18% respectively during FY20 over FY19; while, average sales realisation moderated by around 4% and 5% respectively during the same period. The average sales realization of lead products declined in FY20 in line with decline in LME lead prices. The company's manufacturing facility at Chittoor was eligible for incentives available under "Industrial Development Policy 2015-2020" upto FY20 and as such the company has booked income from government grants to the tune of Rs.15.69 crore in FY20 (FY19-Rs.9.29 crore).

Profitability margins improved with PBILDT margin of 7.73% in FY20 as against 5.83% in FY19 on account of lower raw material consumed cost. The profitability has also improved on account of benefits received in terms of fiscal incentives from Andhra Pradesh government for its Chittoor plant. Subsequently, PAT margin also improved by 116 bps on y-o-y basis to 2.71% in FY20. With improvement in profitability, gross cash accruals increased from Rs.36.46 crore in FY19 to Rs.59.14 crore in FY20.

Moderate capital structure and debt coverage indicators: GIL's capital structure stood moderate with overall gearing of 1.22 times as on March 31, 2020; improved from 1.24 times as on March 31, 2019 on account of accretion of profit to reserves. Debt coverage indicators improved with total debt to GCA of 4.72 times as on March 31, 2020 as against 6.90 times as on March 31, 2019 on account of higher profitability. Furthermore, PBILDT interest coverage improved from 2.78 times in FY19 to 3.31 times in FY20 on account of increase in operating profit.

Key Rating Weaknesses

Moderate customer concentration; albeit some of them being very reputed: Sales to top 10 customers constituted around 60% of its TOI (consolidated) in FY20 (52% in FY19) depicting moderate customer concentration. The clients of the company includes reputed entities which includes domestic players like Luminous Power Technologies Private Limited, Amara Raja Batteries Limited, KEI Industries Limited and overseas customers like Trafigura Pte Ltd and Glencore International AG among others. GIL has also entered into contract with Amara Raja Batteries Limited (ARBL) for lead acid battery scrap collection and recycling arrangements. Apart from barter arrangement with ARBL, GIL has entered into yearly contract with ARBL for supplying lead ingots.

Limited pricing flexibility due to low value addition and weak entry barriers: Lead smelting and recycling industry is characterized by low value addition and weak entry barriers due to low capital expenditure required for establishing the plant. This has increased competition from the unorganized segment. Being a commodity, lead prices in India are governed by its price movements on the LME; albeit with some time lag. Moreover, lead prices in the domestic market are also derived from local commodity exchange wherein prices of lead have traded largely at premium over LME prices in the recent past. All these factors have resulted in limited pricing flexibility for GIL. However, GIL has benefit of its large scale and multi-location plants which ensures ease of access to raw materials.

Raw material price fluctuation risk: The company's profitability is vulnerable to volatility in price of lead which has exhibited high volatility in the past. In order to mitigate the raw material price volatility risk, the company uses different hedging policies depending on type of its customer. In around 50% of its orders from customers who enter into contracts with GIL, the company has back to back raw material procurement arrangement in order to mitigate the said risk. Furthermore, in some cases where the company receives monthly orders from its regular customers, the price is decided as per the rate of lead battery scrap / lead prevailing in the market in the last month. Moreover, the company has started hedging base raw material inventory as well as the excess scrap collected apart from scrap collected for orders received by booking hedging contracts with LME in order to mitigate raw material price volatility risk. However, as articulated by the management, the company does not actively hedges aluminium and plastic exposure due to un-availability of suitable platform and is highly dependent on back to back arrangement in order to insulate itself from volatility in prices of raw material. As such, the profitability is vulnerable to any adverse fluctuation in prices of these materials in absence of adequate hedging as a result of timing difference. The company continued incurring losses in the plastics division on account of delay in stabilisation of operations. 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: GIL being into exports as well as imports; is susceptible to risk associated with fluctuation in foreign exchange rates. The company's margin is susceptible to the extent of net receivables/payables un-hedged in case of adverse foreign exchange fluctuations. On a standalone basis, the company's export sales in FY20 were Rs.544.57 crore (FY19: Rs.572.47 crore) as against foreign exchange outgo (only imports) of Rs.881 crore (FY19: Rs.606.22 crore). Further, part of the company's working capital borrowings is in foreign currency. Thus, the company gets the benefit of natural hedge to large extent. The company uses forward contracts to partially hedge its foreign currency exposure for the un-hedged portion on need basis. Thus, the profitability is susceptible to adverse exchange fluctuation with regard to the un-hedged portion.
GIL at consolidated level has incurred net losses of Rs.0.98 crore in FY20 in its foreign currency transaction/translation as compared to net losses of Rs.2.42 crore in FY19. Moreover, the company incurred loss of Rs.2.76 crore on its foreign currency borrowings in FY20 as against loss of Rs.2.21 crore in FY19.

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 gets customs duty exemption on lead products imported from its subsidiaries located at Tanzania, Mozambique and Senegal due to duty-free imports allowed from these countries. Further, the subsidiary at Ghana gets duty advantage on sales to European market. Also, the lead products exported by its Sri Lankan subsidiary to India are presently exempted from customs duty under Indo Sri Lanka Free Trade Agreement (ISFTA).

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.

Liquidity- Adequate: Liquidity of GIL stood adequate marked by a moderate current ratio of 1.23 times as on March 31, 2020 as against 1.08 times as on March 31, 2019. Further, the average utilisation of fund based working capital limit stood around 86% during past 12 months ended September 2020. The company had free cash and bank balance of around Rs.10.67 crore as on March 31, 2020 and Rs.19.81 crore as on September 30, 2020 at consolidated level. GIL has availed moratorium in interest servicing in its fund based limits from all its lenders except two of its working capital lenders. Furthermore, the company has availed moratorium in principal and interest repayment for term loan from one of the lender. In order to enhance its liquidity, the company has also availed enhancement being provided under covid-19 relief as per RBI circular (10% of fund based limit). The availment of said limits is expected to provide some cushion as the said funds would be utilised for working capital and is available at lower rate of interest. The company has debt repayments of around Rs.19.6 crore against which it envisages cash accruals of around Rs.53 crore for FY21. Operating cycle has improved from 62 days in FY19 to 56 days in FY20 mainly due to increase in creditor period.

Industry Outlook: 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.
Global industrial activities may remain subdued in the near-term due to the negative impact of the Covid-19 pandemic. If the looming tension between US and China intensifies it may weigh on the base metal demand from China. Going forward, though demand from automobiles sector is expected to remain weak, replacement demand for batteries (accounting for

around 50-60% of demand from auto sector) is likely to support fall in demand for lead acid batteries. It may take a while for automobile OEM demand to return to normal levels as the segment globally is struggling.
The growth in aluminium consumption is likely to be driven by the growth in power transmission and the automobile sector. However, the aluminium prices will continue getting affected due to changing macros on account of trade wars and outbreak of covid-19 pandemic which are likely to 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, CARE has considered the consolidated financials of GIL as there are operational synergies between the parent (GIL) and its subsidiaries and associate. Details of subsidiaries and associate considered in GIL's consolidation have been given in **Annexure 5.**

Applicable Criteria
Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating methodology- Consolidation
Rating methodology- Non-Ferrous Metals
Financial ratios – Non-Financial Sector
Liquidity analysis of Non-financial Sector Entities
Policy on Withdrawal of 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 battery scrap to produce 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- Consolidated (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1247.06	1348.71
PBILDT	72.68	104.20
PAT	19.39	36.58
Overall gearing (times)	1.24	1.22
Interest coverage (times)	2.78	3.31

A: Audited
As per published results on the stock exchange, during H1FY21, GIL on consolidated basis earned a PAT of Rs.16.66 crore (H1FY20: Rs.9.92 crore) on a TOI of Rs.611.64 crore (H1FY20: Rs.592.76 crore).

Brief Financials- Standalone (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1071.39	1175.12
PBILDT	53.75	67.19
PAT	18.95	22.43
Overall gearing (times)	1.46	1.41
Interest coverage (times)	2.38	2.53

A: Audited
As per published results on the stock exchange, during H1FY21, GIL on standalone basis earned a PAT of Rs.9.87 crore (H1FY20: Rs.6.76 crore) on a TOI of Rs.523.68 crore (H1FY20: Rs.515.99 crore).

Status of non-cooperation with previous CRA: None
Any other information: Not Applicable
Rating History (Last three years): Please refer **Annexure-2**
Covenants of rated instrument/facility: *Detailed explanation of covenants of the rated instruments/facilities is given in* **Annexure-3**
Complexity level of various instruments rated for this company: **Annexure 4**

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	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	Nov-23	15.50	CARE BBB+; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	7.00	CARE BBB+; Stable / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)CARE BBB+; Stable / CARE A2 (06-Sep-19) 2)CARE A-; Negative / CARE A2+ (07-Jun-19)	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)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB+; Stable (06-Sep-19) 2)CARE A-; Negative (07-Jun-19)	1)CARE A-; Stable (26-Nov-18) 2)CARE A-; Positive (08-Oct-18)	1)CARE A-; Positive (07-Aug-17)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A2 (06-Sep-19) 2)CARE A2+ (07-Jun-19)	1)CARE A2+ (26-Nov-18) 2)CARE A2+ (08-Oct-18)	1)CARE A2+ (07-Aug-17)
4.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (06-Sep-19) 2)CARE A2+ (07-Jun-19)	1)CARE A2+ (26-Nov-18) 2)CARE A2+ (08-Oct-18)	1)CARE A2+ (07-Aug-17)
5.	Fund-based - LT-Term Loan	LT	15.50	CARE BBB+; Stable	-	-	-	-
6.	Fund-based - LT/ ST-Cash Credit	LT/ST	7.00	CARE BBB+; Stable / CARE A2	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- N/A

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure 5: List of subsidiaries and associates-

Name of the subsidiary and associates	% of Holding as on March 31, 2020
Gravita Infotech Limited (Formerly known as M/s Gravita Exim Ltd)	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 Buildestate 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
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
Gravita Peru SAC	100.00
Pearl Landcon Private Limited	25.00

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.*

Contact us

Media Contact
Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact:
Name: Harsh Raj Sankhla
Tel: 0141-4020213/214
Contact No: +91- 9413969100
Email ID: harshraj.sankhla@careratings.com

Relationship Contact
Name: Nikhil Soni
Contact no. : +91 - 95490 33222
Email ID: nikhil.soni@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**