Gravita India Ltd.

August 07, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	38.12 (enhanced from Rs.21.28)	**CARE A-; Positive (Single A Minus; Outlook: Positive)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	136.50 (enhanced from Rs.91.50)	**CARE A-; Positive/CARE A2+ (Single A Minus; Outlook: Positive/A Two Plus)**	**Reaffirmed**
Short-term Bank Facilities	77.00 (enhanced from 55.50)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
	251.62 (Rupees Two Hundred Fifty One crore and Sixty Two lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gravita India Limited (GIL) continue to favourably factor in 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 moderate capital structure, moderate debt coverage indicators and liquidity position and reputed customer base. The ratings also factor in improvement in total operating income, profitability and debt coverage indicators during FY17.

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 ongoing 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 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 due to expected improvement in operating income with stabilization of operations of Chittoor (Andhra Pradesh) Plant along-with expected improvement in profitability on account of various initiatives taken to improve operating efficiency as well as economies of scale apart from increasing sales of value added products. The scale of operations is also expected to improve following completion of capacity expansion projects at Phagi (Jaipur) and Chittoor (Andhra Pradesh) subject to the achievement of financial closure for these projects. However, the outlook may be revised to 'Stable' in case of delay in project implementation and deterioration in financial performance.

Detailed description of the key rating drivers

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 and major portion of their sales are routed through GIL providing operational synergy. Apart from that, GIL also meets its part raw-material requirement through these subsidiaries. GIL also has license for the import of battery scrap.

Moderate debt coverage indicators and capital structure: GIL's overall gearing and debt coverage indicators continued to remain moderate as on March 31, 2017.

Significant growth in scale of operations and profitability margin in FY17 at consolidated level: GIL's consolidated Total operating income (TOI) has significantly increased by 51.01% in FY17 as compared to FY16 mainly due to increase in sales

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

realization of lead products following increase in international lead prices with increase in sales volume. PBILDT margin and PAT margin has also improved significantly by 402 bps and 376 bps respectively in FY17 as compared to FY16 due to improvement in operating efficiency.

Key rating weakness

Working capital intensive operations: GIL's operations are working capital intensive as net working capital formed 82% of operating capital employed as on March 31, 2017. Liquidity position of GIL remained adequate marked by a comfortable current ratio as on March 31, 2017. The company's utilization of working capital borrowings also remained moderate at 82% during 12 month period ended May, 2017.

Customer concentration; albeit some of them being very reputed: Sales to top 10 customers contributed 71% of its TOI (consolidated) in FY17 resulting in customer concentration risk. GIL exports its products to around 29 countries with major exports being made to U.S.A., Japan and Indonesia.

Limited pricing flexibility and susceptibility of margins to fluctuation in international lead prices: During FY15 and FY16, the company's profitability was affected by volatility in international prices of lead as it was unable 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 and enters into back to back arrangement for purchase of raw material on receipt of orders for lead products.

Capacity expansion plans: GIL has planned to execute projects of about Rs.29.50 crore on consolidated level in the next three years to increase its scale of operations which would be funded through debt of Rs.17.00 crore and balance Rs.12.50 crore through internal accruals. GIL's ability to generate optimum returns from the added facility is crucial from the credit perspective.

Industry Outlook

CARE expects increasing demand from the automobile industry for the batteries will continue to drive the domestic lead demand. Going ahead CARE expects lead demand from the Original Equipment Manufacturers (OEM's) is likely to remain stable in the short term.

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, Gravita India Ltd. (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. It has eight manufacturing plants across the globe with a total aggregate manufacturing capacity of 1,13,419 Metric Tonnes (MT) per annum as on March 31, 2017. The company also provides turnkey solutions for development of plant and machinery for lead manufacturing units. Brief financials on consolidated level are mentioned below:

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	434.75	656.50
PBILDT	21.86	59.44
PAT	5.48	32.95
Overall gearing (times)	0.81	1.05
Interest coverage (times)	2.49	5.60

Status of non-cooperation with previous CRA: India Rating vide press release dated Feb, 2016 has withdrawn (IND BBB+ (Suspended)) long term issuer rating due to lack of adequate information.

Any other information: None

Rating History for last three years: Please refer Annexure-2

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

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	136.50	CARE A-; Positive / CARE A2+
Fund-based - LT-Term Loan	-	-	March, 2023	38.12	CARE A-; Positive
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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	136.50	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (22-Feb-17) 2)CARE A- / CARE A2+ (25-Apr-16)	-	1)CARE A- / CARE A2+ (08-Jan-15) 2)CARE A- / CARE A2+ (31-Dec-14)
2.	Fund-based - LT-Term Loan	LT	38.12	CARE A-; Positive	-	1)CARE A-; Stable (22-Feb-17) 2)CARE A- (25-Apr-16)	-	1)CARE A- (08-Jan-15)
3.	Non-fund-based - ST-BG/LC	ST	65.00	CARE A2+	-	1)CARE A2+ (22-Feb-17) 2)CARE A2+ (25-Apr-16)	-	1)CARE A2+ (08-Jan-15)
4.	Fund-based - ST-Standby Line of Credit	ST	12.00	CARE A2+	-	1)CARE A2+ (22-Feb-17) 2)CARE A2+ (25-Apr-16)	-	1)CARE A2+ (08-Jan-15)

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