

25th September 2019
GIL/2019-20/061

To,

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| The BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai- 400 001 Fax No.: 022-22722041 Scrip Code- 533282 | The Listing Department The National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra- Kurla Complex Bandra (east) Mumbai- 400 051 Fax No.: 022-26598237/38 Company Code- GRAVITA |
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Sub: Revision in Credit Rating of the Company

Dear Sir/Madam,

With reference to intimation under Regulation 30 (Schedule III, Part A) of Securities and Exchange Board of India (Listing Obligations Disclosure Requirements) Regulations, 2015, this is to inform that the credit ratings of the company have been revised by Brickwork Ratings vide their press release dated 25.09.2019 and the same is as under:

| Facility | Previous Limits Rs. in Crores | Present Limits Rs. in Crores | Tenure | Existing Rating | Revised Ratings |
|--|----------------------------------|---------------------------------|---|--|---|
| Fund Based Cash Credit Term Loans | 209.00 41.81 | 209.00 12.51 | Long Term | BWR A (BWR Single A) Outlook: Stable | BWR A – (BWR Single A Minus) Outlook: Stable (Downgrade) |
| Non-Fund Based BG/LC | 31.60 | 1.60 | Short Term | BWR A2+ (BWR A Two Plus) | BWR A2 (BWR A Two) (Downgrade) |
| Total | 282.41 | 253.11 | Rs. 253.11 Crores (Two Hundred & Fifty Three Crores and Eleven lakhs Only) | | |

The rationale for the above rating is also enclosed as Annexure

Yours Faithfully
For Gravita India Limited

Nitin Gupta
Nitin Gupta
Company Secretary
FCS-9984



Encl: As above



Rating Rationale

25 Sept 2019

Gravita India Limited

Brickwork Ratings revises the ratings for the bank loan facilities aggregating Rs. 253.11 Crores of Gravita India Limited ('GIL' or 'the Company').

Particulars

| Facility# | Amount (Rs. Crs) | | Tenure | Rating * | |
|--|-------------------------------|---|-----------------------|---|--|
| | Previous | Present | | Previous | Present |
| Fund Based Cash Credit Term Loans | 209.00 41.81 | 209.00 12.51 | Long Term | BWR A (Pronounced as BWR Single A) (Outlook Stable) | BWR A - (Pronounced as BWR Single A Minus) (Outlook Stable) (Downgrade) |
| Non Fund Based BG/LC | 31.60 | 31.60 | Short Term | BWR A2+ (Pronounced as BWR A Two Plus) | BWR A2 (Pronounced as BWR A Two) (Downgrade) |
| Total | 282.41 | Rs. 253.11 Crores (INR Two Hundred & Fifty Three Crores and Eleven Lakhs Only) | | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

#Facility-wise details of bank limits are available in Annexure I

RATING ACTION

The outstanding ratings of Gravita India Limited (GIL) has been downgraded on account of significant decline in its operating profit margins and net profit margins during FY19. This also impacted its interest coverage ratio and debt protection metrics. The group incurred capex in FY19 which resulted in an increase in its overall debt position and incremental working capital requirements, thereby adversely impacting its profitability margins. Current ratio also declined from 1.12x to 1.07x in FY19 on account of increase in trade payables from Rs. 56.14 Cr to Rs. 108.16 Cr in FY19.



On a consolidated basis, its financial indicators further deteriorated in Q1FY20 owing to non-stabilization of its new units, delays in shifting its lead refining unit from Gandhidham to Mundra resulting in additional overhead costs, temporary suspension of operations in its Ghana unit (though it shifted and became operational in Q2FY20) etc. BWR also notes that the company's contingent liabilities increased significantly from Rs. 13.39 Cr to Rs. 31.46 Cr mainly on account of corporate guarantees provided to its two group companies viz. Gravita Metal Inc and Gravita Netherlands B.V. for their new term loans availed.

The ratings continue to factor in the Company's experienced management with an established track record in lead metal recycling industry, presence across multiple locations with benefits derived from license to import lead battery scrap, continuous increase in its turnover levels on account of new orders received from customers and capacity additions made in all segments viz. lead, aluminium and PET/plastics during FY19. These strengths are partially offset by significant decline in EBITDA and PAT margins due to volatility in lead prices and consequent decline in debt protection metrics. Further, increase in working capital requirements moderated its liquidity profile coupled with low current ratio reported in FY19 and other inherent risks associated with business in lead metal and lead-acid battery scrap viz. likely changes in government policies, compliance with environment norms, exposure to cyclicity in its end-user industry amongst others.

OUTLOOK: STABLE

BWR believes that GIL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company maintains its turnover growth, increases its profitability margins despite facing pricing pressure, stabilizes the operations of its new units, manages its working capital management efficiently and improves current ratio over the medium term. The rating outlook may be revised to 'Negative' if the said financial parameters further deteriorate over the medium term.

KEY RATING DRIVERS

Credit Risks

Significant decline in its profitability levels: EBITDA margins declined significantly on account of lower valuation of inventory holdings in FY19. Since lead prices in international markets declined, the company's sales realisation and profitability margins were significantly impacted in FY19. PAT margins also declined on account of increase in interest expense & other overhead expenses owing to capex at its Tanzania, Chittor & Jaipur plants. As a result, ISCR and DSCR deteriorated. The group's cash accruals declined from Rs. 56.33 Cr to Rs. 30.95 Cr in FY19 with net profits declined from Rs. 11.98 Cr to Rs. 2.52 Cr during Q1FY20 largely on account of increasing financial costs coupled with temporary suspension of its Ghana unit (owing to regulatory directives). However, the management has informed that the Ghana unit has been shifted to a new location and has since commenced operations from the current quarter.



Moderate Working capital cycle: Owing to enhancement made in its existing capacities and new units added, its working capital requirements have increased significantly (average CC utilization is above 90% over the past 15 months). GIL has also submitted a proposal for enhancement in its current cash credit limits to its consortium lenders and thus expects its working capital position to improve by bringing down its trade payable levels over the medium term.

Susceptibility to changes in government regulations, environmental norms and other external factors: The lead metal recycling industry is highly susceptible to changes in government policies and environmental norms. The Company is also exposed to cyclicalities in its end-user industry as its demand-supply mechanism would directly affect the Company's revenue growth and profitability.

Credit Strengths:

Experienced Management: Mr. Rajat Agrawal (M.D.), started this business in the year 1992. Over the period of time, Gravita India Group has set up various units at various Indian and overseas locations.

Continuous improvement in its turnover levels: Despite downward trend in lead prices in international markets, GIL managed to increase its turnover levels during FY19 on account of new capacities added at multiple locations. It also received large orders from its existing overseas clients such as Trafigura, Sorin Corp. etc which added to its turnover growth. On a standalone basis, turnover increased by ~ 33% from Rs. 796.57 Cr to Rs. 1059.36 Cr and on a consolidated basis, turnover increased from Rs. 1029.48 Cr to Rs. 1241.73 Cr during FY19.

Capex incurred: The Group incurred capex in all its segments viz. Lead, Aluminum & PET/Plastic at Jaipur, Chittor and overseas plants during FY19. Recently, it has set up a new unit at Tanzania with a total lead recycling capacity of 6000 MT and aluminum recycling capacity of 3000 MT through its step down subsidiary, Gravita Netherlands B.V. The Group also extended its capacity at Phagi, Chittor, Ghana and Mozambique during FY19. The management has informed that the benefits from the said capex will be reflected post Q2FY20 results.

Group synergies: The Group has a presence across multiple locations through its various subsidiaries from which it derives benefits of having close proximity to raw material sources. The Group also has lead smelting capacity of 27000 MTPA, aluminium recycling capacity of 7200 MTPA and PET recycling capacity of 14400 MTPA outside India in various subsidiaries which add up to its revenue profile at the consolidated level.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone and consolidated performance of Gravita India Limited along with the business linkages with its various subsidiaries. List of these subsidiaries are enlisted at Annexure I. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).



RATING SENSITIVITIES

The Company's margins are highly sensitive towards the fluctuations in lead prices in international markets and thus the ability of the Company to completely hedge its inventory holding position and to stabilise the operations of its new units will be the key rating sensitivities.

Positive: The outlook may be revised to positive if, inter alia, the Company is able to improve its EBITDA and PAT margins to at least 10% & 4% respectively, ISCR & DSCR to above 4x & 3x, respectively, timely disbursement of the enhanced limits for improving its working capital position and maintain its gearing ratio to below 1.40x over the medium term.

Negative: The rating may be downgraded if there is a further decline in its profitability margins, interest coverage ratios and debt protection metrics and moderation in its liquidity position.

LIQUIDITY POSITION (Adequate)

Though the Company reported adequate cash accruals of around Rs. 25.79 Cr against its current portion of long term debt of around Rs. 7.00 Crs during FY19, its liquidity profile continues to remain moderate owing to incremental working capital requirements coupled with above average utilization (>90%) in its limits over the past 15 months. Overall debt position will increase as the Company proposed for enhancement in its existing cash credit limits and will also avail remaining disbursement of its term loan of Rs. 12 Cr (availed from Tata Capital Finance Ltd). Current ratio declined to 1.07x due to increasing trade payables. Thus, Company needs to bring down its trade payables, stabilize its enhanced operations and generate adequate level of profitability margins Y-O-Y in order to provide comfort to its liquidity position. Unencumbered cash & cash equivalent of GIL also remain low at Rs. 3.90 Cr as on 31.03.2019.

COMPANY PROFILE

Gravita India Limited (GIL) is a listed public limited company, incorporated in 1992 by Mr. M.P. Agrawal and Mr. Rajat Agrawal. GIL is majorly engaged in recycling of lead and manufacturing of lead-based products. GIL presently runs three units – Unit I at Jaipur, Unit II at Gandhidham (Gujarat) & Unit IV at Chittoor (Andhra Pradesh). Unit II and Unit IV are located nearby the custom ports for ease of Export and Import and saving in Logistic and working capital period. The total installed capacity of all the above units is around 112,819 MTPA. Its aluminum recycling unit and was set up at Phagi (Jaipur) during FY17 with a total installed capacity of 12,000 MTPA and Plastic division was set up in FY19 with a total installed capacity of 12000 MTPA. GIL also provides turnkey solutions for development of plant & machinery for lead manufacturing units.