

Graphite India (CAREVE)

₹ 960

Dream run continues...

Graphite India has been one of the better wealth creators for investors with the stock price nearly multiplying ~5.5x since our [Sector Update](#) in July 2017. The graphite electrode sector has been on a dream run since the start of CY17 driven by 1) consolidation of the graphite electrode market globally, 2) ~20% of global graphite electrode capacity (ex-China) shutting down in the last four years, 3) increase in steel production through EAF route coupled with an increase in global steel prices, 4) decline in both steel and graphite electrode exports from China on account of capacity closures. Going forward, on the back of sustained increase in graphite electrode prices, we believe there is more leg room in the stock price appreciation.

Growing EAF production points to healthy demand prospects...

China, on account of stringent environmental norms has shut ~155-160 million tonne of largely unaccounted induction furnace capacity along with ~115 MT steelmaking capacity in 2016-17. These capacity cuts have led to a reduction in steel exports by ~40% from the region, thereby encouraging steel production through the EAF route in other countries. Industry sources indicate that globally ~55 million tonne (MT) of EAF steel production was added in 2017. On the back of stringent pollution control norms, China is also aiming to increase the share of EAF route of steelmaking in its total steel production. In its effort to shift towards more environmental friendly steel production, China is likely to commission ~66 MT of EAF capacity in CY18. Post restructuring in 2017, the industry sources estimate the world EAF production is growing ~8-10% against the 3.5% growth witnessed in the last three decades.

Supply constrains to keep graphite electrode prices elevated...

Graphite electrode prices fell to unsustainable levels in 2014-17 on account of subdued demand from EAF producers, leading to permanent shutdown of ~200000 tonne globally (ex-China). Furthermore, ~300000 tonne graphite electrode capacity was shut in China citing environmental concerns. The reduction in graphite electrodes exports from China coupled with a shutdown of global graphite electrodes capacity vacated a substantial part of the global electrode market, tilting the graphite electrode demand-supply dynamics in favour of domestic players like Graphite India. Demand for graphite electrodes remained healthy on account of increasing steel production through the EAF route. Even in China, steel produced through the EAF route increased sharply from ~6% in CY16 to ~9% in CY17. In the absence of any new capacity additions owing to limited supply of needle coke (a key raw material), we believe this demand-supply imbalance (in favour of demand) is likely to sustain in the near to medium term keeping graphite electrode prices elevated, thereby boosting profitability.

Profitability to remain robust, reiterate BUY!

On the back of favourable operating environment, in FY18-20E, we expect Graphite India's topline, EBITDA and PAT to grow at a CAGR of 46%, 55% and 54%, respectively. We change our valuation methodology and now value the stock on a P/E basis. We value the stock at 10x FY20E EPS of ₹ 125 thereby arriving at a target price of ₹ 1250, maintaining our **BUY** recommendation. Graphite India has a robust balance sheet, net cash status and healthy cash flow generation, which augurs well. Currently, the company's net cash balance was at ₹ 991 crore as on March 31, 2018, which is likely to increase to ~₹ 3053 crore in FY20E reflecting a cash per share of ₹ 156/share (in FY20E).

Rating matrix	
Rating	: Buy
Target	: ₹ 1250
Target Period	: 12 months
Potential Upside	: 30%

What's Changed?	
Target	Changed from ₹ 1000 to ₹ 1250
EPS FY19E	Changed from ₹ 56.1 to ₹ 120.6
EPS FY20E	Changed from ₹ 69.7 to ₹ 125.0
Rating	Unchanged

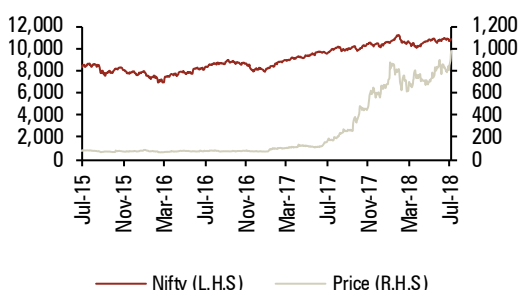
Key Financials				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Total Operating Income	1467.8	3266.0	6685.3	6933.2
EBITDA	39.6	1444.2	3428.9	3485.3
Net Profit	70.5	1032.0	2357.5	2442.0
EPS	3.6	52.8	120.6	125.0

Valuation summary				
	FY17	FY18	FY19E	FY20E
PE (x)	266.2	18.2	8.0	7.7
Target PE (x)	346.6	23.7	10.4	10.0
EV/EBITDA (x)	463.6	12.3	5.0	4.5
P/BV (x)	10.1	6.9	4.8	3.4
RoNW (%)	3.8	37.8	60.0	44.3
RoCE (%)	-0.3	47.1	83.3	62.2

Stock data	
Particular	Amount
Market Capitalisation (₹ crore)	₹ 18758
Debt (FY18) (₹ crore)	₹ 272
Cash & Cash Equivalent (FY18) (₹ crore)	₹ 1263
EV (₹ crore)	₹ 17767
52 week H/L	1004 / 169
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Price performance (%)				
Return %	1M	3M	6M	12M
HEG	12.6	21.6	44.7	748.4
Graphite India	17.7	30.6	15.9	422.4

Share Price Graph



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Financial summary (Consolidated)

Profit and loss statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Total Operating Income	1467.8	3266.0	6685.3	6933.2
Growth (%)	-4.2	122.5	104.7	3.7
Raw Material Expenses	585.1	771.9	1,858.8	2,026.2
Employee Expenses	222.5	252.1	351.9	364.9
Other expenses	620.6	797.8	1,045.7	1,056.8
Total Operating Expenditure	1,428.2	1,821.8	3,256.3	3,447.8
EBITDA	39.6	1444.2	3428.9	3485.3
Growth (%)	-70.6	3,551.5	137.4	1.6
Depreciation	46.4	51.6	57.3	58.6
Interest	7.9	8.1	5.9	1.8
Other Income	86.5	88.5	152.9	219.9
PBT	71.8	1,473.0	3,518.6	3,644.7
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	1.3	441.0	1,161.1	1,202.8
PAT	70.5	1032.0	2357.5	2442.0
Growth (%)	-14.9	1,364.7	128.4	3.6
EPS (₹)	3.6	52.8	120.6	125.0

Source: Company, ICICI Direct Research

Balance sheet (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	39.1	39.1	39.1	39.1
Reserve and Surplus	1,818.5	2,692.7	3,887.2	5,470.3
Total Shareholders funds	1,857.6	2,731.8	3,926.3	5,509.4
Total Debt	259.2	272.2	122.2	0.0
Deferred Tax Liability	85.0	94.5	94.5	94.5
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	2,201.8	3,098.5	4,143.0	5,603.9
Assets				
Gross Block	1,539.1	1,624.9	1,649.9	1,699.9
Less: Acc Depreciation	871.7	923.3	980.6	1,039.2
Net Block	667.4	701.6	669.3	660.6
Capital WIP	32.1	8.1	8.1	8.1
Total Fixed Assets	699.5	709.7	677.4	668.8
Investments	631.0	1,207.8	1,307.8	2,107.8
Inventory	602.1	786.4	1,465.3	1,614.6
Debtors	441.5	823.5	1,556.8	1,709.6
Loans and Advances	11.7	22.1	50.8	50.8
Other Current Assets	103.5	125.8	100.8	75.8
Cash	51.5	55.6	487.0	945.4
Total Current Assets	1,210.1	1,813.4	3,660.7	4,396.1
Current Liabilities	316.0	647.8	1,373.7	1,424.6
Provisions	25.7	34.0	129.2	144.2
Current Liabilities & Prov	341.7	681.8	1,502.9	1,568.8
Net Current Assets	868.4	1,131.6	2,157.8	2,827.3
Others Assets	2.9	49.4	0.0	0.0
Application of Funds	2,201.8	3,098.5	4,143.0	5,603.9

Source: Company, ICICI Direct Research

Cash flow statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	70.5	1,032.0	2,357.5	2,442.0
Add: Depreciation	46.4	51.6	57.3	58.6
(Inc)/dec in Current Asset	204.0	-599.1	-1,415.9	-277.0
Inc/(dec) in CL & Provision	11.6	340.1	821.1	65.9
Others	9.3	-37.0	49.4	0.0
CF from operating activities	341.7	787.6	1,869.4	2,289.5
(Inc)/dec in Investments	-215.1	-576.8	-100.0	-800.0
(Inc)/dec in Fixed Assets	-89.1	-61.9	-25.0	-50.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-304.2	-638.7	-125.0	-850.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-43.1	13.0	-150.0	-122.2
Dividend paid & div. tax	-47.0	-388.7	-827.5	-857.1
Inc/(dec) in Share Cap	83.0	230.9	-335.5	-1.7
Others	0.0	0.0	0.0	0.0
CF from financing activities	-7.1	-144.8	-1,313.0	-981.1
Net Cash flow	30.4	4.1	431.4	458.4
Opening Cash	21.0	51.5	55.6	487.0
Closing Cash	51.5	55.6	487.0	945.4

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	3.6	52.8	120.6	125.0
Cash EPS	6.0	55.5	123.6	128.0
BV	95.1	139.8	200.9	282.0
DPS	2.0	17.0	36.2	37.5
Cash Per Share	34.9	64.7	91.9	156.3
Operating Ratios (%)				
EBITDA Margin	2.7	44.2	51.3	50.3
PBT / Total Operating income	4.9	45.1	52.6	52.6
PAT Margin	4.8	31.6	35.3	35.2
Inventory days	150	88	80	85
Debtor days	110	92	85	90
Creditor days	79	72	75	75
Return Ratios (%)				
RoE	3.8	37.8	60.0	44.3
RoCE	-0.3	47.1	83.3	62.2
RoIC	-0.3	47.2	94.7	75.1
Valuation Ratios (x)				
P/E	266.2	18.2	8.0	7.7
EV / EBITDA	463.6	12.3	5.0	4.5
EV / Net Sales	12.5	5.4	2.6	2.3
Market Cap / Sales	12.8	5.7	2.8	2.7
Price to Book Value	10.1	6.9	4.8	3.4
Solvency Ratios				
Debt/EBITDA	6.6	0.2	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	3.5	2.7	2.4	2.8
Quick Ratio	1.8	1.5	1.5	1.8

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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