

Rating matrix	
Rating	: Buy
Target	: ₹ 650
Target Period	: 12 months
Potential Upside	: 25%

What's Changed?	
Target	Changed from ₹1400 to ₹650
EPS FY19E	Changed from ₹180.0 to ₹173.1
EPS FY20E	Changed from ₹140.0 to ₹108.3
Rating	Unchanged

Quarterly Performance (Consolidated)					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	1,855.0	1,025.0	81.0	2,345.0	-20.9
EBITDA	1083.0	543.0	99.4	1640	-34.0
EBITDA (%)	58.4	53.0	541 bps	69.9	-1155 bps
PAT	764.0	359.0	112.8	1113.0	-31.4

Key Financials				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Total Operating Income	1467.8	3266.0	8120.3	7309.7
EBITDA	39.6	1444.2	4929.0	3003.2
Net Profit	70.5	1032.0	3381.5	2116.8
EPS	3.6	52.8	173.1	108.3

Valuation summary				
	FY17	FY18	FY19E	FY20E
PE (x)	144.2	9.8	3.0	4.8
Target PE (x)	180.3	12.3	3.8	6.0
EV/EBITDA (x)	246.2	6.3	1.7	2.3
P/BV (x)	5.5	3.7	2.2	1.7
RoNW (%)	3.8	37.8	73.7	35.5
RoCE (%)	-0.3	47.1	103.5	49.4

Stock data	
Particular	Amount
Market Capitalisation (₹ crore)	₹ 10356
Debt (FY18) (₹ crore)	₹ 272
Cash & Cash Equivalent (FY18) (₹ crore)	₹ 1263
EV (₹ crore)	₹ 9365
52 week H/L	1126 / 459
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Price performance (%)				
Return %	1M	3M	6M	12M
HEG	(30.9)	(40.9)	(41.3)	(1.2)
Graphite India	(26.2)	(44.0)	(45.5)	(22.7)

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Graphite India (CAREVE)

₹ 520

Higher costs to impact margin profile...

- For Q3FY19, Graphite India reported subdued results wherein topline, EBITDA and PAT came in below our estimate. The performance during the quarter was impacted by higher-than-expected operating costs (especially needle coke) and lower than expected volumes
- The company reported a consolidated topline of ₹ 1855 crore (up 81% YoY, down 21% QoQ) lower than our estimate of ₹ 1926.1 crore. Consolidated EBITDA for the quarter was at ₹ 1083 crore (Q3FY18: ₹ 543 crore, Q2FY19: ₹ 1640 crore, our estimate: ₹ 1193 crore). The corresponding EBITDA margin was at 58.4% (Q3FY18: 53.0%, Q2FY19: 69.9%, our estimate: 61.9%). Sequentially, raw material cost (as percentage of sales) increased to 32.2% from 22.2% in Q2FY19 leading to moderation in EBITDA margin from Q2FY19 level. Ensuing consolidated PAT was at ₹ 764 crore (vs. Q3FY18: ₹ 359 crore and Q2FY19: ₹ 1113 crore, our estimate of ₹ 821.6 crore)
- Standalone topline came in at ₹ 1562 crore (up 67% YoY, down 22% QoQ) lower than our estimate of ₹ 1605.2 crore. Standalone EBITDA for the quarter was at ₹ 868 crore (Q3FY18: ₹ 518 crore, Q2FY19: ₹ 1367 crore, our estimate: ₹ 982.6 crore). Corresponding EBITDA margin was at 55.6% (Q2FY19: 68.1%, our estimate: 61.2%). Ensuing standalone PAT was at ₹ 609 crore (our estimate: ₹ 678.8 crore)

Graphite electrode prices witnessing softening trend...

Graphite electrodes are used in the EAF route of steel-making. Recently, the slowing down of the Chinese economy together with oversupply of Chinese steel has resulted in an ongoing correction of steel prices. This has had an adverse effect on graphite electrodes realisation. Graphite electrode prices have softened due to a combination of factors like weak global steel prices, increased Chinese imports into India and select trade restriction placed by the US.

Needle coke prices on uptrend; to impact margin profile...

Needle coke is a key raw material used in manufacture of UHP grade graphite electrodes. As needle coke is scarce in supply, its prices are on a sustained uptrend. In a scenario of softening graphite electrode prices, an uptick in needle coke costs is likely to impact the margin profile of Graphite India.

Elevated needle coke prices to impact operating margins...

While Graphite India reported a healthy 9MFY19 on the back of favourable realisations and relatively subdued operating costs, we expect operating profit margins to decline from supernormal levels of 67.5% in 9MFY19 to ~41% in FY20E. This is on account of a steep rise in price of key raw material (needle coke) and the fall witnessed in price of graphite electrodes in both UHP grade (on account of recent weakness in steel prices) and HP grade (on account of removal of anti-dumping duty from China) electrodes. Taking into account the same, we downward revise our graphite electrodes realisation assumption for FY19 & FY20E while we upward revise the needle coke costs estimate. Aligning with the contraction witnessed in P/E of global graphite electrodes majors, we now value the stock at 6x FY20E P/E. Hence, we arrive at a target price of ₹ 650 and assign a **BUY** rating on the stock. In the current volatile scenario, a healthy payout ratio coupled with a robust balance-sheet and strong track record of Graphite India comforts our positive stance.

Variance analysis

Consolidated Performance	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	
Revenue	1855.0	1926.1	1025.0	81.0	2345.0	-20.9	Topline came in lower than our estimate on the back of lower volumes
Other Income	66.0	50.0	11.0	500.0	44.0	50.0	
Total Operating expense	772.0	733.2	482.0	60.2	705.0	9.5	
EBITDA	1,083.0	1,192.8	543.0	99.4	1,640.0	-34.0	EBITDA came in lower than our estimate
EBITDA Margin (%)	58.4	61.9	53.0	541 bps	69.9	-1155 bps	EBITDA margin came in lower than our estimate
Depreciation	13.0	13.3	13.0	0.0	13.0	0.0	
Interest	3.0	3.3	3.0	0.0	3.0	0.0	
Exceptional Items	-1.0						
PBT	1132.0	1226.3	538.0	110.4	1668.0	-32.1	
Tax Outgo	368.0	404.7	179.0	105.6	555.0	-33.7	
PAT	764.0	821.6	359.0	112.8	1113.0	-31.4	The ensuing PAT came in lower than our estimate
Key Metrics							
Consolidated Capacity Utilisation Level (%)	80%	85%	86%		93%		Consolidated capacity utilisation came in marginally lower than our estimate

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	8412.1	8,120	-3.5	8046.2	7309.7	-9.2	Downward revised estimate for FY19E & FY20E
EBITDA	5,175.3	4,929	-4.8	4,018.2	3,003.2	-25.3	
EBITDA Margin (%)	61.5	60.7	-82 bps	49.9	41.1	-885 bps	
PAT	3,517.1	3,381	-3.9	2,735.8	2,116.8	-22.6	
EPS (₹)	180.0	173.1	-3.9	140.0	108.3	-22.6	

Source: Company, ICICI Direct Research

Assumptions

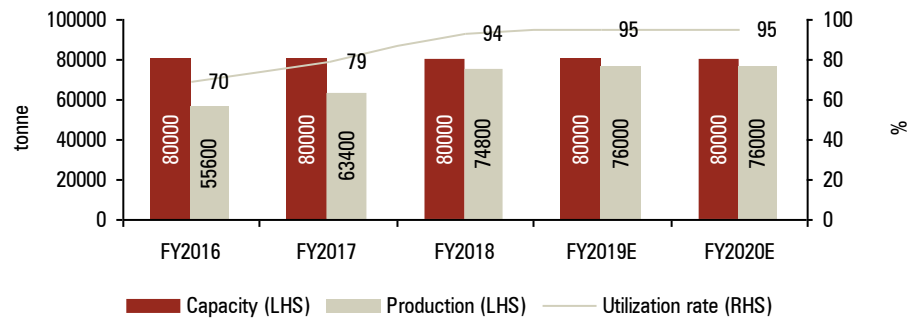
	Current		Earlier		Comments
	FY19E	FY20E	FY19E	FY20E	
Domestic capacity utilisation (%)	95	95	95	85	Maintained estimates
Consolidated capacity utilisation (%)	88	90	88	88	Maintained estimates

Source: Company, ICICI Direct Research

Company Analysis

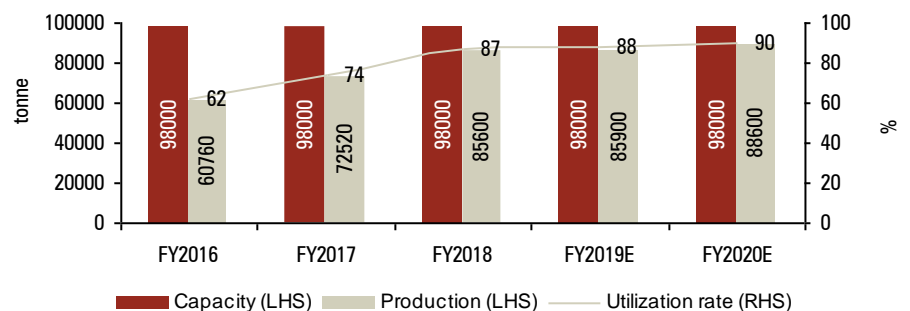
The company is a leading manufacturer of graphite electrode with an installed capacity of 98,000 tonne per annum (TPA). The installed capacity in India is 80,000 tonne of which 54,000 tonne is in Durgapur, 13000 tonne in Nashik and 13000 tonne in Bangalore. GIL also owns a plant in Nuremberg (Germany) with an installed capacity of 18,000 tonne. The company commissioned its last capacity expansion in Q1FY14 wherein it installed a capacity of 20,000 tonne at its Durgapur plant while incurring a capex of ₹ 255 crore.

Exhibit 1: Graphite electrode capacity production & utilisation rate (standalone basis)



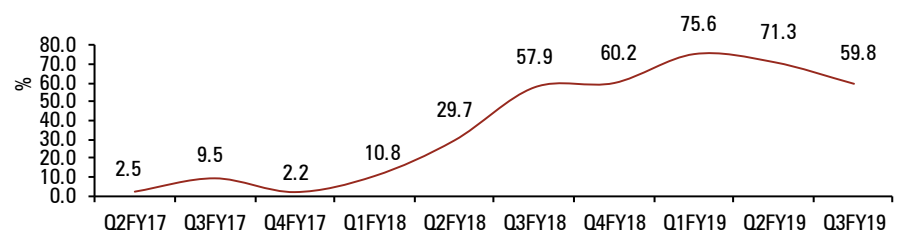
Source: Company, ICICI Direct Research

Exhibit 2: Capacity & utilisation rates (Consolidated basis)



Source: Company, ICICI Direct Research

Exhibit 3: Graphite electrode segment EBIT performance



Source: Company, ICICI Direct Research

Outlook and valuation

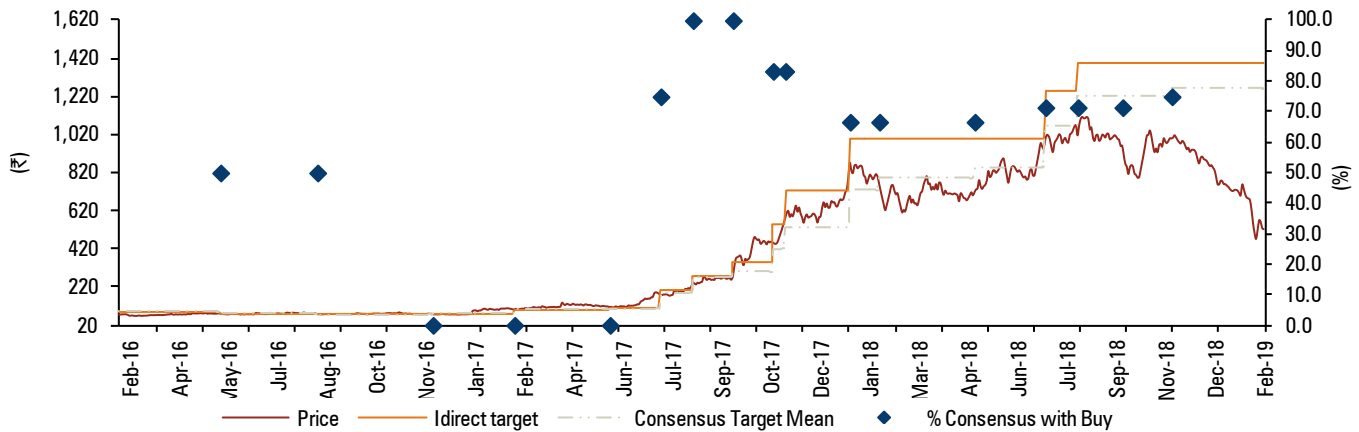
While Graphite India reported a healthy 9MFY19 on the back of favourable realisations and relatively subdued operating costs, we expect operating profit margins to decline from supernormal levels of 67.5% in 9MFY19 to ~41% levels in FY20E. This is on account of a steep rise in price of key raw material (needle coke) and the fall witnessed in price of graphite electrodes in both UHP grade (on account of recent weakness in steel prices) and HP grade (on account of removal of anti-dumping duty from China) electrodes. Taking into account the same, we downward revise our graphite electrodes realisation assumption for FY19 & FY20E while we upward revise the needle coke costs estimate. Aligning with the contraction witnessed in P/E of global graphite electrodes majors, we now value the stock at 6x FY20E P/E. Hence, we arrive at a target price of ₹ 650 and assign a **BUY** rating to the stock. In the current volatile scenario, a healthy payout ratio coupled with a robust balance-sheet and the strong track record of Graphite India support our positive stance.

Exhibit 4: Valuation matrix

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
FY15	1710.7	-14.9	2.9	-55.7	176.4	74.0	3.3	4.4
FY16	1532.3	-10.4	4.2	43.8	122.7	74.5	4.7	4.2
FY17	1467.8	-4.2	3.6	-14.9	144.2	246.2	3.8	-0.3
FY18	3266.0	122.5	52.8	1364.7	9.8	6.3	37.8	47.1
FY19E	8120.3	148.6	173.1	227.7	3.0	1.7	73.7	103.5
FY20E	7309.7	-10.0	108.3	-37.4	4.8	2.3	35.5	49.4

Source: Company, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Mar-10	Converts bonds into shares. Sets bond conversion price at ₹ 55.3
Dec-10	European Union renews tariffs on graphite electrodes from India (tariff at 9.4%)
Mar-11	GIL declares lockout at Titlagarh unit post labour unrest at its plant site
Jun-11	Titlagarh unit resumes production post settlement with labour unions including increase in wages & other benefits
Mar-12	GIL sells its entire stake in its subsidiary Carbon International (engaged in trading activities only) for €4.6 million (₹ 30 crore)
Jul-12	Karnataka State Pollution Control Board orders the company to shut operations in its Bangalore plant till further orders, citing environmental pollution
Aug-12	GIL resumes operations at its Bangalore plant after obtaining stay on the pollution control board order for closure of its plant at Bangalore
Sep-12	The company's international peer Graftech expected to hike electrode prices for 2013 contracts
Nov-13	Global players announce production cuts to support graphite electrode prices
Feb-15	Gol imposes antidumping duty on graphite electrodes (all diameters) originating in or exported from China. The amount of anti-dumping duty ranges from US\$278.19 per MT to US\$922.03 per MT, depending on the Chinese producer/exporter
Mar-16	Board declares interim dividend of ₹ 2.0/share
Jun-17	Board declares dividend of ₹ 2.0/share for FY17

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Emerald Co., Ltd.	31-Dec-2018	61.2	119.6M	0
2	L&T Investment Management Limited	31-Dec-2018	4.6	8.9M	-0.3M
3	GKN Ltd	31-Dec-2018	2.0	4.0M	0
4	Life Insurance Corporation of India	31-Dec-2018	1.9	3.7M	0
5	The New India Assurance Co. Ltd.	31-Dec-2018	1.0	2.0M	0
6	Bangur (Krishna Kumar)	31-Dec-2018	0.8	1.7M	-0.0M
7	The Vanguard Group, Inc.	31-Dec-2018	0.8	1.5M	0.0M
8	Goldman Sachs Asset Management International	31-Dec-2018	0.6	1.1M	-0.0M
9	Causeway Capital Management LLC	31-Dec-2018	0.5	1.0M	0.3M
10	IDFC Asset Management Company Private Limited	31-Dec-2018	0.3	0.6M	0.1M

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	65.2	65.2	65.2	65.2	65.2
FII	5.9	4.6	6.0	8.3	8.3
DII	8.8	8.5	8.8	8.1	8.4
Others	20.1	21.7	20.1	18.4	18.1

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Causeway Capital Management LLC	3.5M	0.3M	L&T Investment Management Limited	-3.3M	-0.3M
IDFC Asset Management Company Private Limited	1.4M	0.1M	J.P. Morgan Asset Management (Hong Kong) Ltd.	-2.8M	-0.3M
HSBC Global Asset Management (India) Private Limited	0.4M	0.0M	Fisher Investments	-1.5M	-0.1M
Schroder Investment Management Ltd. (SIM)	0.5M	0.0M	JPMorgan Asset Management U.K. Limited	-1.5M	-0.1M
BlackRock Institutional Trust Company, N.A.	0.4M	0.0M	Sundaram Asset Management Company Limited	-1.4M	-0.1M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Total Operating Income	1467.8	3266.0	8120.3	7309.7
Growth (%)	-4.2	122.5	148.6	-10.0
Raw Material Expenses	585.1	771.9	2,023.4	2,907.1
Employee Expenses	222.5	252.1	299.2	334.7
Other expenses	620.6	797.8	868.7	1,064.7
Total Operating Expenditure	1,428.2	1,821.8	3,191.3	4,306.5
EBITDA	39.6	1444.2	4929.0	3003.2
Growth (%)	-70.6	3,551.5	241.3	-39.1
Depreciation	46.4	51.6	53.2	58.6
Interest	7.9	8.1	5.9	1.8
Other Income	86.5	88.5	182.3	219.9
PBT	71.8	1,473.0	5,052.2	3,162.7
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	1.3	441.0	1,670.8	1,045.9
PAT	70.5	1032.0	3381.5	2116.8
Growth (%)	-14.9	1,364.7	227.7	-37.4
EPS (₹)	3.6	52.8	173.1	108.3

Source: Company, ICICI Direct Research

Cash flow statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	70.5	1,032.0	3,381.5	2,116.8
Add: Depreciation	46.4	51.6	53.2	58.6
(Inc)/dec in Current Asset	204.0	-599.1	-2,064.7	191.2
Inc/(dec) in CL & Provision	11.6	340.1	1,116.0	-170.6
Others	9.3	-37.0	49.4	0.0
CF from operating activities	341.7	787.6	2,535.4	2,196.0
(Inc)/dec in Investments	-215.1	-576.8	-100.0	-800.0
(Inc)/dec in Fixed Assets	-89.1	-61.9	-75.0	-100.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-304.2	-638.7	-175.0	-900.0
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	-1,186.9	-743.0
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	-1,672.4	-866.9
Net Cash flow	30.4	4.1	688.0	429.1
Opening Cash	21.0	51.5	55.6	743.6
Closing Cash	51.5	55.6	743.6	1,172.7

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	4,551.8	5,923.8
Total Shareholders funds	1,857.6	2,731.8	4,590.9	5,962.9
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	4,807.5	6,057.4
Assets				
Gross Block	1,539.1	1,624.9	1,699.9	1,799.9
Less: Acc Depreciation	871.7	923.3	976.5	1,035.1
Net Block	667.4	701.6	723.4	764.8
Capital WIP	32.1	8.1	8.1	8.1
Total Fixed Assets	699.5	709.7	731.5	772.9
Investments	631.0	1,207.8	1,307.8	2,107.8
Inventory	602.1	786.4	1,779.8	1,702.3
Debtors	441.5	823.5	1,891.0	1,802.4
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	743.6	1,172.7
Total Current Assets	1,210.1	1,813.4	4,566.0	4,803.9
Current Liabilities	316.0	647.8	1,668.6	1,502.0
Provisions	25.7	34.0	129.2	125.2
Current Liabilities & Prov	341.7	681.8	1,797.8	1,627.2
Net Current Assets	868.4	1,131.6	2,768.2	3,176.7
Others Assets	2.9	49.4	0.0	0.0
Application of Funds	2,201.8	3,098.5	4,807.5	6,057.4

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	3.6	52.8	173.1	108.3
Cash EPS	6.0	55.5	175.8	111.3
BV	95.1	139.8	234.9	305.2
DPS	2.0	17.0	51.9	32.5
Cash Per Share	34.9	64.7	105.0	167.9
Operating Ratios (%)				
EBITDA Margin	2.7	44.2	60.7	41.1
PBT / Total Operating income	4.9	45.1	62.2	43.3
PAT Margin	4.8	31.6	41.6	29.0
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	73.7	35.5
RoCE	-0.3	47.1	103.5	49.4
RoIC	-0.3	47.2	122.8	61.5
Valuation Ratios (x)				
P/E	144.2	9.8	3.0	4.8
EV / EBITDA	246.2	6.3	1.7	2.3
EV / Net Sales	6.6	2.8	1.0	0.9
Market Cap / Sales	6.9	3.1	1.3	1.4
Price to Book Value	5.5	3.7	2.2	1.7
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	2.5	3.0
Quick Ratio	1.8	1.5	1.5	1.9

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Graphite Electrodes)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Graphite India	520	650	Buy	10,161	52.8	173.1	108.3	9.8	3.0	4.8	6.3	1.7	2.3	47.1	103.5	49.4	37.8	73.7	35.5
HEG	2420	5750	Buy	9,680	270.6	750.1	575.0	8.9	3.2	4.2	10.3	3.7	4.8	78.9	121.4	65.7	59.8	79.8	43.8

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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