

Steady performance...

Graphite India reported a steady Q4FY19 performance wherein the topline came in broadly in line with our estimates while EBITDA and PAT came in higher than our estimate. On a consolidated basis, Graphite India reported capacity utilisation of 85% (80% in Q3FY19 and 91% in Q4FY18, in line with our estimate of 85%). The consolidated topline came in at ₹ 1693 crore (down 8.7% QoQ, up 28.0% YoY, broadly in line with than our estimate: ₹ 1677 crore). Consolidated EBITDA for the quarter was at ₹ 864 crore (up 20% YoY, down 20% QoQ, higher than our estimate of ₹ 778 crore). EBITDA margin was at 51.0% (higher than our estimate of 46.4%, 58.4% in Q3FY19 and 54.4% in Q4FY18). During the quarter, the company reported an exceptional expense to the tune of ₹ 55 crore, with respect to the compensation payable to its workers/employees at the Bengaluru unit due to closure of its operations. The company reported consolidated PAT of ₹ 562 crore (higher than our estimate of ₹ 533 crore).

Graphite electrode prices witnessing softening trend...

Graphite electrodes are used in the EAF route of steel-making. Global steel demand has been negatively impacted by an industrial slowdown due to a volatile geopolitical and economic environment. In China, a slowdown in steel consumption demand has resulted in an oversupply of steel, which has negatively impacted both steel as well as graphite electrode prices. On the domestic front, India removed antidumping duties on graphite electrodes imported from China in September 2018. This led to increased imports. All above factors put downward pressure on graphite electrode prices.

Needle coke prices remain elevated; 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.

Valuation & Outlook

While global graphite electrode prices have witnessed a softening trend; the uptick in prices of key raw material (viz. needle coke) is likely to impact the company's margin profile. We downward revise capacity utilisation level to 82.0% for FY20E (from 85% earlier) and introduce FY21E capacity utilisation at 82.0%. We value the stock at 6x FY21E EPS and arrive at a target price of ₹ 400. We have a **HOLD** recommendation on the stock.



Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 7034
Debt (FY19) (₹ crore)	₹ 359
Cash & Cash Equivalent (FY19) (₹ crore)	₹ 2937
EV (₹ crore)	₹ 4456
52 week H/L	1126 / 309
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Key Highlights

- On a consolidated basis the company reported capacity utilisation of 85% while on a standalone basis the company reported capacity utilisation of 92%
- Company proposed a final dividend of ₹ 35 per share
- We downgrade the stock to HOLD

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1,468	3,266	7,858	5,720	5,586
EBITDA	40	1,444	5,023	1,984	1,850
EBITDA Margin (%)	2.7	44.2	63.9	34.7	33.1
Adj PAT	70	1,032	3,396	1,386	1,304
EPS (₹)	3.6	52.8	173.8	70.9	66.7
EV/EBITDA (x)	167.2	4.2	0.9	2.4	2.2
RoCE (%)	(0.3)	47.1	87.0	35.5	28.5
RoE (%)	3.8	37.8	63.5	25.5	20.8

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Consolidated Performance)

Consolidated Performance	Q4FY19	Q4FY19E	Q3FY18	YoY (%)	Q4FY18	QoQ (%)	
Revenue	1693.0	1677.0	1855.0	-8.7	1323.0	28.0	Topline broadly came in line with our estimates
Other Income	70.0	46.6	66.0	6.1	36.0	94.4	Other income came in higher than our estimate
Total Operating expense	829.0	899.0	772.0	7.4	603.0	37.5	
EBITDA	864.0	778.0	1,083.0	-20.2	720.0	20.0	EBITDA came in higher than our estimate
EBITDA Margin (%)	51.0	46.4	58.4	-735 bps	54.4	-339 bps	EBITDA margin came in higher than our estimate
Depreciation	23.0	14.2	13.0	76.9	13.0	76.9	Depreciation expense came in higher than our estimate
Interest	4.0	1.9	3.0	33.3	2.0	100.0	
Exceptional Items	-57.0		-1.0				Majority of exceptional items represent compensation payable to its workers/employees at Bengaluru unit due to
PBT	850.0	808.5	1132.0	-24.9	741.0	14.7	
Tax Outgo	288.0	275.4	368.0	-21.7	201.0	43.3	
PAT	562.0	533.1	764.0	-26.4	540.0	4.1	PAT came in higher than our estimate
Key Metrics							
Consolidated Capacity Utilisation (%)	85%	85%	80%		91%		Capacity utilisation came in line with our estimate

Source: Company, ICICI Direct Research

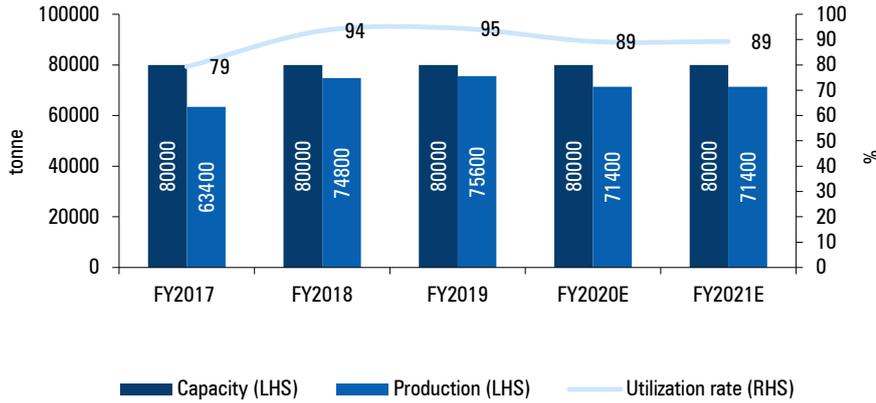
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E	
	Old	New	% Change	Introduced	Comments
Revenue	7309.7	5,720	-21.8	5586.0	Downward revise estimate for FY20E, introduce estimate for FY21E
EBITDA	3,003.2	1,984	-33.9	1,849.7	
EBITDA Margin (%)	41.1	34.7	-640 bps	33.1	
PAT	2,116.8	1,386	-34.5	1,304.0	
EPS (₹)	108.3	70.9	-34.5	66.7	

Source: Company, ICICI Direct Research

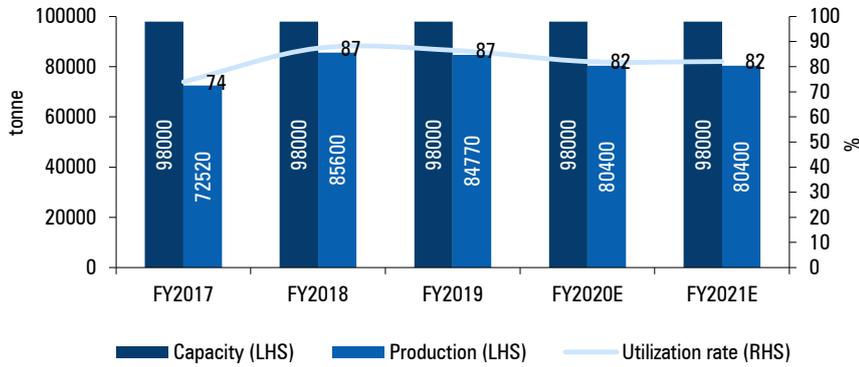
Financial story in charts

Exhibit 3: Trend in standalone capacity utilisation level



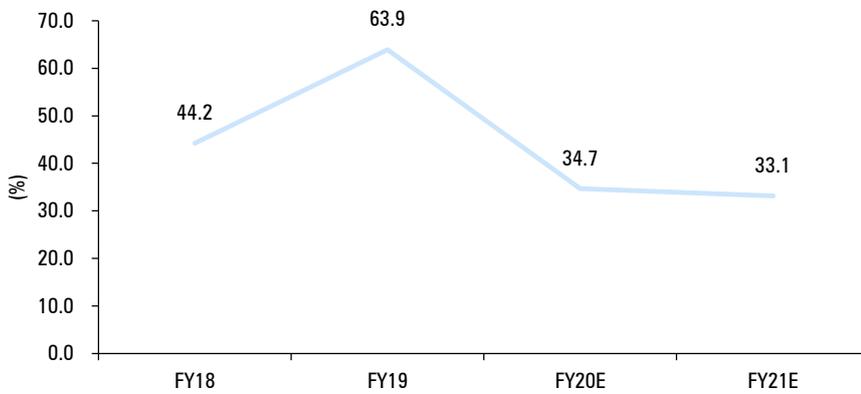
Source: Company, ICICI Direct Research

Exhibit 4: Trend in consolidated capacity utilisation level



Source: Company, ICICI Direct Research

Exhibit 5: Consolidated EBITDA margin trend likely to soften, going forward



Source: Company, ICICI Direct Research

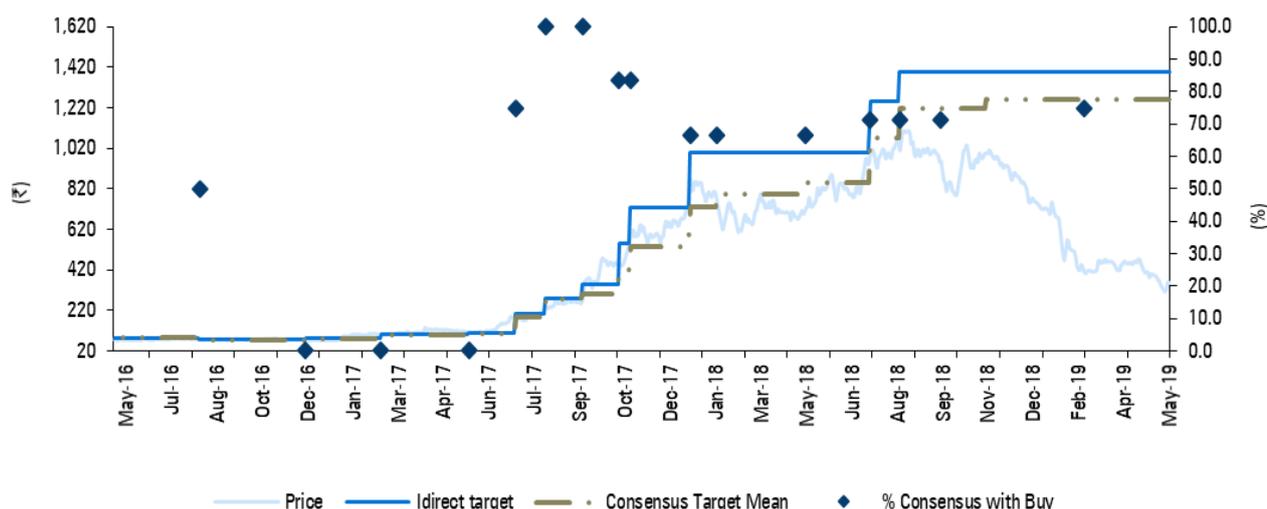
Consolidated EBITDA margin expected to soften over the next couple of years on the back of subdued graphite electrode realisations and elevated needle coke costs

Exhibit 6: Valuation

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1468	-4.2	3.6	-14.9	99.8	167.2	3.8	-0.3
FY18	3266	122.5	52.8	1364.7	6.8	4.2	37.8	47.1
FY19	7858	140.6	173.8	229.1	2.1	0.9	63.5	87.0
FY20E	5720	-27.2	70.9	-59.2	5.1	2.4	25.5	35.5
FY21E	5586	-2.3	66.7	-5.9	5.4	2.2	20.8	28.5

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Emerald Co., Ltd.	31-Mar-2019	61.2	119.6M	0
2	L&T Investment Management Limited	31-Mar-2019	3.2	6.3M	0
3	GKN Ltd	31-Mar-2019	2.0	4.0M	0
4	Life Insurance Corporation of India	31-Mar-2019	1.9	3.7M	0
5	The New India Assurance Co. Ltd.	31-Mar-2019	1.1	2.2M	0.2M
6	The Vanguard Group, Inc.	30-Apr-2019	1.1	2.2M	-0.0M
7	Bangur (Krishna Kumar)	31-Mar-2019	0.8	1.7M	0
8	IDFC Asset Management Company Private Limited	30-Apr-2019	0.5	1.1M	0
9	Goldman Sachs Asset Management International	31-Mar-2019	0.5	1.0M	-0.2M
10	BlackRock Institutional Trust Company, N.A.	30-Apr-2019	0.4	0.8M	0.0M

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
NNIP Advisors B.V.	+2.45M	+0.31M	Causeway Capital Management LLC	-6.19M	-0.96M
The New India Assurance Co. Ltd.	+1.37M	+0.21M	Robeco Institutional Asset Management B.V.	-1.33M	-0.23M
Principal Asset Management Private Limited	+0.60M	+0.09M	BOI AXA Investment Managers Private Limited	-1.40M	-0.18M
Goldman Sachs Asset Management (US)	+0.34M	+0.03M	Goldman Sachs Asset Management International	-0.98M	-0.15M
BlackRock Institutional Trust Company, N.A.	+0.17M	+0.03M	Mondrian Investment Partners Ltd.	-0.98M	-0.15M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19
Promoter	65.2	65.2	65.2
Others	34.8	34.8	34.8
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total Operating Income	3266.0	7858.0	5719.7	5586.0
Growth (%)	122.5	140.6	-27.2	-2.3
Total Operating Expenditure	1,821.8	2,835.0	3,735.8	3,736.4
EBITDA	1444.2	5023.0	1983.9	1849.7
Growth (%)	3,551.5	247.8	-60.5	-6.8
Depreciation	51.6	62.0	56.9	60.7
Interest	8.1	12.0	5.4	0.0
Other Income	88.5	210.0	160.5	170.5
PBT	1,473.0	5,159.0	2,082.2	1,959.4
Exceptional Item	0.0	58.0	0.0	0.0
Total Tax	441.0	1,705.0	696.5	655.4
PAT	1032.0	3396.0	1385.7	1304.0
Growth (%)	1,364.7	229.1	-59.2	-5.9
EPS (₹)	52.8	173.8	70.9	66.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	1,032.0	3,396.0	1,385.7	1,304.0
Add: Depreciation	51.6	62.0	56.9	60.7
(Inc)/dec in Current Asset	-599.1	-1,465.2	183.5	40.9
Inc/(dec) in CL & Provision	340.1	400.2	-372.4	-19.5
Others	-37.0	63.9	5.0	0.0
CF from operating activities	787.6	2,456.9	1,258.6	1,386.1
(Inc)/dec in Investments	-576.8	-1,382.2	320.0	-500.0
(Inc)/dec in Fixed Assets	-61.9	-33.3	-240.0	-390.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-638.7	-1,415.5	80.0	-890.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	13.0	86.8	-359.0	0.0
Dividend paid & div. tax	-388.7	-1,257.4	-486.4	-457.7
Inc/(dec) in Share Cap	230.9	480.7	-817.9	1.7
Others	0.0	0.0	0.0	0.0
CF from financing activities	-144.8	-689.9	-1,663.3	-456.0
Net Cash flow	4.1	351.5	-324.7	40.1
Opening Cash	51.5	55.6	407.1	82.5
Closing Cash	55.6	407.1	82.5	122.6

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	39.1	39.1	39.1	39.1
Reserve and Surplus	2,692.7	5,312.0	5,393.4	6,241.4
Total Shareholders funds	2,731.8	5,351.1	5,432.5	6,280.5
Total Debt	272.2	359.0	0.0	0.0
Deferred Tax Liability	94.5	114.0	114.0	114.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	3,098.5	5,824.1	5,546.5	6,394.5
Assets				
Gross Block	1,624.9	1,649.3	1,849.3	2,199.3
Less: Acc Depreciation	923.3	985.3	1,042.2	1,102.9
Net Block	701.6	664.0	807.1	1,096.4
Capital WIP	8.1	17.0	57.0	97.0
Total Fixed Assets	709.7	681.0	864.1	1,193.4
Investments	1,207.8	2,590.0	2,270.0	2,770.0
Inventory	786.4	2,160.0	1,880.4	1,836.5
Debtors	823.5	858.0	940.2	918.3
Loans and Advances	22.1	12.0	50.8	50.8
Other Current Assets	125.8	193.0	168.0	193.0
Cash	55.6	407.1	82.5	122.6
Total Current Assets	1,813.4	3,630.1	3,122.0	3,121.2
Current Liabilities	647.8	1,045.0	626.8	612.2
Provisions	34.0	37.0	82.8	77.9
Current Liabilities & Prov	681.8	1,082.0	709.6	690.1
Net Current Assets	1,131.6	2,548.1	2,412.3	2,431.1
Others Assets	49.4	5.0	0.0	0.0
Application of Funds	3,098.5	5,824.1	5,546.5	6,394.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	52.8	173.8	70.9	66.7
Cash EPS	55.5	177.0	73.8	69.8
BV	139.8	273.9	278.0	321.4
DPS	17.0	55.0	21.3	20.0
Cash Per Share	64.7	153.4	120.4	148.0
Operating Ratios (%)				
EBITDA Margin	44.2	63.9	34.7	33.1
PBT / Total Operating income	45.1	65.7	36.4	35.1
PAT Margin	31.6	43.2	24.2	23.3
Inventory days	88	100	120	120
Debtor days	92	40	60	60
Creditor days	72	49	40	40
Return Ratios (%)				
RoE	37.8	63.5	25.5	20.8
RoCE	47.1	87.0	35.5	28.5
RoIC	47.2	93.6	36.0	29.1
Valuation Ratios (x)				
P/E	6.8	2.1	5.1	5.4
EV / EBITDA	4.2	0.9	2.4	2.2
EV / Net Sales	1.9	0.6	0.8	0.7
Market Cap / Sales	2.2	0.9	1.2	1.3
Price to Book Value	2.6	1.3	1.3	1.1
Solvency Ratios				
Debt/EBITDA	0.2	0.1	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	2.7	3.4	4.4	4.5
Quick Ratio	1.5	1.4	1.7	1.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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