

H2FY20 to benefit from lower raw material cost....

For Q2FY20, Graphite India reported operationally subdued set of numbers on the back of lower-than-expected capacity utilisation level. On a consolidated basis, capacity utilisation came in at 61%, lower than our estimate of 75% (75% in Q2FY19, 93% in Q1FY20). The company reported a consolidated topline of ₹ 882 crore, lower than our estimate of ₹ 940 crore. Consolidated EBITDA for the quarter was at ₹ 140 crore. The corresponding EBITDA margin was at 15.9%. Graphite India reported tax credit to the tune of ₹ 58 crore on account of a change in corporate income tax rate, which aided consolidated PAT. The reported consolidated PAT was at ₹ 185 crore (our estimate: ₹ 193 crore). While Graphite India's Q2FY20 performance came in subdued, going forward, raw material cost are expected to decline from Q2FY20 levels, which should aid in an uptick in operating margins.

Utilisation expected to tread upwards from Q2FY20 levels

Graphite India reported muted capacity utilisation levels for Q2FY20. For Q2FY20, consolidated utilisation level was at 61% while standalone utilisation was at 71%. Going forward, we expect utilisation to tread upwards from Q2FY20 levels. World Steel Association (WSA) has recently upward revised its forecasts for global steel demand. WSA now expected the global steel demand to reach 1775 million tonne (MT) in CY19, growth of 3.9% vs. earlier forecast of 1.3% growth or 1735 MT. For consolidated operations, we model capacity utilisation of 67.5% for FY20E and 70.0% for FY21E. For standalone operations, we model capacity utilisation of 75% for FY20E and 77.5% for FY21E.

Needle coke price expected to move downwards in H2FY20

Needle coke is a key raw material used in manufacture of UHP grade graphite electrodes. Needle coke prices had remained at higher levels during Q2FY20. However, going forward, needle coke prices are expected to move downwards during H2FY20. This is likely to result in an uptick in EBITDA margins from Q2FY20 levels.

Valuation & Outlook

After a subdued Q2FY20, the expected decline in needle coke prices in H2FY20 augurs well for the company as it is expected to lead to an uptick in both standalone as well as consolidated operating margins (from Q2FY20 levels). We model EBITDA margins of 26.5% in FY20E and 35.0% in FY21E. We value the stock at 6x FY21E EPS and arrive at a target price of ₹ 330. We upgrade the stock from REDUCE to **BUY**.



Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 5588
Debt (Q2FY20) (₹ crore)	₹ 394
Cash & Cash Equivalent (Q2FY20) (₹ crore)	₹ 2327
EV (₹ crore)	₹ 3655
52 week H/L	1034 / 255
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Key Highlights

- For Q2FY20, Graphite India reported consolidated capacity utilisation of 61% & standalone capacity utilisation of 71%
- Needle coke prices remained at higher levels in Q2FY20. However, it is expected to move downwards in H2FY20, which would aid EBITDA margins
- Upgrade the stock from REDUCE to BUY with revised target price of ₹ 330

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1,468	3,266	7,858	3,378	3,732
EBITDA	40	1,444	5,023	894	1,306
EBITDA Margin (%)	2.7	44.2	63.9	26.5	35.0
Adj PAT	70	1,032	3,396	784	1,074
EPS (₹)	3.6	52.8	173.8	40.1	55.0
EV/EBITDA (x)	129.1	3.1	0.6	3.3	2.1
RoCE (%)	(0.3)	47.1	87.0	16.6	21.7
RoE (%)	3.8	37.8	63.5	15.6	18.7

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Consolidated Performance)

Consolidated Performance	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	
Revenue	882.0	939.9	2345.0	-62%	967.0	-9%	Topline came in lower than our estimate
Other Income	51.0	60.0	44.0	16%	57.0	-11%	
Total Operating expense	742.0	694.4	705.0	5%	672.0	10%	
EBITDA	140.0	245.5	1,640.0	-91%	295.0	-53%	EBITDA came in lower than our estimate
EBITDA Margin (%)	15.9	26.1	69.9	(5400) bps	30.5	(1460) bps	EBITDA margin came in lower than our estimate
Depreciation	13.0	15.0	13.0	0%	13.0	0%	
Interest	5.0	2.0	3.0	67%	5.0	0%	
Exceptional Items / Share of profit/loss from associate	-1.0	0.0	0.0	NA	-1.0	0%	
PBT	172.0	288.5	1668.0	-90%	333.0	-48%	
Tax Outgo	-13.0	95.2	555.0	-102%	113.0	-112%	
PAT	185.0	193.3	1113.0	-83%	220.0	-16%	PAT was supported by tax reversals
Key Metrics							
Consolidated Capacity Utilisation (%)	61%	75%	93%		75%		Consolidated capacity utilisation came in lower than our estimate

Source: Company, ICICI Direct Research

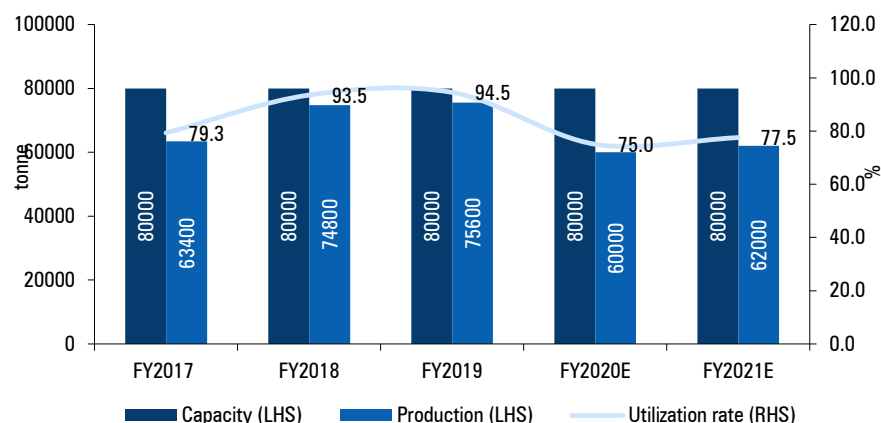
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4089	3,378	-17	4344	3732	-14	
EBITDA	1073	894	-17	1233	1306	6	
EBITDA Margin (%)	26.2	26.5	23 bps	28.4	35.0	662 bps	EBITDA margins upward revised on the back of expected decline in operating costs
PAT	819	784	-4	897	1074	20	PAT upward revised for FY21E factoring lower corporate tax rate and improvement in operational performance
EPS (₹)	41.9	40.1	-4	45.9	55.0	20	

Source: Company, ICICI Direct Research

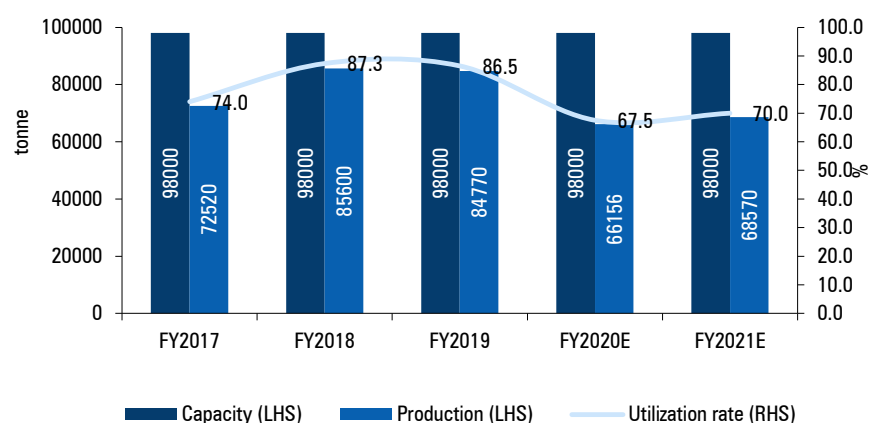
Financial story in charts

Exhibit 3: Trend in standalone capacity utilisation level



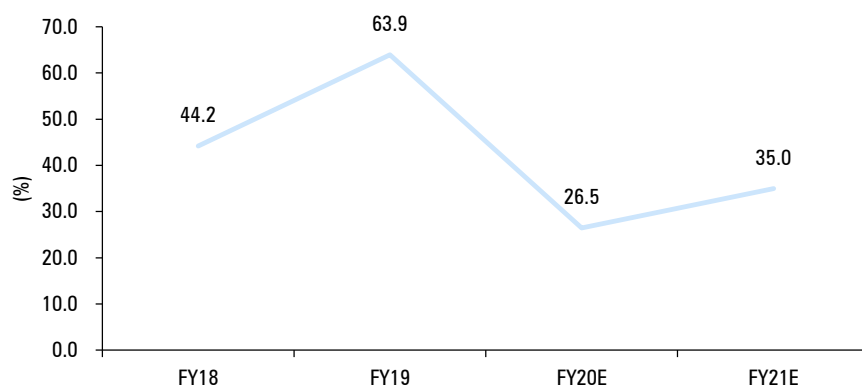
Source: Company, ICICI Direct Research

Exhibit 4: Trend in consolidated capacity utilisation level



Source: Company, ICICI Direct Research

Exhibit 5: Trend in consolidated EBITDA margin (in %)



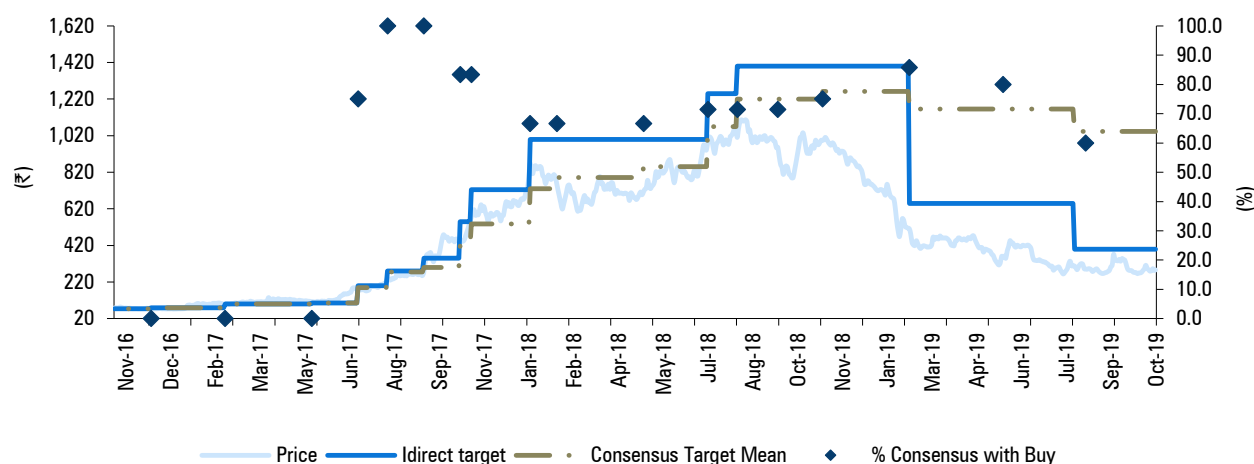
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1468	-4.2	3.6	-14.9	78.5	129.1	3.8	-0.3
FY18	3266	122.5	52.8	1364.7	5.4	3.1	37.8	47.1
FY19	7858	140.6	173.8	229.1	1.6	0.6	63.5	87.0
FY20E	3378	-57.0	40.1	-76.9	7.1	3.3	15.6	16.6
FY21E	3732	10.5	55.0	37.0	5.1	2.1	18.7	21.7

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	O/S	Position (m)	Change (m)
1	Emerald Co., Ltd.	30-Jun-2019	61%	119.6	0.0
2	GKN Ltd	30-Jun-2019	2%	4.0	0.0
3	Life Insurance Corporation of India	30-Jun-2019	2%	3.7	0.0
4	The New India Assurance Co. Ltd.	30-Jun-2019	1%	2.6	0.4
5	L&T Investment Management Limited	30-Jun-2019	1%	2.2	-4.1
6	The Vanguard Group, Inc.	30-Sep-2019	1%	2.2	0.0
7	Bangur (Krishna Kumar)	30-Jun-2019	1%	1.7	0.0
8	IDFC Asset Management Company Private Limit	30-Sep-2019	1%	1.2	0.7
9	APG Asset Management N.V.	31-Mar-2019	1%	1.0	-0.0
10	Goldman Sachs Asset Management Internationa	30-Sep-2019	1%	1.0	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
IDFC Asset Management Company Private Limited	3.0	0.7	L&T Investment Management Limited	-19.8	-4.1
The New India Assurance Co. Ltd.	1.8	0.4	Causeway Capital Management LLC	-6.2	-1.0
Florida State Board of Administration	1.2	0.2	Principal Asset Management Private Limited	-2.7	-0.5
Candriam Belgium S.A.	0.3	0.1	William Blair Investment Management, LLC	-1.1	-0.2
MacKay Shields LLC	0.1	0.0	Mondrian Investment Partners Ltd.	-1.0	-0.2

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-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	7858	3378	3732
Growth (%)	123	141	-57	10
Total Operating Expenditure	1822	2835	2484	2426
EBITDA	1444	5023	894	1306
Growth (%)	3551	248	-82	46
Depreciation	52	62	57	61
Interest	8	12	13	15
Other Income	89	210	224	205
PBT	1473	5159	1048	1435
Exceptional Item	0	58	0	0
Total Tax	441	1705	264	361
PAT	1032	3396	784	1074
Growth (%)	1365	229	-77	37
EPS (₹)	53	174	40	55

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement

₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	1,032	3,396	784	1,074
Add: Depreciation	52	62	57	61
(Inc)/dec in Current Asset	-599	-1,465	1,385	-195
Inc/(dec) in CL & Provision	340	400	-892	21
Others	-37	64	5	0
CF from operating activities	788	2,457	1,339	961
(Inc)/dec in Investments	-577	-1,382	320	0
(Inc)/dec in Fixed Assets	-62	-33	-280	-430
Others	0	0	0	0
CF from investing activities	-639	-1,415	40	-430
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	13	87	-359	0
Dividend paid & div. tax	-389	-1,257	-275	-377
Inc/(dec) in Share Cap	231	481	-818	2
Others	0	0	0	0
CF from financing activities	-145	-690	-1,452	-375
Net Cash flow	4	352	-73	156
Opening Cash	51	56	407	334
Closing Cash	56	407	334	490

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet

₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	39	39	39	39
Reserve and Surplus	2,693	5,312	5,003	5,702
Total Shareholders funds	2,732	5,351	5,042	5,741
Total Debt	272	359	0	0
Deferred Tax Liability	95	114	114	114
Minority Interest / Others	0	0	0	0
Total Liabilities	3,099	5,824	5,156	5,855
Assets				
Gross Block	1,625	1,649	1,849	2,199
Less: Acc Depreciation	923	985	1,042	1,103
Net Block	702	664	807	1,096
Capital WIP	8	17	97	177
Total Fixed Assets	710	681	904	1,273
Investments	1,208	2,590	2,270	2,270
Inventory	786	2,160	925	1,022
Debtors	824	858	694	767
Loans and Advances	22	12	51	51
Other Current Assets	126	193	168	193
Cash	56	407	334	490
Total Current Assets	1,813	3,630	2,172	2,523
Current Liabilities	648	1,045	185	204
Provisions	34	37	5	7
Current Liabilities & Prov	682	1,082	190	212
Net Current Assets	1,132	2,548	1,982	2,311
Others Assets	49	5	0	0
Application of Funds	3,099	5,824	5,156	5,855

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	40.1	55.0
Cash EPS	55.5	177.0	43.0	58.1
BV	139.8	273.9	258.0	293.8
DPS	17.0	55.0	12.0	16.5
Cash Per Share	64.7	153.4	133.3	141.3
Operating Ratios (%)				
EBITDA Margin	44.2	63.9	26.5	35.0
PBT / Total Operating income	45.1	65.7	31.0	38.5
PAT Margin	31.6	43.2	23.2	28.8
Inventory days	88	100	100	100
Debtor days	92	40	75	75
Creditor days	72	49	20	20
Return Ratios (%)				
RoE	37.8	63.5	15.6	18.7
RoCE	47.1	87.0	16.6	21.7
RoIC	47.2	93.6	17.8	23.7
Valuation Ratios (x)				
P/E	5.4	1.6	7.1	5.1
EV / EBITDA	3.1	0.6	3.3	2.1
EV / Net Sales	1.4	0.4	0.9	0.7
Market Cap / Sales	1.7	0.7	1.6	1.5
Price to Book Value	2.0	1.0	1.1	1.0
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	11.4	11.9
Quick Ratio	1.5	1.4	6.5	7.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Dewang Sanghavi MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.