

## Muted performance; near term outlook challenging

Graphite India (GIL) reported a disappointing set of numbers for Q4FY20 wherein the company reported a loss at both the EBITDA and PAT level. On a consolidated basis, Graphite India reported capacity utilisation of 41%, lower than our estimate of 50%. Consolidated topline for the quarter was at ₹ 602 crore (down 64% YoY, 6% QoQ, our estimate of ₹ 530.7 crore). On the back of higher than expected operating cost, Graphite India reported a loss at EBITDA level. EBITDA loss was at ₹ 26 crore (our estimate of EBITDA profit of ₹ 66.3 crore). During the quarter, there was reversal of ₹ 61 crore out of the write-down of ₹ 490 crore in Q3FY20. Adjusting for same, the EBITDA loss for the quarter was at ₹ 87 crore. The ensuing consolidated net loss for the quarter was at ₹ 7 crore.

## Revise down capacity utilisation estimates on subdued demand

On account of subdued demand from the steel sector (especially in H1FY21), we downward revise our capacity utilisation estimates for FY21E. For FY21E, we model capacity utilisation of 53% for standalone operations (downward revise from 77.5% earlier) and 50% for consolidated operations (downward revise from 70% earlier). We also introduce FY22E capacity utilisation levels. For FY22E, we model standalone capacity utilisation at 65% and consolidated capacity utilisation at 60%.

## Q1FY21 to be impacted by Covid-19 related concerns...

On account of nationwide lockdown, the company closed its factories and offices from March 24, 2020 till mid-April 2020. GIL started partial operations from mid-April onwards but prolonged lockdown and restrictions on inter-state movement led to lower than budgeted sales in the month of April and May. This, in turn, may adversely impact profitability in Q1FY21. Going forward also, the company is closely monitoring the impact of Covid-19 on the business. Hence, it is operating at lower capacity and will scale up its operation after carefully assessing the course of pandemic in the near term.

## Valuation & Outlook

Graphite India reported a muted performance in Q4FY20 on the back of weak demand from the steel sector. Going forward over the near term, the demand for graphite electrodes is expected to remain subdued due to partial closure of steel capacities globally, lower steel production and de-stocking of electrode inventory at customer end at a slower pace than anticipated, thereby adversely impacting demand prospects. We value the stock at 6x FY22E EPS and arrive at a target price of ₹ 200. We downgrade the stock from BUY to **HOLD**.



### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 3830
Debt (Q4FY20) (₹ crore)	₹ 394
Cash & Cash Equivalent (Q4FY20) (₹ crore)	₹ 2327
EV (₹ crore)	₹ 1897
52 week H/L	427 / 103
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

### Key Highlights

- For FY20, Graphite India reported consolidated capacity utilisation of 55.5% & standalone capacity utilisation of 65%
- Downgrade stock from BUY to HOLD with revised target price of ₹ 200

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### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20E	FY22E	FY21E
Net Sales	3,266	7,858	3,094	2,635	3,217
EBITDA	1,444	5,023	(79)	495	745
EBITDA Margin (%)	44.2	63.9	(2.6)	18.8	23.2
Adj PAT	1,032	3,396	45	460	652
EPS (₹)	52.8	173.8	2.3	23.5	33.4
EV/EBITDA (x)	2.0	0.2	(21.8)	2.8	1.5
RoCE (%)	47.1	87.0	(2.6)	9.2	13.3
RoE (%)	37.8	63.5	1.0	9.5	12.6

Source: Company, ICICI Direct Research

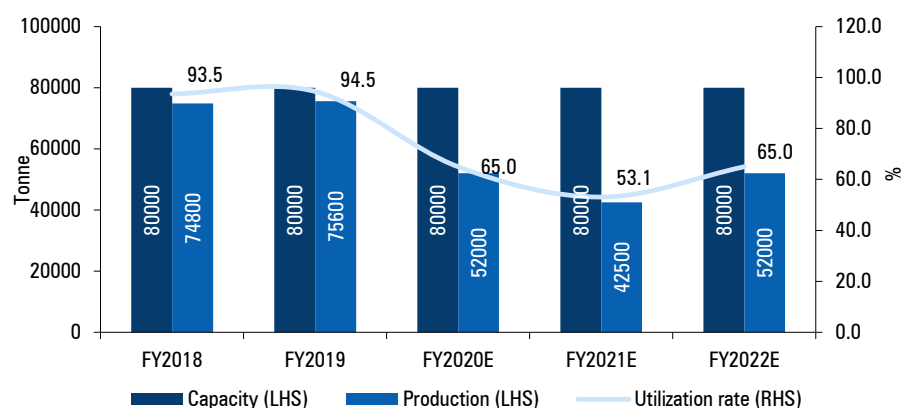
**Exhibit 1: Variance Analysis (Consolidated Performance)**

Consolidated Performance	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	
Revenue	602.0	530.7	1693.0	-64%	643.0	-6%	Topline came in higher than our estimate
Other Income	23.0	60.0	70.0	-67%	43.0	-47%	
Total Operating expense	628.0	464.4	829.0	-24%	1131.0	-44%	
EBITDA	-26.0	66.3	864.0	-103%	-488.0	-95%	EBITDA came in lower than our estimate
EBITDA Margin (%)	-4.3	12.5	51.0	(5400) bps	-75.9	(1460) bps	EBITDA margin came in lower than our estimate
Depreciation	13.0	15.0	23.0	-43%	12.0	8%	
Interest	4.0	4.0	4.0	0%	4.0	0%	
Exceptional Items / Share of profit/loss from associate	-3.0	0.0	-57.0	-95%	-2.0	50%	
PBT	-23.0	107.3	850.0	-103%	-463.0	-95%	
Tax Outgo	-16.0	35.4	288.0	-106%	-110.0	-85%	
PAT	-7.0	69.6	562.0	-101%	-353.0	-98%	
<b>Key Metrics</b>							
Consolidated Capacity Utilisation (%)	41%	50%	85%		45%		Consolidated capacity utilisation came in lower than our estimate

Source: Company, ICICI Direct Research

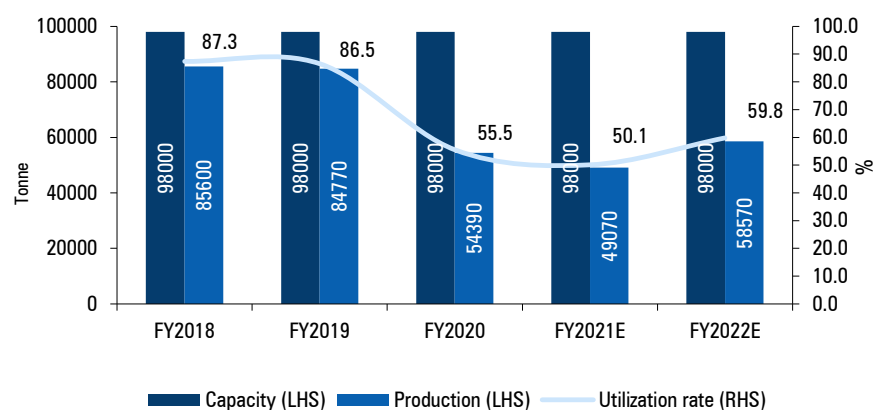
## Financial story in charts

**Exhibit 2: Trend in standalone capacity utilisation level**



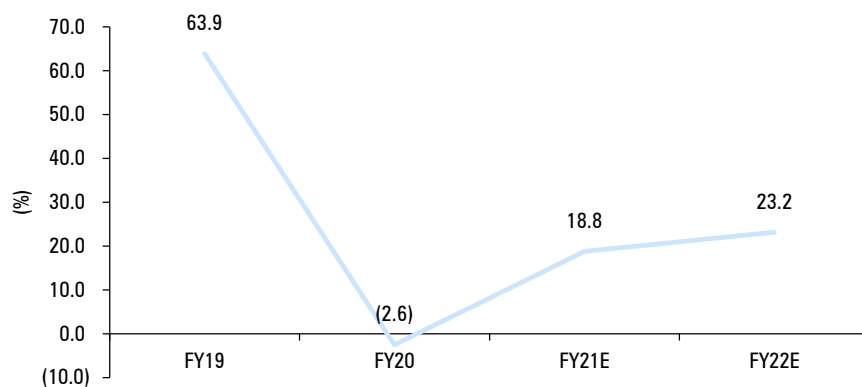
Source: Company, ICICI Direct Research

**Exhibit 3: Trend in consolidated capacity utilisation level**



Source: Company, ICICI Direct Research

**Exhibit 4: Trend in consolidated EBITDA margin (in %)**

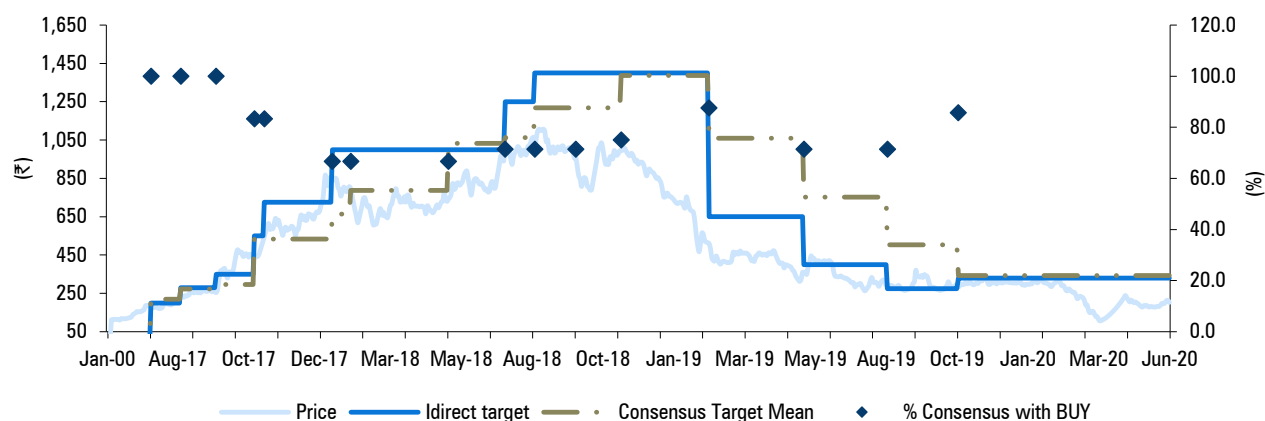


Source: Company, ICICI Direct Research

**Exhibit 5: Valuation**

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1468	-4.2	3.6	-14.9	54.4	86.1	3.8	-0.3
FY18	3266	122.5	52.8	1364.7	3.7	2.0	37.8	47.1
FY19	7858	140.6	173.8	229.1	1.1	0.2	63.5	87.0
FY20E	3094	-60.6	2.3	-98.7	85.1	-21.8	1.0	-2.6
FY21E	2635	-14.8	23.5	922.5	8.3	2.8	9.5	9.2
FY22E	3217	22.1	33.4	41.8	5.9	1.5	12.6	13.3

Source: Company, ICICI Direct Research

**Exhibit 6: Recommendation History vs. Consensus**


Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 7: Top 10 Shareholders**

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	EMERALD COMPANY LTD	31-03-2020	61.3	119.7	-0.1
2	GKW LIMITED	31-03-2020	2.1	4.0	0.0
3	LIFE INSURANCE CORP	31-03-2020	1.9	3.7	0.0
4	NEW INDIA ASSURANCE	31-03-2020	1.5	2.9	0.0
5	STICHTING DEPOST APG	31-03-2020	1.3	2.4	0.0
6	Bangur Krishna Kumar	31-03-2020	1.0	1.9	0.0
7	VANGUARD GROUP	30-04-2020	0.9	1.7	0.0
8	IDFC MUTUAL FUND	30-04-2020	0.7	1.4	0.0
9	GOLDMAN SACHS GROUP	30-04-2020	0.7	1.3	0.0
10	NORGES BANK	31-12-2019	0.5	1.0	0.0

Source: Reuters, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20
Promoter	65.2	65.2	65.3
Public	34.8	34.8	34.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total Operating Income</b>	<b>7858</b>	<b>3094</b>	<b>2635</b>	<b>3217</b>
Growth (%)	141	-61	-15	22
Total Operating Expenditure	2835	3173	2141	2472
<b>EBITDA</b>	<b>5023</b>	<b>-79</b>	<b>495</b>	<b>745</b>
Growth (%)	248	-102	-726	51
Depreciation	62	51	51	52
Interest	12	18	18	21
Other Income	210	174	189	200
PBT	5159	26	615	872
Exceptional Item	58	7	0	0
Total Tax	1705	-26	155	219
<b>PAT</b>	<b>3396</b>	<b>45</b>	<b>460</b>	<b>652</b>
Growth (%)	229	-99	923	42
<b>EPS (₹)</b>	<b>174</b>	<b>2</b>	<b>24</b>	<b>33</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	3,396	45	460	652
Add: Depreciation	62	51	51	52
(Inc)/dec in Current Asset	-1,465	841	166	-231
Inc/(dec) in CL & Provision	400	-551	-131	178
Others	64	-32	5	0
<b>CF from operating activities</b>	<b>2,457</b>	<b>354</b>	<b>552</b>	<b>651</b>
(Inc)/dec in Investments	-1,382	523	0	0
(Inc)/dec in Fixed Assets	-33	-43	-50	-50
Others	0	0	0	0
<b>CF from investing activities</b>	<b>-1,415</b>	<b>480</b>	<b>-50</b>	<b>-50</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	87	57	-416	0
Dividend paid & div. tax	-1,257	-46	-162	-286
Inc/(dec) in Share Cap	481	-796	-20	-2
Others	0	0	0	0
<b>CF from financing activities</b>	<b>-690</b>	<b>-785</b>	<b>-597</b>	<b>-288</b>
Net Cash flow	352	49	-96	313
Opening Cash	56	407	456	360
<b>Closing Cash</b>	<b>407</b>	<b>456</b>	<b>360</b>	<b>674</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	39	39	39	39
Reserve and Surplus	5,312	4,515	4,794	5,158
Total Shareholders funds	5,351	4,554	4,833	5,197
Total Debt	359	416	0	0
Deferred Tax Liability	114	82	82	82
Minority Interest / Others	0	0	0	0
<b>Total Liabilities</b>	<b>5,824</b>	<b>5,052</b>	<b>4,915</b>	<b>5,279</b>
<b>Assets</b>				
Gross Block	1,649	1,674	1,724	1,774
Less: Acc Depreciation	985	1,036	1,087	1,140
Net Block	664	638	637	635
Capital WIP	17	35	35	35
Total Fixed Assets	681	673	672	670
Investments	2,590	2,067	2,067	2,067
Inventory	2,160	1,565	1,372	1,542
Debtors	858	402	361	397
Loans and Advances	12	8	51	51
Other Current Assets	193	407	432	457
Cash	407	456	360	674
Total Current Assets	3,630	2,838	2,576	3,121
Current Liabilities	1,045	489	397	573
Provisions	37	42	3	5
Current Liabilities & Prov	1,082	531	400	578
Net Current Assets	2,548	2,307	2,176	2,543
Others Assets	5	5	0	0
<b>Application of Funds</b>	<b>5,824</b>	<b>5,052</b>	<b>4,915</b>	<b>5,279</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	173.8	2.3	23.5	33.4
Cash EPS	177.0	4.9	26.2	36.1
BV	273.9	233.1	247.3	266.0
DPS	55.0	2.0	7.1	12.5
Cash Per Share	153.4	129.1	124.2	140.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	63.9	-2.6	18.8	23.2
PBT / Total Operating income	65.7	0.8	23.3	27.1
PAT Margin	43.2	1.5	17.5	20.3
Inventory days	100	185	190	175
Debtor days	40	47	50	45
Creditor days	49	58	55	65
<b>Return Ratios (%)</b>				
RoE	63.5	1.0	9.5	12.6
RoCE	87.0	-2.6	9.2	13.3
RoIC	93.6	-2.9	9.9	15.3
<b>Valuation Ratios (x)</b>				
P/E	1.1	85.1	8.3	5.9
EV / EBITDA	0.2	-21.8	2.8	1.5
EV / Net Sales	0.2	0.6	0.5	0.3
Market Cap / Sales	0.5	1.2	1.5	1.2
Price to Book Value	0.7	0.8	0.8	0.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	-5.3	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	3.4	5.3	6.4	5.4
Quick Ratio	1.4	2.4	3.0	2.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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