

Muted performance; outlook remains challenging...

Graphite India (GIL) reported a subdued set of Q1FY21 numbers wherein it reported a consolidated loss at the EBITDA, PAT level. During the quarter, the performance was impacted by inventory write down taken by the company. For Q1FY21, GIL reported a consolidated topline of ₹ 409 crore (down 58% YoY, 32% QoQ), compared to our estimate of ₹ 335 crore. Better than expected topline was on account of higher-than-expected capacity utilisation. Consolidated capacity utilisation in Q1FY21 was at 36% (75% in Q1FY20, 41% in Q4FY20), higher than our estimate of 30%. Consolidated other income for the quarter was at ₹ 68 crore (up 196% QoQ), higher than our estimate of ₹ 20 crore. Consolidated EBITDA loss came in at ₹ 131 crore (our estimate of consolidated EBITDA loss of ₹ 70 crore). Net consolidated loss was at ₹ 78 crore (our estimate of consolidated net loss of ₹ 68 crore). During the quarter, GIL had recognised it carrying inventory on net realisable value (NRV) basis to the extent applicable and has accordingly taken a charge of ₹ 159 crore on the cost of inventory. This resulted in negative reported EBITDA and net loss for the quarter.

Graphite electrode demand to remain muted...

Global and domestic demand for graphite electrode has been impacted by the partial closure of steel capacity, lower steel production. Furthermore, on account of Covid-19 crisis, destocking of graphite electrode inventory at customer end has been delayed and is at a slower pace than anticipated, thereby impacting demand prospects.

Downward revise FY21E capacity utilisation level...

Due to subdued steel sector demand, we downward revise our capacity utilisation estimates for FY21E. For FY21E, we model capacity utilisation of 47% for standalone operations (downward revise from 53% earlier) and 45% for consolidated operations (downward revise from 50% earlier). We maintain capacity utilisation level for FY22E wherein we model standalone capacity utilisation of 65%, consolidated capacity utilisation of 60%.

Valuation & Outlook

Graphite India's Q1FY21 performance was impacted by ₹ 159 crore of inventory write down taken by the company. Furthermore, during the quarter, lower steel production levels impacted both graphite electrode demand and pricing. Going forward, FY21 is expected to remain a challenging year for the company as graphite electrodes demand and realisation is expected to remain under pressure. We value the stock at 4x FY22E EV/EBITDA and arrive at a target price of ₹ 200, assigning a **HOLD** recommendation to the stock.



Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 3634
Debt (Q1FY20) (₹ crore)	₹ 394
Cash & Cash Equivalent (Q1FY20) (₹ crore)	₹ 2598
EV (₹ crore)	₹ 1344
52 week H/L	384 / 103
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Key Highlights

- For Q1FY21, Graphite India reported consolidated capacity utilisation of 36% & standalone capacity utilisation of 42%
- Maintain **HOLD** recommendation with target price of ₹ 200

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	1,468	3,266	7,858	3,094	1,356	1,795
EBITDA	40	1,444	5,023	(79)	(196)	336
EBITDA Margin (%)	2.7	44.2	63.9	(2.6)	(14.5)	18.7
Adj PAT	70	1,032	3,396	45	16	416
EPS (₹)	3.6	52.8	173.8	2.3	0.8	21.3
EV/EBITDA (x)	81.2	1.8	0.2	NA	NA	3.2
RoCE (%)	(0.3)	47.1	87.0	(2.6)	(5.4)	6.0
RoE (%)	3.8	37.8	63.5	1.0	0.3	8.7

Source: Company, ICICI Direct Research

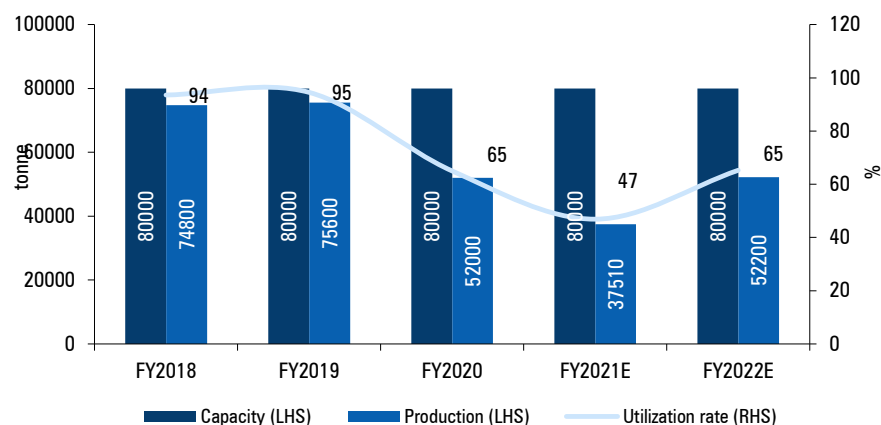
Exhibit 1: Variance Analysis (Consolidated Performance)

Consolidated Performance	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	
Revenue	409.0	334.7	967.0	-58%	602.0	-32%	Topline came in higher than our estimate
Other Income	68.0	20.0	57.0	19%	23.0	196%	Other income came in higher than our estimate
Total Operating expense	540.0	404.4	672.0	-20%	628.0	-14%	
EBITDA	-131.0	-69.7	295.0	-144%	-26.0	404%	EBITDA loss came in higher than our estimate
EBITDA Margin (%)	-32.0	-20.8	30.5	-6254 bps	-4.3	-2771 bps	
Depreciation	13.0	13.0	13.0	0%	13.0	0%	
Interest	2.0	5.0	5.0	-60%	4.0	-50%	
Exceptional Items / Share of profit/loss from associate	-2.0	0.0	-1.0	NA	-3.0	-33%	
PBT	-80.0	-67.7	333.0	-124%	-23.0	248%	
Tax Outgo	-2.0	0.0	113.0	-102%	-16.0	-88%	
PAT	-78.0	-67.7	220.0	PL	-7.0	PL	Net loss came in higher than our estimate
Key Metrics							
Consolidated Capacity Utilisation (%)	36%	30%	75%		75%		Consolidated capacity utilisation came in higher than our estimate

Source: Company, ICICI Direct Research

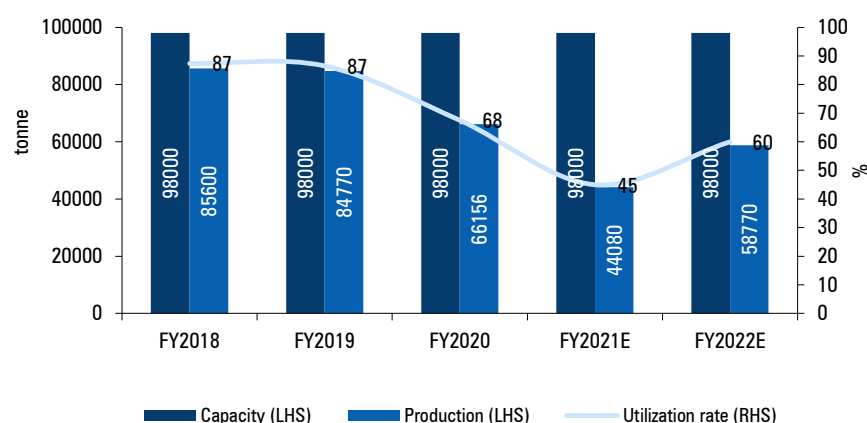
Financial story in charts

Exhibit 2: Trend in standalone capacity utilisation level



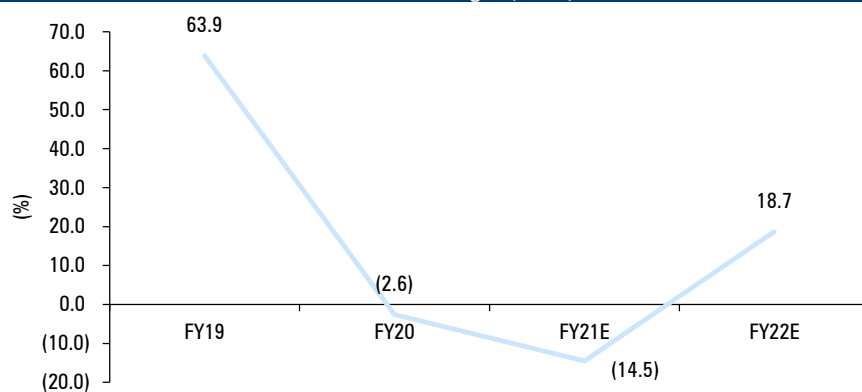
Source: Company, ICICI Direct Research

Exhibit 3: Trend in consolidated capacity utilisation level



Source: Company, ICICI Direct Research

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

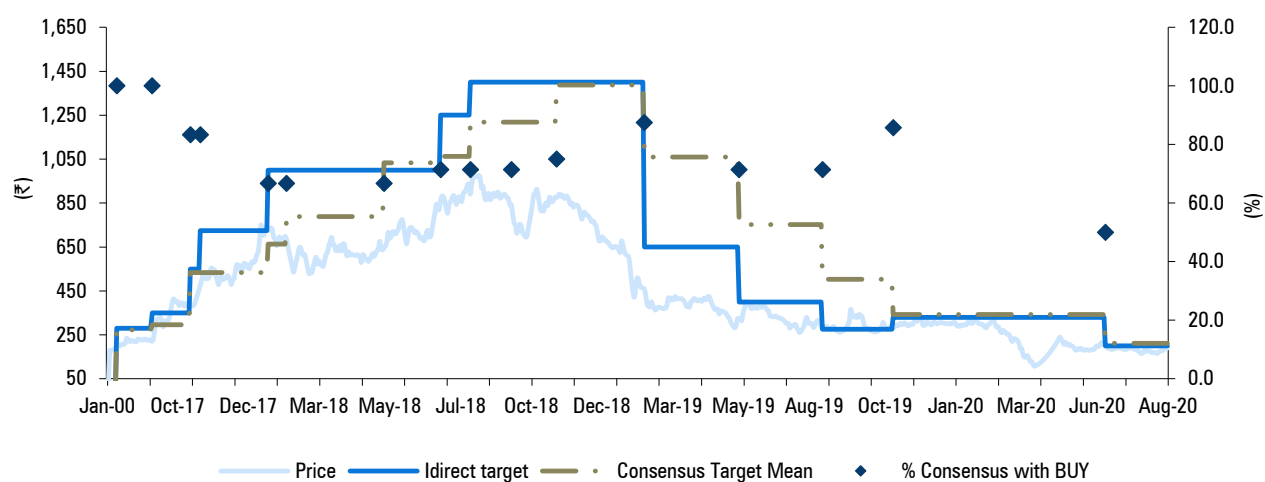


Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1468	-4.2	3.6	-14.9	51.6	81.2	3.8	-0.3
FY18	3266	122.5	52.8	1364.7	3.5	1.8	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	80.8	NA	1.0	-2.6
FY21E	1356	-56.2	0.8	-65.1	231.3	NA	0.3	-5.4
FY22E	1795	32.4	21.3	NA	8.7	3.2	8.7	6.0

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20
Promoter	65.2	65.3	65.3
Public	34.8	34.7	34.7
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	7858	3094	1356	1795
Growth (%)	141	-61	-56	32
Total Operating Expenditure	2835	3173	1552	1459
EBITDA	5023	-79	-196	336
Growth (%)	248	-102	148	LP
Depreciation	62	51	51	52
Interest	12	18	9	7
Other Income	210	174	277	280
PBT	5159	26	21	556
Exceptional Item	58	7	0	0
Total Tax	1705	-26	5	140
PAT	3396	45	16	416
Growth (%)	229	-99	-65	NA
EPS (₹)	174	2	1	21

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	3,396	45	16	416
Add: Depreciation	62	51	51	52
(Inc)/dec in Current Asset	-1,465	841	599	-57
Inc/(dec) in CL & Provision	400	-551	-401	95
Others	64	-32	5	0
CF from operating activities	2,457	354	270	506
(Inc)/dec in Investments	-1,382	523	0	0
(Inc)/dec in Fixed Assets	-33	-43	-50	-50
Others	0	0	0	0
CF from investing activities	-1,415	480	-50	-50
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	-6	-195
Inc/(dec) in Share Cap	481	-796	-20	-2
Others	0	0	0	0
CF from financing activities	-690	-785	-442	-197
Net Cash flow	352	49	-222	259
Opening Cash	56	407	456	234
Closing Cash	407	456	234	493

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	39	39	39	39
Reserve and Surplus	5,312	4,515	4,504	4,724
Total Shareholders funds	5,351	4,554	4,543	4,763
Total Debt	359	416	0	0
Deferred Tax Liability	114	82	82	82
Minority Interest / Others	0	0	0	0
Total Liabilities	5,824	5,052	4,625	4,845
Assets				
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	929	983
Debtors	858	402	371	369
Loans and Advances	12	8	51	51
Other Current Assets	193	407	432	437
Cash	407	456	234	493
Total Current Assets	3,630	2,838	2,017	2,333
Current Liabilities	1,045	489	130	221
Provisions	37	42	0	3
Current Liabilities & Prov	1,082	531	130	225
Net Current Assets	2,548	2,307	1,886	2,109
Others Assets	5	5	0	0
Application of Funds	5,824	5,052	4,625	4,845

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	173.8	2.3	0.8	21.3
Cash EPS	177.0	4.9	3.4	24.0
BV	273.9	233.1	232.5	243.8
DPS	55.0	2.0	0.3	8.5
Cash Per Share	153.4	129.1	117.7	131.0
Operating Ratios (%)				
EBITDA Margin	63.9	-2.6	-14.5	18.7
PBT / Total Operating income	65.7	0.8	1.5	31.0
PAT Margin	43.2	1.5	1.2	23.2
Inventory days	100	185	250	200
Debtor days	40	47	100	75
Creditor days	49	58	35	45
Return Ratios (%)				
RoE	63.5	1.0	0.3	8.7
RoCE	87.0	-2.6	-5.4	6.0
RoIC	93.6	-2.9	-5.7	6.6
Valuation Ratios (x)				
P/E	1.1	80.8	231.3	8.7
EV / EBITDA	0.2	NA	NA	3.2
EV / Net Sales	0.1	0.5	1.0	0.6
Market Cap / Sales	0.5	1.2	2.7	2.0
Price to Book Value	0.7	0.8	0.8	0.8
Solvency Ratios				
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	15.5	10.4
Quick Ratio	1.4	2.4	8.4	6.0

Source: Company, ICICI Direct Research

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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

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