

## Subdued operational performance....

Graphite India (GIL) reported an operationally subdued set of Q2FY21 numbers. It reported a consolidated loss at the EBITDA, PAT level. We had also estimated an EBITDA loss and net loss for the company on the back of a muted operating environment. For Q2FY21, GIL reported a consolidated topline of ₹ 485 crore (down 45% YoY, up 19% QoQ), higher than our estimate of ₹ 418 crore. The better-than-expected topline was on account of higher-than-expected capacity utilisation. Consolidated capacity utilisation in Q2FY21 was at 60% (61% in Q2FY20, 36% in Q1FY21), higher than our estimate of 45%. Consolidated EBITDA loss came in at ₹ 78 crore (our estimate of consolidated EBITDA loss of ₹ 84 crore). Consolidated other income for the quarter was at ₹ 50 crore (down 2% YoY, 26% QoQ), in line with our estimate of ₹ 50 crore. Subsequently, net consolidated loss for the quarter was at ₹ 41 crore (our estimate of net loss was ₹ 52 crore).

## Muted operational performance in H1FY21...

On the back of a muted demand scenario, GIL reported a subdued operational performance for both standalone and consolidated operations. For H1FY21, on a standalone basis, topline fell 52%YoY to ₹ 823 crore (₹ 1730 crore in H1FY20). It reported an EBITDA loss of ₹ 107 crore. Standalone operations reported a net loss of ₹ 8 crore in H1FY21 (PAT of ₹ 362 crore in H1FY20). Similarly, on a consolidated basis, GIL's topline came in at ₹ 894 crore (down 52% YoY, ₹ 1849 crore in H1FY20). It reported consolidated EBITDA loss of ₹ 209 crore. The ensuing consolidated net loss for H1FY21 was at ₹ 119 crore (PAT of ₹ 405 crore in H1FY20).

## Model consolidated capacity utilisation of 51%, 60% for FY21E, FY22E, respectively

In Q2FY21, for consolidated operations, capacity utilisation was 60% (36% in Q1FY21) while for standalone operation, capacity utilisation was 72% (42% in Q1FY21). Going forward, for FY21E, we model capacity utilisation of 55% for standalone operations (upward revised from 47% earlier) and 51.3% for consolidated operations (upward revised from 45% earlier). We maintain capacity utilisation level for FY22E wherein we model standalone capacity utilisation of 65%, consolidated capacity utilisation of 60%.

## Valuation & Outlook

Going forward, on the global demand side, destocking of electrode inventory at customer end, which was delayed due to the Covid-19 crisis has now resumed. With respect to raw material costs, while needle coke prices have softened, they have not yet fully realigned with electrode prices. Hence, it is likely to lead to elevated input costs in the near term. GIL's balance-sheet remains robust with consolidated net cash balance of ₹ 2404 crore at the end of September 2020. We value the stock at 4x FY22E EV/EBITDA and arrive at a target price of ₹ 185. We maintain our **HOLD** recommendation on the stock.

### Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	1,468	3,266	7,858	3,094	1,513	1,685
EBITDA	40	1,444	5,023	(79)	(208)	261
EBITDA Margin (%)	2.7	44.2	63.9	(2.6)	(13.7)	15.5
Adj PAT	70	1,032	3,396	45	(18)	345
EPS (₹)	3.6	52.8	173.8	2.3	(0.9)	17.6
EV/EBITDA (x)	78.2	1.7	0.2	NA	NA	3.6
RoCE (%)	(0.3)	47.1	87.0	(2.6)	(5.7)	4.4
RoE (%)	3.8	37.8	63.5	1.0	-0.4	7.3

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 3517
Debt (FY20) (₹ crore)	₹ 416
Cash & Cash Equivalent (FY20) (₹ crore)	₹ 2523
EV (₹ crore)	₹ 1410
52 week H/L	337 / 103
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

### Key Highlights

- For Q2FY21, Graphite India reported consolidated capacity utilisation of 60% & standalone capacity utilisation of 72%
- Maintain HOLD rating with target price of ₹ 185

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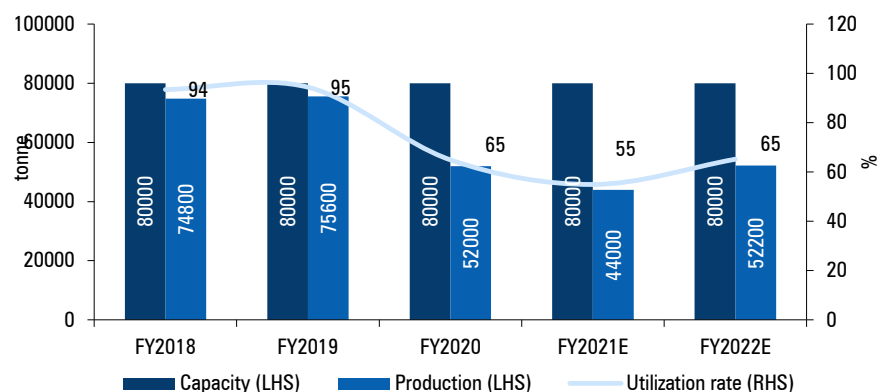
**Exhibit 1: Variance Analysis (Consolidated Performance)**

<b>Consolidated Performance</b>	<b>Q2FY21</b>	<b>Q2FY21E</b>	<b>Q2FY20</b>	<b>YoY (%)</b>	<b>Q1FY21</b>	<b>QoQ (%)</b>	
Revenue	485.0	418.0	882.0	-45%	409.0	19%	Topline came in higher than our estimate
Other Income	50.0	51.0	51.0	-2%	68.0	-26%	Other income came in line with our estimate
Total Operating expense	563.0	502.0	742.0	-24%	540.0	4%	
EBITDA	-78.0	-84.0	140.0	-156%	-131.0	-40%	EBITDA loss came in lower than our estimate
EBITDA Margin (%)	-16.1	-20.1	15.9	-6254 bps	-32.0	-2771 bps	
Depreciation	13.0	13.0	13.0	0%	13.0	0%	
Interest	2.0	2.0	5.0	-60%	2.0	0%	
Exceptional Items / Share of profit/loss from associate	-2.0	0.0	-1.0	NA	-2.0	0%	
PBT	-45.0	-48.0	172.0	-126%	-80.0	-44%	
Tax Outgo	-4.0	4.0	-13.0	-69%	-2.0	100%	
PAT	-41.0	-52.0	185.0	PL	-78.0	PL	Net loss came in lower than our estimate
<b>Key Metrics</b>							
Consolidated Capacity Utilisation (%)	60%	45%	61%		36%		Consolidated capacity utilisation came in higher than our estimate

Source: Company, ICICI Direct Research

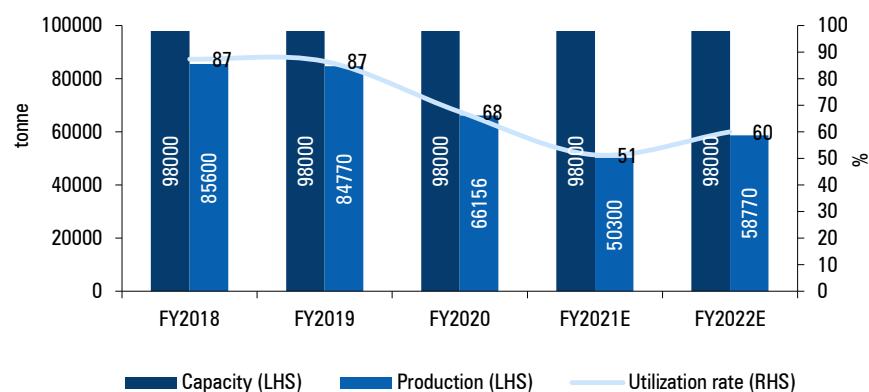
## Financial story in charts

Exhibit 2: Trend in standalone capacity utilisation level



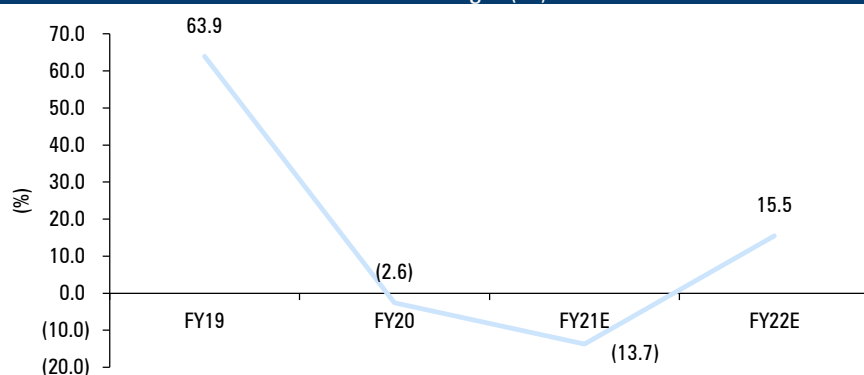
Source: Company, ICICI Direct Research

Exhibit 3: Trend in consolidated capacity utilisation level



Source: Company, ICICI Direct Research

Exhibit 4: Trend in consolidated EBITDA margin (%)



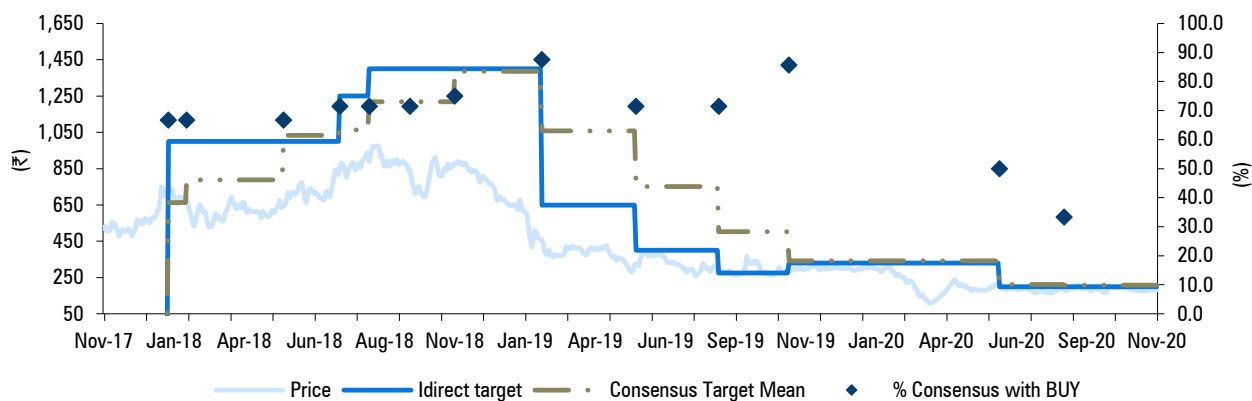
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1468	-4.2	3.6	-14.9	49.9	78.2	3.8	-0.3
FY18	3266	122.5	52.8	1364.7	3.4	1.7	37.8	47.1
FY19	7858	140.6	173.8	229.1	1.0	0.2	63.5	87.0
FY20	3094	-60.6	2.3	-98.7	78.2	NA	1.0	-2.6
FY21E	1513	-51.1	-0.9	-139.3	-199.0	NA	-0.4	-5.7
FY22E	1685	11.4	17.6	NA	10.2	3.6	7.3	4.4

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	30-09-2020	61.3	119.8	0.0
2	GKW LIMITED	30-09-2020	2.1	4.0	0.0
3	LIFE INSURANCE CORP	30-09-2020	1.9	3.7	0.0
4	NEW INDIA ASSURANCE	30-09-2020	1.5	2.9	0.0
5	STICHTING DEPOST APG	30-06-2020	1.3	2.6	0.1
6	VANGUARD GROUP	31-10-2020	1.2	2.3	0.0
7	IDFC MUTUAL FUND	31-10-2020	1.1	2.1	0.4
8	INVESCO INDIA ASSET	31-10-2020	1.0	1.9	1.0
9	Bangur Krishna Kumar	30-09-2020	0.9	1.7	0.0
10	GOLDMAN SACHS GROUP	30-09-2020	0.7	1.3	0.0

Source: Bloomberg, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-20	Jul-20	Sep-20
Promoter	65.3	65.3	65.3
Public	34.7	34.7	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>1513</b>	<b>1685</b>
Growth (%)	141	-61	-51	11
Total Operating Expenditure	2835	3173	1721	1423
<b>EBITDA</b>	<b>5023</b>	<b>-79</b>	<b>-208</b>	<b>261</b>
Growth (%)	248	-102	163	LP
Depreciation	62	51	51	52
Interest	12	18	9	7
Other Income	210	174	244	259
PBT	5159	26	-24	461
Exceptional Item	58	7	0	0
Total Tax	1705	-26	-6	116
<b>PAT</b>	<b>3396</b>	<b>45</b>	<b>-18</b>	<b>345</b>
Growth (%)	229	-99	-139	NA
<b>EPS (₹)</b>	<b>174</b>	<b>2</b>	<b>-1</b>	<b>18</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	-18	345
Add: Depreciation	62	51	51	52
(Inc)/dec in Current Asset	-1,465	841	697	-72
Inc/(dec) in CL & Provision	400	-551	-407	86
Others	64	-32	5	0
<b>CF from operating activities</b>	<b>2,457</b>	<b>354</b>	<b>329</b>	<b>411</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	0	-161
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>-436</b>	<b>-163</b>
Net Cash flow	352	49	-157	198
Opening Cash	56	407	456	299
<b>Closing Cash</b>	<b>407</b>	<b>456</b>	<b>299</b>	<b>497</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	4,477	4,659
Total Shareholders funds	5,351	4,554	4,516	4,698
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>4,598</b>	<b>4,780</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	995	923
Debtors	858	402	207	346
Loans and Advances	12	8	51	51
Other Current Assets	193	407	432	437
Cash	407	456	299	497
Total Current Assets	3,630	2,838	1,984	2,254
Current Liabilities	1,045	489	124	208
Provisions	37	42	0	3
Current Liabilities & Prov	1,082	531	124	210
Net Current Assets	2,548	2,307	1,860	2,044
Others Assets	5	5	0	0
<b>Application of Funds</b>	<b>5,824</b>	<b>5,052</b>	<b>4,598</b>	<b>4,780</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	-0.9	17.6
Cash EPS	177.0	4.9	1.7	20.3
BV	273.9	233.1	231.1	240.4
DPS	55.0	2.0	0.0	7.1
Cash Per Share	153.4	129.1	121.1	131.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	63.9	-2.6	-13.7	15.5
PBT / Total Operating income	65.7	0.8	-1.6	27.3
PAT Margin	43.2	1.5	-1.2	20.5
Inventory days	100	185	240	200
Debtor days	40	47	50	75
Creditor days	49	58	30	45
<b>Return Ratios (%)</b>				
RoE	63.5	1.0	-0.4	7.3
RoCE	87.0	-2.6	-5.7	4.4
RoIC	93.6	-2.9	-6.1	5.0
<b>Valuation Ratios (x)</b>				
P/E	1.0	78.2	NA	10.2
EV / EBITDA	0.2	NA	NA	3.6
EV / Net Sales	0.1	0.5	0.8	0.6
Market Cap / Sales	0.4	1.1	2.3	2.1
Price to Book Value	0.7	0.8	0.8	0.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	NA	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	3.4	5.3	16.0	10.7
Quick Ratio	1.4	2.4	8.0	6.3

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
Coal India	128	130	Hold	79889	27.1	22.2	22.6	4.5	5.5	5.4	2.4	4.0	4.2	55.5	40.2	39.7	51.9	39.0	36.5
Hindalco	213	240	Buy	47861	18.2	25.3	34.4	11.3	8.1	6.0	5.8	6.0	5.0	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	223	230	Hold	94351	16.1	17.1	21.1	13.8	13.1	10.6	8.2	7.8	5.8	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	341	330	Hold	82390	19.5	21.3	33.5	16.4	15.0	9.6	11.2	8.7	6.3	7.2	9.7	13.1	12.7	12.2	16.2
NMDC	96	100	Hold	29410	11.8	11.6	9.0	8.3	8.4	10.8	4.9	5.4	5.9	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1544	1475	Buy	7215	65.8	53.1	73.8	19.2	23.8	17.2	13.7	16.6	11.7	22.2	16.1	21.8	18.0	13.1	15.7
Graphite Ind.	180	185	Hold	3519	2.0	-1.0	17.0	78.0	-134.7	10.5	NA	NA	3.7	-2.6	-5.7	4.4	1.0	0.6	7.2
Tata Steel	523	625	Buy	59908	41.4	18.4	58.1	12.6	28.3	9.0	9.6	8.7	5.5	4.8	5.0	8.7	6.4	2.8	7.7
Vedanta	107	100	Hold	39904	10.7	17.9	19.9	9.1	5.5	4.9	3.5	3.2	2.6	10.8	13.6	14.9	7.3	11.5	12.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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