

CMP: ₹ 693

Target: ₹ 825 (19%)

Target Period: 12 months

April 8, 2021

BUY

## Key beneficiary of current upcycle in steel...

Over the last few months there has been a healthy uptick in global steel prices as well as global steel production levels. We believe graphite electrode players will be a key beneficiary of the current upcycle in steel. Even during the first couple months of CY21, global crude steel production witnessed steady growth, auguring well for graphite electrode majors. During January-February 2021, global steel production was at 315 million tonnes (MT), up 6.6% YoY. In addition to higher global steel output, steel prices have witnessed healthy strength. Both above-mentioned factors i.e. higher global steel output and strength in global steel prices has put graphite India in a sweet spot.

## Increase in steel prices augurs well for graphite electrode sector

In line with global steel prices, domestic steel prices have witnessed strong traction over the last eight to nine months, registering a healthy increase in the aforementioned period. Currently, domestic hot rolled coil (HRC) prices (ex-Mumbai) are at ₹ 57500/tonne, up 58% from July 2020 low of ₹ 36500/tonne. Healthy demand both on the global as well as domestic front has aided steel prices to remain firm at higher levels. The strength in steel prices both in the global and domestic market augurs well for graphite electrode companies.

## Graphite electrode prices have started moving northwards...

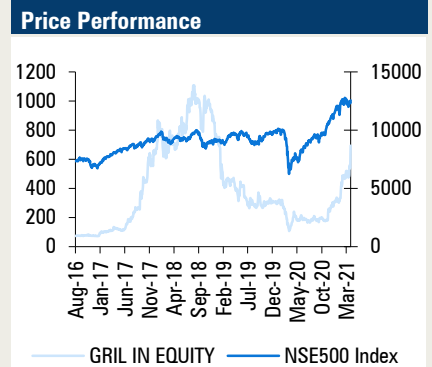
The uptick in steel production has led to a pick-up in graphite electrodes demand. Going forward, steel industry production growth trend is likely to continue with a healthy recovery in major steel consuming industries like construction and automobiles. The domestic steel industry is also poised to grow with the announcement of increased government spending on infrastructure. The combination of these factors is expected to drive demand for graphite electrodes and would also have a positive rub-off on graphite electrode prices. Graphite electrode prices have already started to move northwards auguring well for graphite electrode companies.

## Valuation & Outlook

We upward revise our capacity utilisation estimates for FY22E and FY23E. For FY22E, we model capacity utilisation of 82% for standalone operations (upward revise from 80% earlier) and 75% for consolidated operations (upward revise from 72% earlier). Similarly, for FY23E, we model capacity utilisation of 87.5% for standalone operations (upward revise from 82.5% earlier) and 85% for consolidated operations (upward revise from 75% earlier). We value the stock at 6x FY23E EV/EBITDA and arrive at a target price of ₹ 825 (earlier ₹ 500). We upgrade the stock from HOLD to **BUY**.



Particulars	
Particular	Amount
Market Capitalisation (₹ crore)	₹ 13541
Debt (FY20) (₹ crore)	₹ 416
Cash & Cash Equivalent (FY20) (₹ crore)	₹ 2523
EV (₹ crore)	₹ 11434
52 week H/L	740 / 154
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2



- ### Key risks to call
- Lower than expected increase in blended graphite electrode realisation
  - Higher than expected increase in operating cost (especially needle coke).

### Research Analyst

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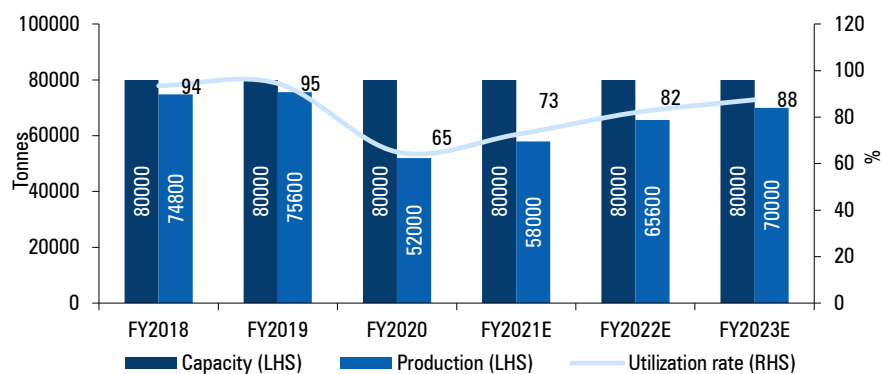
### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,266	7,858	3,094	2,080	3,652	4,876
EBITDA	1,444	5,023	-79	-198	1,107	1,823
EBITDA Margin (%)	44.2	63.9	(2.6)	(9.5)	30.3	37.4
Adj PAT	1,032	3,396	45	60	1,071	1,647
EPS (₹)	52.8	173.8	2.3	3.1	54.8	84.3
EV/EBITDA (x)	8.7	2.2	NA	NA	9.1	4.6
RoCE (%)	47.1	87.0	(2.6)	(5.4)	19.0	25.2
RoE (%)	37.8	63.5	1.0	1.3	19.3	23.4

Source: Company, ICICI Direct Research

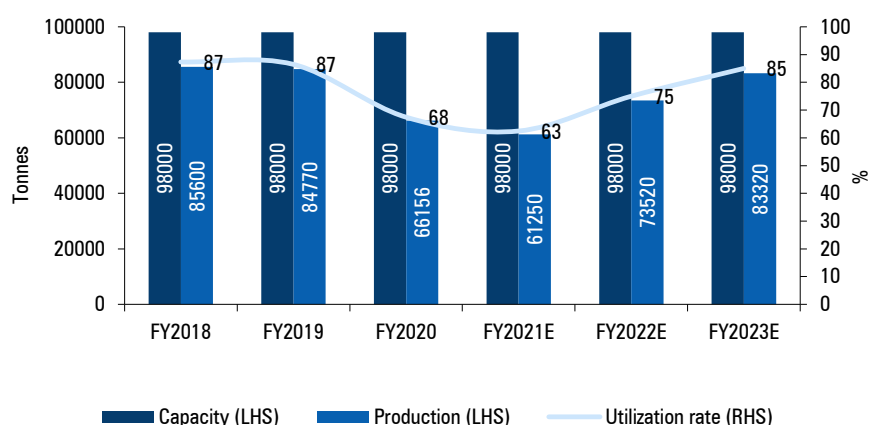
## Financial story in charts

Exhibit 1: Trend in standalone capacity utilisation level



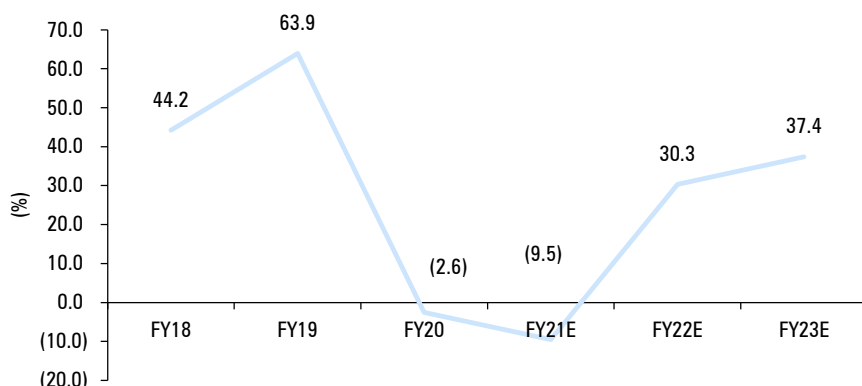
Source: Company, ICICI Direct Research

Exhibit 2: Trend in consolidated capacity utilisation level



Source: Company, ICICI Direct Research

Exhibit 3: Trend in consolidated EBITDA margin (in %)



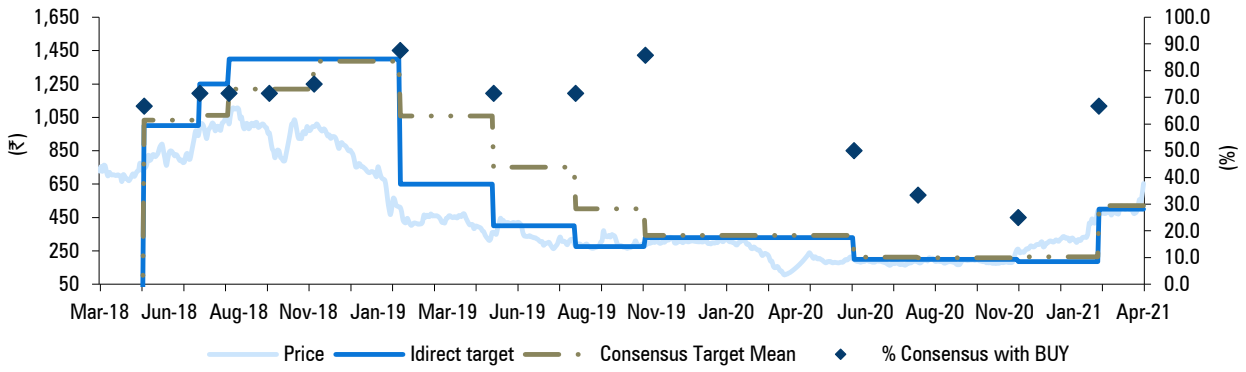
Source: Company, ICICI Direct Research

Exhibit 4: Valuation

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	7858	140.6	173.8	229.1	4.0	2.2	63.5	87.0
FY20	3094	-60.6	2.3	-98.7	300.9	NA	1.0	-2.6
FY21E	2080	-32.8	3.1	34.3	224.0	NA	1.3	-5.4
FY22E	3652	75.6	54.8	NA	12.6	9.1	19.3	19.0
FY23E	4876	33.5	84.3	53.8	8.2	4.6	23.4	25.2

Source: Company, ICICI Direct Research

Exhibit 5: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Total Operating Income</b>	<b>3094</b>	<b>2080</b>	<b>3652</b>	<b>4876</b>	
Growth (%)	-61	-33	76	34	
Total Operating Expenditure	3173	2278	2545	3054	
<b>EBITDA</b>	<b>-79</b>	<b>-198</b>	<b>1107</b>	<b>1823</b>	
Growth (%)	-102	150	LP	65	
Depreciation	51	51	52	54	
Interest	18	9	7	5	
Other Income	174	339	383	437	
<b>PBT</b>	<b>26</b>	<b>81</b>	<b>1431</b>	<b>2201</b>	
Exceptional Item	7	0	0	0	
Total Tax	-26	20	360	554	
<b>PAT</b>	<b>45</b>	<b>60</b>	<b>1071</b>	<b>1647</b>	
Growth (%)	-99	34	NA	NA	
<b>EPS (₹)</b>	<b>2</b>	<b>3</b>	<b>55</b>	<b>84</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	45	60	1,071	1,647	
Add: Depreciation	51	51	52	54	
(Inc)/dec in Current Asset	841	665	-502	-191	
Inc/(dec) in CL & Provision	-551	-189	413	388	
Others	-32	5	0	0	
<b>CF from operating activities</b>	<b>354</b>	<b>593</b>	<b>1,034</b>	<b>1,897</b>	
(Inc)/dec in Investments	523	0	0	-1,550	
(Inc)/dec in Fixed Assets	-43	-50	-50	-50	
Others	0	0	0	0	
<b>CF from investing activities</b>	<b>480</b>	<b>-50</b>	<b>-50</b>	<b>-1,600</b>	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	57	-416	0	0	
Dividend paid & div. tax	-46	0	-114	-171	
Inc/(dec) in Share Cap	0	0	0	0	
Others	-796	-20	-2	2	
<b>CF from financing activities</b>	<b>-785</b>	<b>-436</b>	<b>-116</b>	<b>-170</b>	
Net Cash flow	49	107	868	128	
Opening Cash	407	456	563	1,431	
<b>Closing Cash</b>	<b>456</b>	<b>563</b>	<b>1,431</b>	<b>1,558</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	39	39	39	39	
Reserve and Surplus	4,515	4,556	5,510	6,987	
Total Shareholders funds	4,554	4,595	5,549	7,026	
Total Debt	416	0	0	0	
Deferred Tax Liability	82	82	82	82	
Minority Interest / Others	0	0	0	0	
<b>Total Liabilities</b>	<b>5,052</b>	<b>4,677</b>	<b>5,631</b>	<b>7,108</b>	
<b>Assets</b>					
Net Block	638	637	635	631	
Capital WIP	35	35	35	35	
Total Fixed Assets	673	672	670	666	
Investments	2,067	2,067	2,067	3,617	
Inventory	1,565	940	1,251	1,403	
Debtors	402	313	500	534	
Loans and Advances	8	31	31	31	
Other Current Assets	407	432	437	442	
Cash	456	563	1,431	1,558	
Total Current Assets	2,838	2,280	3,650	3,968	
Current Liabilities	489	342	750	1,136	
Provisions	42	0	5	7	
Current Liabilities & Prov	531	342	755	1,143	
Net Current Assets	2,307	1,938	2,895	2,826	
Others Assets	5	0	0	0	
<b>Application of Funds</b>	<b>5,052</b>	<b>4,677</b>	<b>5,631</b>	<b>7,108</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	2.3	3.1	54.8	84.3	
Cash EPS	4.9	5.7	57.5	87.0	
BV	233.1	235.1	284.0	359.6	
DPS	2.0	0.0	5.0	7.5	
Cash Per Share	129.1	134.6	179.0	264.9	
<b>Operating Ratios (%)</b>					
EBITDA Margin	-2.6	-9.5	30.3	37.4	
PBT / Total Operating income	0.8	3.9	39.2	45.1	
PAT Margin	1.5	2.9	29.3	33.8	
Inventory days	185	165	125	105	
Debtor days	47	55	50	40	
Creditor days	58	60	75	85	
<b>Return Ratios (%)</b>					
RoE	1.0	1.3	19.3	23.4	
RoCE	-2.6	-5.4	19.0	25.2	
RoIC	-2.9	-6.2	25.6	32.3	
<b>Valuation Ratios (x)</b>					
P/E	300.9	224.0	12.6	8.2	
EV / EBITDA	NA	NA	9.1	4.6	
EV / Net Sales	3.7	5.2	2.7	1.7	
Market Cap / Sales	4.4	6.5	3.7	2.8	
Price to Book Value	3.0	2.9	2.4	1.9	
<b>Solvency Ratios</b>					
Debt/EBITDA	NA	0.0	0.0	0.0	
Debt / Equity	0.1	0.0	0.0	0.0	
Current Ratio	5.3	6.7	4.8	3.5	
Quick Ratio	2.4	3.9	3.2	2.2	

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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