

## Performance set to improve, going forward...

**About the stock:** Graphite India (GIL) is the largest Indian producer of graphite electrodes by total capacity. Its manufacturing capacity of 98000 tonnes per annum is spread over three plants at Durgapur & Nashik in India & Nuremberg in Germany.

- While GIL manufactures a full range of graphite electrodes, it stays focused on the higher margin, large diameter, ultra-high power (UHP) electrodes
- GIL has over 40 years of technical expertise in the industry

**Q2FY22 Results:** Graphite India (GIL) reported a muted set of numbers for Q2FY22.

- For the quarter, Graphite India reported consolidated capacity utilisation of 81% compared to 60% in Q2FY21 and 75% in Q1FY22 (our estimate 78%). Consolidated topline for the quarter was at ₹ 692 crore, up 43% YoY and 13% QoQ (our estimate: ₹ 712 crore)
- Consolidated EBITDA was at ₹ 109 crore, down 23% QoQ. Consolidated EBITDA margin came in at 15.8% compared to 23.1% in Q1FY22
- Ensuing consolidated net profit during the quarter was at ₹ 128 crore, down 15% QoQ

**What should investors do?** GIL's share price has grown by ~3x over the last 12 months (from ~₹ 176 on November 2020 to ~₹ 525 levels in November 2021).

- We maintain our BUY rating on the stock

**Target Price and Valuation:** We value GIL at ₹ 650, 6.5x FY23E EV/EBITDA

### Key triggers for future price performance:

- During the quarter ended September 2021 (Q3CY21), global steel production excluding China registered a strong increase of 15.3% YoY but was down 2.7% QoQ. Chinese steel production for the quarter declined 14.2% YoY and 16.6% QoQ, in line with their strategy to keep steel output at 2020 levels as a part of their goal to reduce carbon emissions. With the decline in steel production and exports from China, there may be a gradual increase in steel production from EAF steel producing countries, which augurs well for both graphite electrode demand and realisations
- During quarter ended September 2021, Indian steel production increased 9.5% YoY and 3.2% QoQ. The Indian steel demand outlook for the remaining part of the year looks encouraging with the pick-up in demand from Infrastructure and construction sector. With the improved demand scenario, an uptick was witnessed in graphite electrode prices but needle coke prices also continue to rise in tandem

**Alternate Stock Idea:** In our graphite electrode sector coverage, we also like HEG.

- HEG is one of the leading manufacturer of graphite electrodes in India and operates graphite electrodes plant at Mandideep in Madhya Pradesh
- BUY with a target price of ₹ 2800



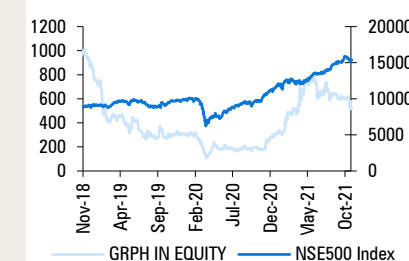
### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 10251
Debt (Q2FY22) (₹ crore)	₹ 275
Cash & Cash Equivalent (Q2FY22) (₹ crore)	₹ 2906
EV (₹ crore)	₹ 7620
52 week H/L	815 / 175
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	65	65	65	65	65
FII	7	6	8	10	12
DII	5	7	7	6	6
Others	23	22	20	18	17
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Price Chart



### Key Risks & Event

- GIL's balance sheet stays robust with net cash and cash equivalent of ₹ 2631 crore as on September 30, 2021 (consolidated)
- Key risks:** (i) Lower-than-expected rise in blended prices of graphite electrodes. (ii) Higher-than-expected increase in operating cost (especially needle coke)

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### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	CAGR (FY16-FY21) in %	FY22E	FY23E	CAGR (FY21-FY23E) in %
Net Sales	3,266	7,858	3,094	1,958	5.0	3,008	4,103	44.8
EBITDA	1,444	5,023	-79	-205	NA	651	1,395	NA
EBITDA Margin (%)	44.2	63.9	(2.6)	(10.5)		21.7	34.0	
Adj PAT	1,032	3,396	45	-32	NA	612	1,226	NA
EPS (₹)	52.8	173.8	2.3	(1.6)		31.3	62.7	
EV/EBITDA (x)	6.4	1.5	NA	NA		11.1	4.7	
RoCE (%)	47.1	87.0	(2.6)	(5.4)		12.1	23.1	
RoE (%)	37.8	63.5	1.0	-0.7		12.4	21.2	

## Key highlights....

- For Q2FY22, Graphite India reported standalone capacity utilisation of 93% compared to 72% in Q2FY21 and 90% in Q1FY22. Standalone topline for the quarter came in at ₹ 654 crore, up 38% YoY and 20% QoQ
- Standalone EBITDA for Q2FY22 was at ₹ 124 crore, down 9% QoQ. Standalone EBITDA margin for Q2FY22 was at 19% compared to 25% in Q1FY22
- Standalone other income for Q2FY22 was at ₹ 68 crore, up 45% YoY, but down 11% QoQ. For Q2FY22, ensuing GIL's PAT for the standalone entity was at ₹ 140 crore, down 11% QoQ
- During the quarter ended September 2021 (Q3CY21), global steel production excluding China registered a strong increase of 15.3% YoY but was down 2.7% QoQ. Chinese steel production for the quarter registered a decline of 14.2% YoY and 16.6% QoQ, which is in line with their strategy to keep the steel output at 2020 levels as a part of their goal to reduce carbon emissions. With the decline in steel production and exports from China, there may be a gradual increase in steel production from the EAF steel producing countries, which augurs well for both graphite electrode demand and realisations
- During the quarter ended September 2021, Indian steel production increased 9.5% YoY and 3.2% QoQ. The Indian steel demand outlook for the remaining part of the year looks encouraging with the pick-up in demand from infrastructure and construction sector. With the improved demand scenario, an uptick was witnessed in graphite electrode prices but needle coke prices continued to rise in tandem
- China has abolished rebate of 13% VAT on certain steel exports to reduce steel production and exports. The lower exports from China may bode well for other EAF steel producing countries
- Growth in Electric Arc Furnace (EAF) route of steel production globally is expected to drive demand for electrodes in the near term
- The announcement of increased government spending on Indian infrastructure and the revival of key sectors such as construction, mining, capital goods and automobiles could have a positive impact on steel production and electrodes demand
- Going forward, for consolidated operations, we model capacity utilisation of 80% for FY22E (upward revised from 75% earlier) and maintain our earlier estimate of 85% for FY23E
- Going forward, for standalone operations, we model capacity utilisation of 91% for FY22E (upward revise from 85% earlier) and maintain our earlier estimate of 92.5% for FY23E
- As on September 30, 2021 for the consolidated entity GIL has cash and cash equivalents of ₹ 2631 crore, while for the standalone entity GIL has cash & cash equivalents of ₹ 2208 crore
- Graphite India has approved a capex proposal for a 35 MW hybrid (wind and solar) renewable power plant to supply captive power to the electrode plant in Satpur, Nashik. Estimated project completion period is 10 to 12 months from signing of the letter of intent

## Peer comparison

Exhibit 1: Peer Comparison

Company	CMP		TP	Rating	Mcap	Topline(in ₹ crore)			EBITDA (in ₹ crore)			Adj. PAT(in ₹ crore)			P/E(x)			EV/EBITDA(x)		
	(₹)	(₹)			(₹)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HEG	2031	2800	Buy		7839	1256	2886	3581	(59)	1,054	1,532	(25)	831	1,236	-7.0	11.1	7.4	NA	8.2	5.4
Graphite	525	650	Buy		10251	1958	3008	4103	(205)	651	1,395	(32)	612	1,226	NA	16.8	8.4	NA	11.1	4.7

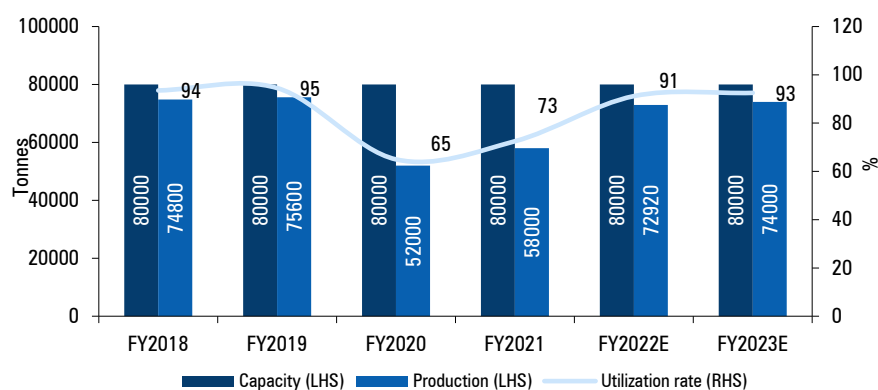
Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis (Consolidated Performance)**

Consolidated Performance	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	
Revenue	692	712	485	43%	610	13%	Consolidated topline came in lower than our estimate.
Other Income	79	83	50	58%	78	1%	
Total Operating expense	583	481	563	4%	469	24%	
<b>EBITDA</b>	<b>109</b>	<b>231</b>	<b>-78</b>	<b>LP</b>	<b>141</b>	<b>-23%</b>	EBITDA came in muted of the back of higher than expected operating costs.
EBITDA Margin (%)	15.8	32.4	-16.1	-	23.1	-	EBITDA margin came in muted of the back of higher than expected operating costs.
Depreciation	13	14	13	0%	14	-7%	
Interest	0	1	2	-100%	1	-100%	
Exceptional Items / Share of profit/loss from associate	-4	0	-2	100%	-7	-43%	
<b>PBT</b>	<b>171</b>	<b>299</b>	<b>-45</b>	<b>LP</b>	<b>197</b>	<b>-13%</b>	
Tax Outgo	43	75	-4	PL	47	-9%	
<b>PAT</b>	<b>128</b>	<b>224</b>	<b>-41</b>	<b>LP</b>	<b>150</b>	<b>-15%</b>	
<b>Key Metrics</b>							
Consolidated Capacity Utilisation (%)	81%	78%	60%		75%		Consolidated capacity utilisation came in higher than our estimate

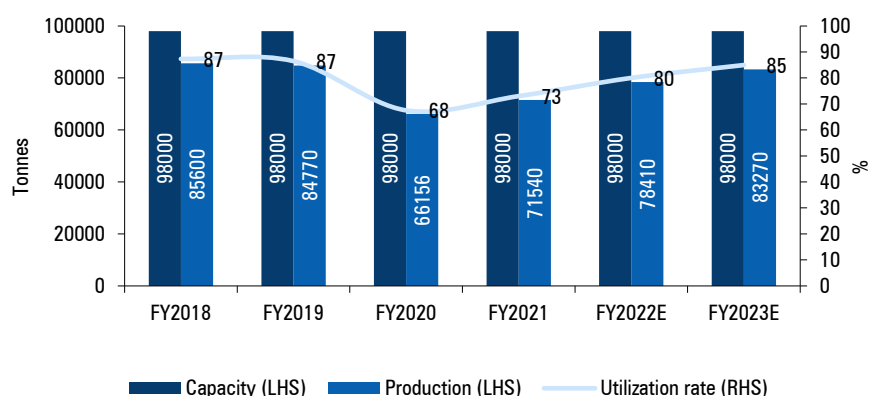
Source: Company, ICICI Direct Research.

## Financial story in charts

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


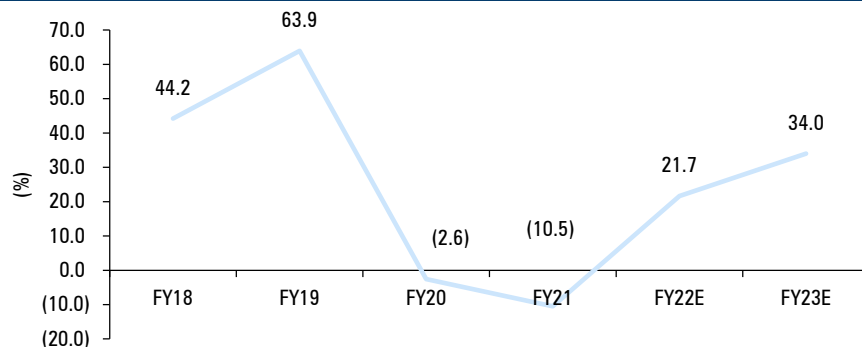
Source: Company, ICICI Direct Research

We model standalone capacity utilisation of 91% for FY22E and 93% for FY23E

**Exhibit 4: Trend in consolidated capacity utilisation level**


Source: Company, ICICI Direct Research

We model consolidated capacity utilisation of 80% for FY22E and 85% for FY23E

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


Source: Company, ICICI Direct Research

**Exhibit 6: Valuation Matrix**

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	7858	140.6	173.8	229.1	3.0	1.5	63.5	87.0
FY20	3094	-60.6	2.3	-98.7	228.0	NA	1.0	-2.6
FY21	1958	-36.7	-1.6	-171.1	NA	NA	-0.7	-5.4
FY22E	3008	53.6	31.3	NA	16.8	11.1	12.4	12.1
FY23E	4103	36.4	62.7	100.2	8.4	4.7	21.2	23.1

Source: Company, ICICI Direct Research

## Financial summary (Consolidated)

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Total Operating Income</b>	<b>3094</b>	<b>1958</b>	<b>3008</b>	<b>4103</b>	
Growth (%)	-61	-37	54	36	
Total Operating Expenditure	3173	2163	2357	2709	
<b>EBITDA</b>	<b>-79</b>	<b>-205</b>	<b>651</b>	<b>1395</b>	
Growth (%)	-102	159	LP	114	
Depreciation	51	52	53	59	
Interest	18	6	5	3	
Other Income	174	316	228	307	
<b>PBT</b>	<b>26</b>	<b>53</b>	<b>822</b>	<b>1639</b>	
Share of loss / (profit) from Asso.	7	10	3	1	
Total Tax	-26	75	207	413	
<b>PAT</b>	<b>45</b>	<b>-32</b>	<b>612</b>	<b>1226</b>	
Growth (%)	-99	-171	NA	100	
<b>EPS (₹)</b>	<b>2</b>	<b>-2</b>	<b>31</b>	<b>63</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	45	-32	612	1,226	
Add: Depreciation	51	52	53	59	
(Inc)/dec in Current Asset	841	623	-380	-378	
Inc/(dec) in CL & Provision	-551	142	155	304	
Others	-32	-201	3	0	
<b>CF from operating activities</b>	<b>354</b>	<b>584</b>	<b>443</b>	<b>1,211</b>	
(Inc)/dec in Investments	523	-737	0	-700	
(Inc)/dec in Fixed Assets	-43	-99	-50	-150	
Others	0	0	0	0	
<b>CF from investing activities</b>	<b>480</b>	<b>-836</b>	<b>-50</b>	<b>-850</b>	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	57	21	-223	0	
Dividend paid & div. tax	-46	-98	-196	-392	
Inc/(dec) in Share Cap	0	0	0	0	
Others	-796	117	-2	2	
<b>CF from financing activities</b>	<b>-785</b>	<b>40</b>	<b>-421</b>	<b>-390</b>	
Net Cash flow	49	-212	-27	-30	
Opening Cash	407	456	244	217	
<b>Closing Cash</b>	<b>456</b>	<b>244</b>	<b>217</b>	<b>187</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	39	39	39	39	
Reserve and Surplus	4,515	4,502	4,916	5,752	
Total Shareholders funds	4,554	4,541	4,956	5,791	
Total Debt	416	223	0	0	
Deferred Tax Liability	82	93	93	93	
Minority Interest / Others	0	0	0	0	
<b>Total Liabilities</b>	<b>5,052</b>	<b>4,857</b>	<b>5,049</b>	<b>5,884</b>	
<b>Assets</b>					
Net Block	638	641	638	630	
Capital WIP	35	79	79	179	
Total Fixed Assets	673	720	717	809	
Investments	2,067	2,804	2,804	3,504	
Inventory	1,565	1,016	1,236	1,596	
Debtors	402	340	494	562	
Loans and Advances	8	5	5	5	
Other Current Assets	407	398	403	353	
Cash	456	244	217	187	
Total Current Assets	2,838	2,003	2,355	2,703	
Current Liabilities	489	630	824	1,124	
Provisions	42	43	4	8	
Current Liabilities & Prov	531	673	828	1,132	
Net Current Assets	2,307	1,330	1,527	1,571	
Others Assets	5	3	0	0	
<b>Application of Funds</b>	<b>5,052</b>	<b>4,857</b>	<b>5,049</b>	<b>5,884</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	2.3	-1.6	31.3	62.7	
Cash EPS	4.9	1.0	34.0	65.7	
BV	233.1	232.4	253.6	296.3	
DPS	2.0	5.0	10.0	20.1	
Cash Per Share	129.1	156.0	154.6	188.9	
<b>Operating Ratios (%)</b>					
EBITDA Margin	-2.6	-10.5	21.7	34.0	
PBT / Total Operating income	0.8	2.7	27.3	39.9	
PAT Margin	1.5	-1.6	20.3	29.9	
Inventory days	185	189	150	142	
Debtor days	47	63	60	50	
Creditor days	58	117	100	100	
<b>Return Ratios (%)</b>					
RoE	1.0	-0.7	12.4	21.2	
RoCE	-2.6	-5.4	12.1	23.1	
RoIC	-2.9	-5.7	12.6	23.8	
<b>Valuation Ratios (x)</b>					
P/E	228.0	NA	16.8	8.4	
EV / EBITDA	NA	NA	11.1	4.7	
EV / Net Sales	2.6	3.8	2.4	1.6	
Market Cap / Sales	3.3	5.2	3.4	2.5	
Price to Book Value	2.3	2.3	2.1	1.8	
<b>Solvency Ratios</b>					
Debt/EBITDA	NA	-1.1	0.0	0.0	
Debt / Equity	0.1	0.0	0.0	0.0	
Current Ratio	5.3	3.0	2.8	2.4	
Quick Ratio	2.4	1.5	1.4	1.0	

Source: Company, ICICI Direct Research

**Exhibit 11: ICICI Direct coverage universe (Metals and Mining)**

	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	171	160	Hold	105929	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	472	650	Buy	106280	25.5	56.8	63.8	21.3	9.6	8.5	9.6	6.3	5.3	8.8	14.5	15.2	8.5	17.1	16.4
JSW Steel	679	725	Hold	164031	32.9	82.5	66.4	20.1	8.0	9.9	10.5	5.7	6.4	13.8	22.1	15.3	17.0	30.0	19.5
NMDC	142	210	Buy	41717	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2185	2450	Buy	10208	59.0	76.2	98.0	35.9	27.8	21.6	23.5	17.1	13.8	15.7	19.3	20.1	13.9	15.7	17.2
Graphite Ind.	525	650	Buy	10251	-2.0	31.0	63.0	NA	16.8	8.4	NA	11.1	4.7	-5.4	12.1	23.1	-0.7	12.4	21.2
Tata Steel	1325	1750	Buy	159548	77.1	260.2	179.9	18.9	5.6	8.1	8.4	4.0	4.9	13.1	29.5	20.2	12.4	30.5	17.5
Jindal	192	250	Buy	9401	8.6	26.2	22.7	22.3	7.3	8.5	8.7	5.4	6.3	16.0	25.2	18.1	13.0	29.1	20.1
Stainless Jindal	340	488	Buy	8026	29.5	63.9	58.9	11.5	5.3	5.8	8.4	4.7	4.5	18.6	26.7	20.9	23.2	32.4	22.5
Hisar Vardhman	286	340	Buy	1156	10.9	24.9	29.5	24.1	10.6	8.9	11.5	6.6	5.8	13.7	21.2	21.1	9.6	18.5	18.3
Special Steel	984	1300	Buy	3106	69.9	88.9	101.2	15.5	12.1	10.7	8.3	7.1	5.7	24.6	24.9	23.0	17.0	18.1	17.1
Tata Metaliks																			

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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