

Better times ahead....

Graphite India (GIL) reported a mixed set of Q3FY21 numbers wherein while it reported loss at EBITDA level, at the net level its reported profit aided by healthy other income. For Q3FY21, on a consolidated basis, GIL reported capacity utilisation of 65% against our estimate of 75%. Consolidated topline came in at ₹ 499 crore against our estimate of ₹ 545 crore. For consolidated operations, in Q3FY21, GIL reported EBITDA loss of ₹ 74 crore compared to our estimate of EBITDA profit of ₹ 27 crore. During the quarter, GIL's consolidated other income was at ₹ 142 crore, higher than our estimate of ₹ 55 crore. Other income for the quarter was aided by one-time income of ₹ 81 crore on account of electricity refund. Ensuing consolidated PAT for the quarter was at ₹ 23 crore. Going forward, we expect GIL's operational performance to improve from Q3FY21 levels.

Graphite electrode prices stabilise; recovery likely

During the quarter, overall recovery in steel production led to a small-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 recent announcement of increased government spending on infrastructure. The combination of these factors may drive demand for steel and graphite electrodes in the near term. Graphite electrode prices have started to stabilise and a positive recovery is likely in coming quarters. Needle coke prices have also stabilised and may increase in line with electrode pricing in coming quarters.

Capacity utilisation to move northwards, going forward...

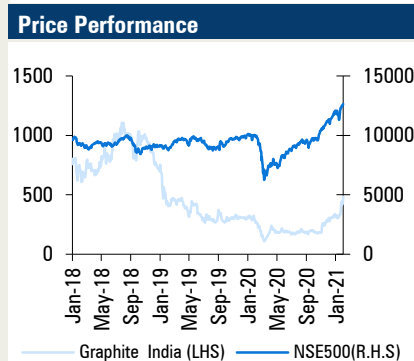
Going forward, for FY21E, we model capacity utilisation of 72.5% for standalone operations (upward revised from 55% earlier) and 62.5% for consolidated operations (upward revised from 51.3% earlier). Similarly, for FY22E, we model capacity utilisation of 80% for standalone operations (upward revised from 65% earlier) and 72% for consolidated operations (upward revised from 60% earlier). We also introduce FY23E numbers, wherein we model capacity utilisation of 82.5% for standalone operations and 75% for consolidated operations.

Valuation & Outlook

The pick-up in steel production globally is expected to drive demand for graphite electrodes, auguring well for GIL. Going forward, for FY21E, FY22E, FY23E on a consolidated basis we model capacity utilisation of 62.5%, 72%, 75%, respectively. We introduce FY23E estimates & roll over our valuations to FY23E. We value the stock at 6x FY23E EV/EBITDA and arrive at a target price of ₹ 500 (earlier ₹ 185). We maintain **HOLD** rating on the stock.



Particulars	
Particular	Amount
Market Capitalisation (₹ crore)	₹ 9457
Debt (FY20) (₹ crore)	₹ 416
Cash & Cash Equivalent (FY20) (₹ crore)	₹ 2523
EV (₹ crore)	₹ 7350
52 week H/L	495 / 103
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2



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

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,266	7,858	3,094	1,966	3,428	3,916
EBITDA	1,444	5,023	(79)	(258)	867	1,063
EBITDA Margin (%)	44.2	63.9	(2.6)	(13.1)	25.3	27.1
Adj PAT	1,032	3,396	45	16	826	986
EPS (₹)	52.8	173.8	2.3	0.8	42.3	50.4
EV/EBITDA (x)	5.9	1.4	NA	NA	7.5	5.7
RoCE (%)	47.1	87.0	(2.6)	(6.8)	16.3	18.3
RoE (%)	37.8	63.5	1.0	0.3	16.6	17.9

Source: Company, ICICI Direct Research

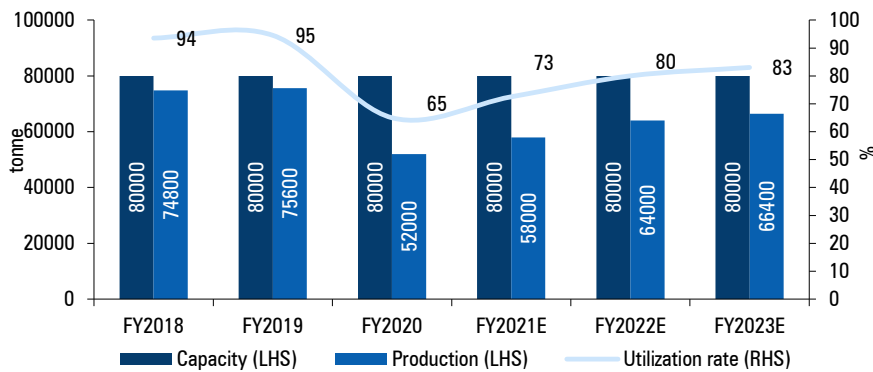
Exhibit 1: Variance Analysis (Consolidated Performance)

Consolidated Performance	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	
Revenue	499	545	643	-22%	485	3%	Topline came in lower than our estimate
Other Income	142	55	43	230%	50	184%	Other income came in higher than our estimate . Other Income for the quarter was aided by one-time income of ₹81 crore on account of electricity refund.
Total Operating expense	573	517	1131	-49%	563	2%	
EBITDA	-74	27	-488	-85%	-78	-5%	
EBITDA Margin (%)	-14.8	5.0	-75.9		-16.1		
Depreciation	12	13	12	0%	13	-8%	
Interest	1	2	4	-75%	2	-50%	
Exceptional Items / Share of profit/loss from associate	-3	0	-2	NA	-2	50%	
PBT	52	67	-463	-111%	-45	-216%	
Tax Outgo	29	17	-110	-126%	-4	-825%	
PAT	23	50	-353	PL	-41	PL	PAT came in lower than our estimate
Key Metrics							
Consolidated Capacity Utilisation (%)	65%	75%	45%		60%		Consolidated capacity utilisation came in lower than our estimate

Source: Company, ICICI Direct Research

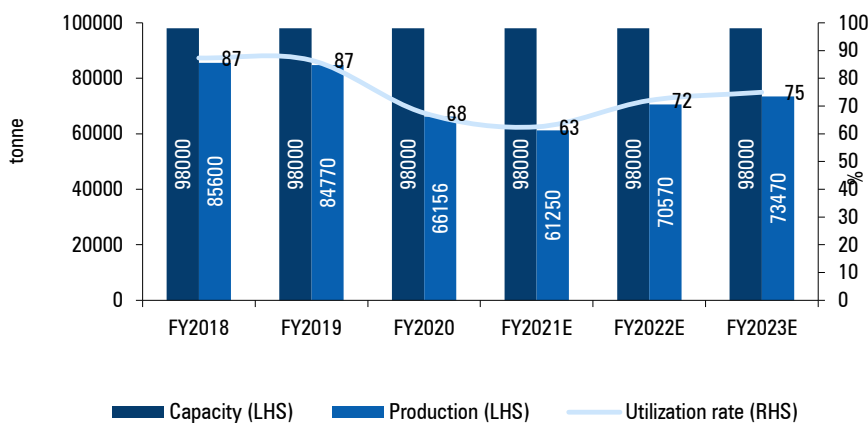
Financial story in charts

Exhibit 2: Trend in standalone capacity utilisation level



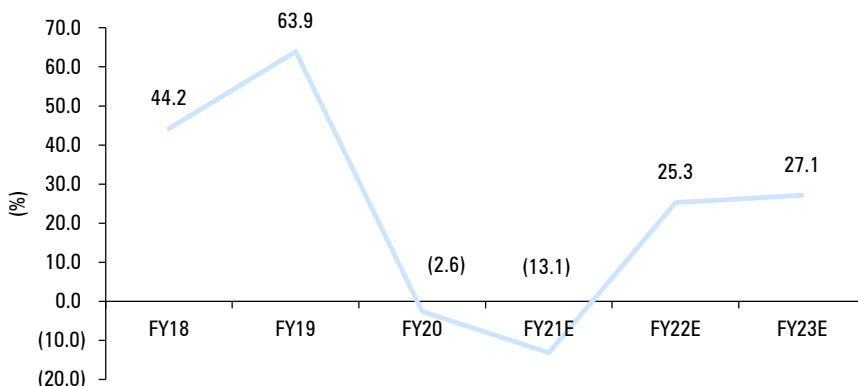
Source: Company, ICICI Direct Research

Exhibit 3: Trend in consolidated capacity utilisation level



Source: Company, ICICI Direct Research

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



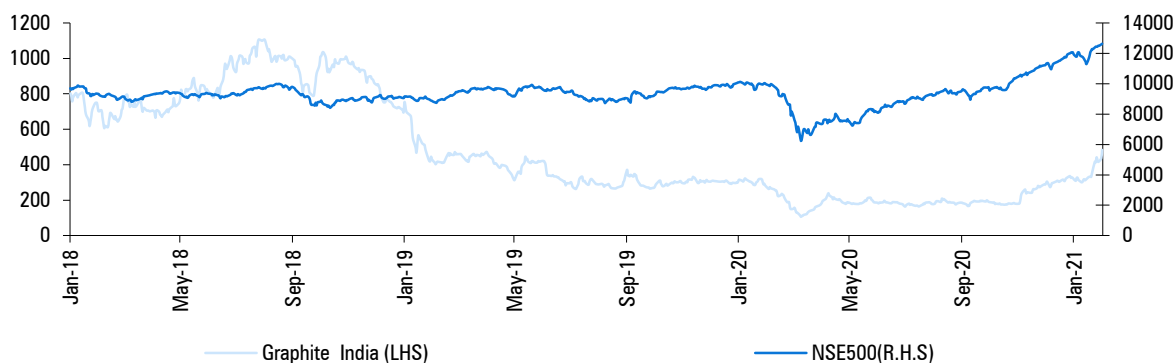
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	7858	140.6	173.8	229.1	2.8	1.4	63.5	87.0
FY20	3094	-60.6	2.3	-98.7	210.2	NA	1.0	-2.6
FY21E	1966	-36.5	0.8	-65.5	NA	NA	0.3	-6.8
FY22E	3428	74.4	42.3	NA	11.5	7.5	16.6	16.3
FY23E	3916	14.3	50.4	19.4	9.6	5.7	17.9	18.3

Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Jul-20	Sep-20	Dec-20
Promoter	65.3	65.3	65.3
Public	34.7	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)	FY20	FY21E	FY22E	FY23E	
Total Operating Income	3094	1966	3428	3916	
Growth (%)	-61	-36	74	14	
Total Operating Expenditure	3173	2224	2561	2854	
EBITDA	-79	-258	867	1063	
Growth (%)	-102	227	LP	23	
Depreciation	51	51	52	54	
Interest	18	9	7	5	
Other Income	174	339	296	313	
PBT	26	21	1103	1317	
Exceptional Item	7	0	0	0	
Total Tax	-26	5	278	332	
PAT	45	16	826	986	
Growth (%)	-99	-65	NA	NA	
EPS (₹)	2	1	42	50	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	45	16	826	986	
Add: Depreciation	51	51	52	54	
(Inc)/dec in Current Asset	841	734	-464	-239	
Inc/(dec) in CL & Provision	-551	-208	388	102	
Others	-32	5	0	0	
CF from operating activities	354	598	802	902	
(Inc)/dec in Investments	523	0	0	-300	
(Inc)/dec in Fixed Assets	-43	-50	-50	-50	
Others	0	0	0	0	
CF from investing activities	480	-50	-50	-350	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	57	-416	0	0	
Dividend paid & div. tax	-46	0	-386	-461	
Inc/(dec) in Share Cap	0	0	0	0	
Others	-796	-20	-2	2	
CF from financing activities	-785	-436	-388	-460	
Net Cash flow	49	112	364	92	
Opening Cash	407	456	568	932	
Closing Cash	456	568	932	1,025	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	39	39	39	39	
Reserve and Surplus	4,515	4,511	4,948	5,474	
Total Shareholders funds	4,554	4,550	4,987	5,513	
Total Debt	416	0	0	0	
Deferred Tax Liability	82	82	82	82	
Minority Interest / Others	0	0	0	0	
Total Liabilities	5,052	4,632	5,069	5,595	
Assets					
Gross Block	1,674	1,724	1,774	1,824	
Less: Acc Depreciation	1,036	1,087	1,140	1,194	
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	2,367	
Inventory	1,565	889	1,174	1,341	
Debtors	402	296	470	536	
Loans and Advances	8	31	31	31	
Other Current Assets	407	432	437	442	
Cash	456	568	932	1,025	
Total Current Assets	2,838	2,216	3,044	3,375	
Current Liabilities	489	323	704	805	
Provisions	42	0	7	8	
Current Liabilities & Prov	531	323	711	813	
Net Current Assets	2,307	1,893	2,333	2,563	
Others Assets	5	0	0	0	
Application of Funds	5,052	4,632	5,069	5,595	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	2.3	0.8	42.3	50.4	
Cash EPS	4.9	3.4	44.9	53.2	
BV	233.1	232.8	255.2	282.2	
DPS	2.0	0.0	16.9	20.2	
Cash Per Share	129.1	134.9	153.5	173.6	
Operating Ratios (%)					
EBITDA Margin	-2.6	-13.1	25.3	27.1	
PBT / Total Operating income	0.8	1.0	32.2	33.6	
PAT Margin	1.5	0.8	24.1	25.2	
Inventory days	185	165	125	125	
Debtor days	47	55	50	50	
Creditor days	58	60	75	75	
Return Ratios (%)					
RoE	1.0	0.3	16.6	17.9	
RoCE	-2.6	-6.8	16.3	18.3	
RoIC	-2.9	-7.8	20.1	22.5	
Valuation Ratios (x)					
P/E	210.2	NA	11.5	9.6	
EV / EBITDA	NA	NA	7.5	5.7	
EV / Net Sales	2.4	3.5	1.9	1.5	
Market Cap / Sales	3.1	4.8	2.8	2.4	
Price to Book Value	2.1	2.1	1.9	1.7	
Solvency Ratios					
Debt/EBITDA	NA	0.0	0.0	0.0	
Debt / Equity	0.1	0.0	0.0	0.0	
Current Ratio	5.3	6.9	4.3	4.2	
Quick Ratio	2.4	4.1	2.6	2.5	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE (%)			ROE (%)		
	(₹)	(₹)			Rating	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Coal India	133	140	Hold	82124	20.3	21.0	22.7	6.5	6.3	5.9	3.7	4.1	4.3	39.6	35.6	33.0	33.6	30.3	28.2
Hindalco	303	309	Hold	67993	31.9	35.1	38.4	9.2	8.4	7.6	6.8	6.2	5.7	9.2	9.6	10.0	11.1	10.9	10.7
Hind Zinc	304	290	Hold	128597	18.7	23.6	27.2	15.0	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	408	400	Hold	98537	29.9	37.3	43.3	12.7	10.2	8.8	8.2	6.7	5.8	11.9	13.7	14.8	16.6	17.2	16.7
NMDC	115	125	Hold	35318	17.1	11.9	3.7	6.6	9.5	8.2	4.7	5.6	5.0	21.4	13.2	14.0	16.7	10.9	11.9
Ratnamani	1673	1900	Buy	7820	49.4	64.5	79.2	32.9	25.2	20.5	22.6	16.8	13.9	16.2	19.6	21.6	12.3	14.1	15.8
Graphite Ind.	484	500	Hold	9457	1.0	42.0	50.0	NA	11.5	9.6	NA	7.5	5.7	-6.8	16.3	17.9	0.3	16.6	17.9
Tata Steel	698	750	Hold	80052	62.7	80.0	82.1	11.1	8.7	8.5	6.4	5.4	5.1	9.4	10.5	10.2	9.2	10.2	9.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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