

## Healthy operational performance....

Graphite India (GIL) reported an operationally healthy set of Q4FY21 numbers, especially for the standalone entity. For Q4FY21, standalone operations reported capacity utilisation of 85% compared to 78% in Q3FY21, 49% in Q4FY20. Standalone operations reported topline of ₹ 563 crore, up 24% QoQ, 3% YoY. EBITDA of standalone operations was at ₹ 128 crore, while adjusted standalone EBITDA (EBITDA excluding onetime income and expense) was at ₹ 188 crore. Standalone PAT was at ₹ 114 crore (up 356% YoY, 23% QoQ). For Q4FY21, consolidated operations reported capacity utilisation of 73% compared to 65% in Q3FY21 and 41% in Q4FY20. Consolidated operations reported topline of ₹ 565 crore, up 13% QoQ, down 6% YoY. EBITDA of consolidated operations was at ₹ 78 crore while adjusted consolidated EBITDA was at ₹ 138 crore. Consolidated PAT for the quarter was at ₹ 64 crore (up 178% YoY).

## Healthy performance from graphite, carbon segment

During the quarter, graphite and carbon segment reported healthy performance both for the standalone and the consolidated entity. For the consolidated entity, in Q4FY21 graphite and carbon segment reported positive EBIT of ₹ 169 crore compared to negative EBIT of ₹ 30 crore in Q4FY20 and negative EBIT of ₹ 1 crore in Q3FY21. For the standalone entity, during Q4FY21 graphite and carbon segment reported EBIT of ₹ 216 crore compared to EBIT of ₹ 22 crore in Q4FY20 and EBIT of ₹ 69 crore in Q3FY21.

## On strong footing...

The gradual pick-up in demand from steel consuming sectors in H2FY21 has led to increase in demand for steel and electrode. In Q4FY21, world crude steel production excluding China registered growth of 3.6% YoY and 2.9% QoQ. During Q4FY21, Indian crude steel production continued its healthy momentum growing 10.4% YoY and 5.3% QoQ. The recent step by China to abolish rebate of 13% VAT on certain steel exports to reduce steel production and exports, augurs well for graphite electrode sector. The lower exports from China may bode well for other EAF steel producing nations, thereby likely to have a positive rub-off on graphite electrode demand.

## Valuation & Outlook

During Q4FY21, electrode prices started to recover from the lows. Furthermore, with increased steel production around the world, demand for electrodes has started to pick up and prices have started to stabilise. This augurs well for Graphite India, which is the largest Indian producer of graphite electrode. We value the stock at 6.5x FY23E EV/EBITDA and arrive at a target price of ₹ 800 (earlier ₹ 825). We maintain our **BUY** recommendation on the stock.

### Key Financial Summary

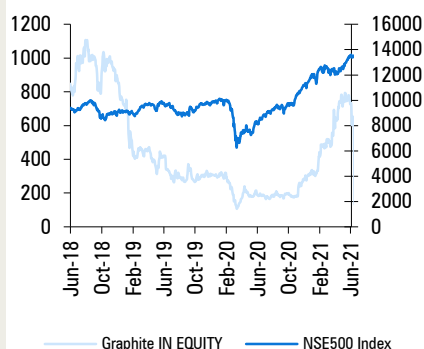
(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	3,266	7,858	3,094	1,958	3,540	4,739
EBITDA	1,444	5,023	-79	-205	1,090	1,820
EBITDA Margin (%)	44.2	63.9	(2.6)	(10.5)	30.8	38.4
Adj PAT	1,032	3,396	45	-32	943	1,553
EPS (₹)	52.8	173.8	2.3	(1.6)	48.3	79.5
EV/EBITDA (x)	7.9	1.9	NA	NA	8.5	4.7
RoCE (%)	47.1	87.0	(2.6)	(5.4)	20.0	28.1
RoE (%)	37.8	63.5	1.0	-0.7	18.1	24.8



### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 12322
Debt (FY21) (₹ crore)	₹ 223
Cash & Cash Equivalent (FY21) (₹ crore)	₹ 2957
EV (₹ crore)	₹ 9588
52 week H/L	815 / 161
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

### Price Performance



### Key risks to call

- Lower-than-expected increase in blended graphite electrode realisation
- Higher-than-expected increase in operating cost (especially needle coke)

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

Consolidated Performance	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	
Revenue	565	687	602	-6%	499	13%	Consolidated topline came in lower than our estimate on the back of lesser than expected capacity utilisation level
Other Income	56	79	23	143%	142	-61%	
Total Operating expense	487	602	628	-22%	573	-15%	
<b>EBITDA</b>	<b>78</b>	<b>85</b>	<b>-26</b>	<b>NA</b>	<b>-74</b>	<b>NA</b>	
EBITDA Margin (%)	13.8	12.4	-4.3	-	-14.8	-	EBITDA margin was supported by sharp decline in raw material costs
Depreciation	14	12	13	8%	12	17%	
Interest	1	1	4	-75%	1	0%	
Exceptional Items / Share of profit/loss from associate	-3	0	-3	0%	-3	0%	
<b>PBT</b>	<b>116</b>	<b>151</b>	<b>-23</b>	<b>PL</b>	<b>52</b>	<b>123%</b>	
Tax Outgo	52	52	-16	NA	29	NA	
<b>PAT</b>	<b>64</b>	<b>99</b>	<b>-7</b>	<b>PL</b>	<b>23</b>	<b>PL</b>	PAT came in lower than our estimate
<b>Key Metrics</b>							
Consolidated Capacity Utilisation (%)	73%	85%	41%		65%		Consolidated capacity utilisation came in lower than our estimate

Source: Company, ICICI Direct Research.

For the consolidated operations, other expenses as a % of sales stood at 21% as compared to 10% in Q4FY20 and 14% in Q3FY21. Other expense included provision for unspent CSR expense of ₹ 70 crore. Furthermore, there was also one-time income to the tune of ₹ 10 crore as a refund from Damodar Valley corporation. Adjusted for both the one-off items consolidated EBITDA would have been ~₹ 138 crore.

For the standalone operations, other expenses as a % of sales stood at 22% as compared to 9% in Q4FY20 and 10% in Q3FY21. Other expense included provision for unspent CSR expense of ₹ 70 crore. Furthermore, there was also one-time income to the tune of ₹ 10 crore as a refund from Damodar Valley corporation. Adjusted for both the one-off items standalone EBITDA would have been ~₹ 188 crore

**Exhibit 2: Graphite India- Segmental Performance Consolidated**

Segment Revenue	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Graphite & Carbon	527	577	-9%	468	13%
Others	38	25.0	52%	31	23%
<b>Total Revenue</b>	<b>565</b>	<b>602</b>	<b>-6%</b>	<b>499</b>	<b>13%</b>
<b>Segment EBIT</b>					
Graphite & Carbon	169	-30	LP	-1	LP
Others	1	9	-89%	3	-67%
<b>Total</b>	<b>170</b>	<b>-21</b>	<b>LP</b>	<b>2</b>	<b>8400%</b>
<b>Less-Finance Cost</b>	<b>1</b>	<b>4</b>	<b>-75%</b>	<b>1</b>	<b>0%</b>
<b>Less-Other Unallocables</b>	<b>50</b>	<b>-5</b>		<b>-54</b>	<b>NA</b>
Loss of Associate	-3	-3	0%	-3	0%
<b>PBT</b>	<b>116</b>	<b>-23</b>	<b>-604%</b>	<b>52</b>	<b>123%</b>
<b>EBIT Margin</b>					
Graphite & Carbon	32%	-5%		0%	
Others	3%	36%		10%	

Source: Company, ICICI Direct Research.

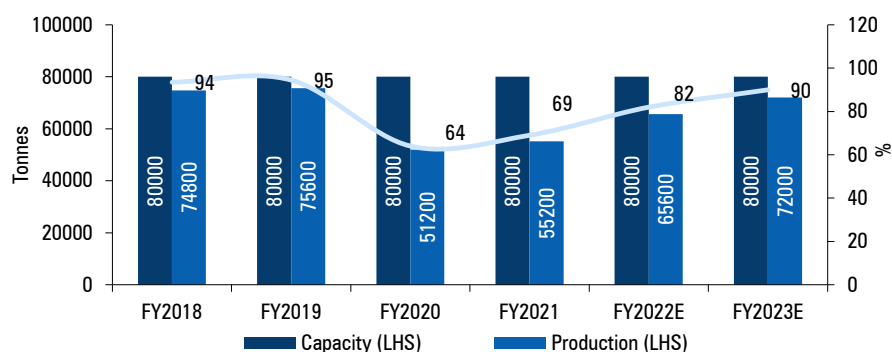
**Exhibit 3: Graphite India- Segmental Performance Standalone**

Segment Revenue	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Graphite & Carbon	524	527	-1%	423	24%
Others	39	21.0	86%	30	30%
<b>Total Revenue</b>	<b>563</b>	<b>548</b>	<b>3%</b>	<b>453</b>	<b>24%</b>
<b>Segment EBIT</b>					
Graphite & Carbon	216	22	LP	69	LP
Others	2	1	100%	3	-33%
<b>Total</b>	<b>218</b>	<b>23</b>	<b>LP</b>	<b>72</b>	<b>203%</b>
<b>Less-Finance Cost</b>	<b>1</b>	<b>4</b>	<b>-75%</b>	<b>1</b>	<b>0%</b>
<b>Less-Other Unallocables</b>	<b>49</b>	<b>-5</b>		<b>-51</b>	<b>NA</b>
Loss of Associate	0	0	0%	0	0%
<b>PBT</b>	<b>168</b>	<b>24</b>	<b>600%</b>	<b>122</b>	<b>38%</b>
<b>EBIT Margin</b>					
Graphite & Carbon	41%	4%		16%	
Others	5%	5%		10%	

Source: Company, ICICI Direct Research.

## Financial story in charts

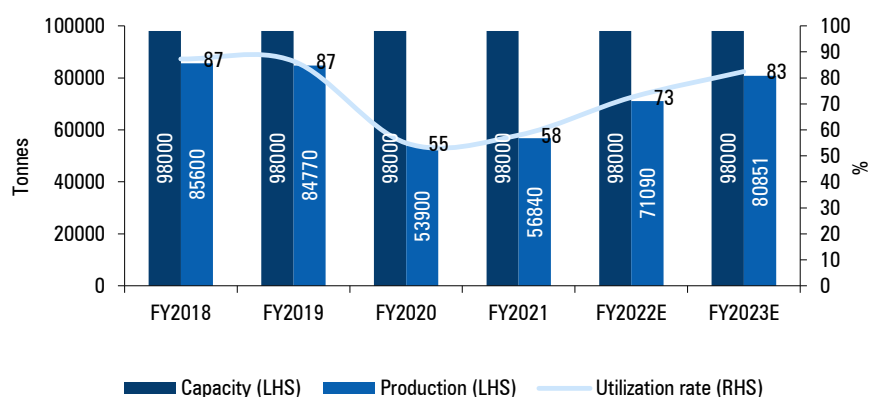
Exhibit 2: Trend in standalone capacity utilisation level



We model standalone capacity utilisation of 82% for FY22E and 90% for FY23E

Source: Company, ICICI Direct Research

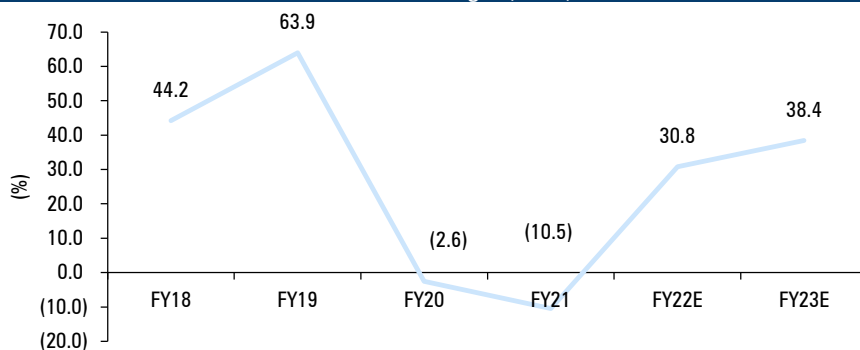
Exhibit 3: Trend in consolidated capacity utilisation level



We model consolidated capacity utilisation of 73% for FY22E and 83% for FY23E

Source: Company, ICICI Direct Research

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

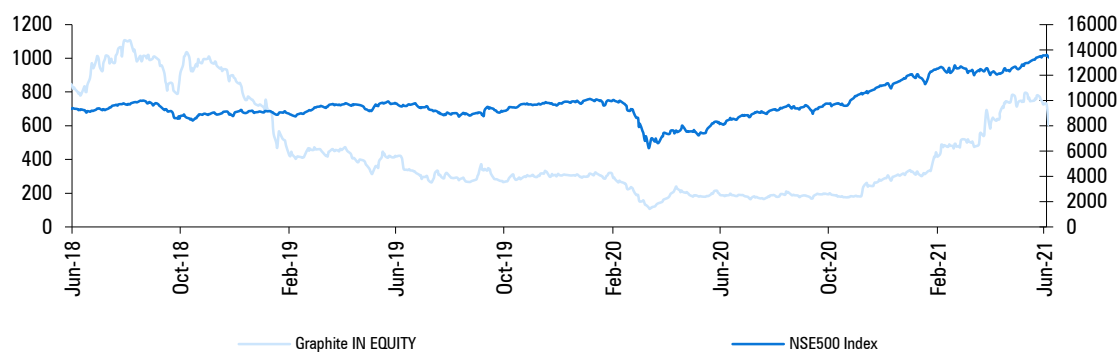


Source: Company, ICICI Direct Research

Exhibit 5: Valuation Matrix

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	7858	140.6	173.8	229.1	3.6	1.9	63.5	87.0
FY20	3094	-60.6	2.3	-98.7	274.0	NA	1.0	-2.6
FY21	1958	-36.7	-1.6	-171.1	NA	NA	-0.7	-5.4
FY22E	3540	80.8	48.3	NA	13.1	8.5	18.1	20.0
FY23E	4739	33.9	79.5	64.8	7.9	4.7	24.8	28.1

Source: Company, ICICI Direct Research

**Exhibit 6: Price Performance**


Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 7: Shareholding Pattern**

(in %)	Sep-20	Dec-20	Mar-21
Promoter	65.34	65.34	65.34
Others	34.66	34.66	34.66
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total Operating Income</b>	<b>3094</b>	<b>1958</b>	<b>3540</b>	<b>4739</b>
Growth (%)	-61	-37	81	34
Total Operating Expenditure	3173	2163	2450	2920
<b>EBITDA</b>	<b>-79</b>	<b>-205</b>	<b>1090</b>	<b>1820</b>
Growth (%)	-102	159	LP	67
Depreciation	51	52	53	54
Interest	18	6	5	3
Other Income	174	316	231	315
<b>PBT</b>	<b>26</b>	<b>53</b>	<b>1264</b>	<b>2077</b>
Share of loss / (profit) from Asso.	7	10	3	1
Total Tax	-26	75	318	523
<b>PAT</b>	<b>45</b>	<b>-32</b>	<b>943</b>	<b>1553</b>
Growth (%)	-99	-171	NA	NA
<b>EPS (₹)</b>	<b>2</b>	<b>-2</b>	<b>48</b>	<b>80</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	45	-32	943	1,553
Add: Depreciation	51	52	53	54
(Inc)/dec in Current Asset	841	623	-686	-715
Inc/(dec) in CL & Provision	-551	142	303	333
Others	-32	-201	3	0
<b>CF from operating activities</b>	<b>354</b>	<b>584</b>	<b>616</b>	<b>1,225</b>
(Inc)/dec in Investments	523	-737	0	-700
(Inc)/dec in Fixed Assets	-43	-99	-50	-50
Others	0	0	0	0
<b>CF from investing activities</b>	<b>480</b>	<b>-836</b>	<b>-50</b>	<b>-750</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	-283	-478
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>-508</b>	<b>-477</b>
Net Cash flow	49	-212	58	-2
Opening Cash	407	456	244	302
<b>Closing Cash</b>	<b>456</b>	<b>244</b>	<b>302</b>	<b>301</b>

Source: Company, ICICI Direct Research

Exhibit 10: 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	5,160	6,237
Total Shareholders funds	4,554	4,541	5,199	6,276
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>5,292</b>	<b>6,369</b>
<b>Assets</b>				
Net Block	638	641	638	634
Capital WIP	35	79	79	79
Total Fixed Assets	673	720	717	713
Investments	2,067	2,804	2,804	3,504
Inventory	1,565	1,016	1,455	1,948
Debtors	402	340	582	779
Loans and Advances	8	5	5	5
Other Current Assets	407	398	403	428
Cash	456	244	302	301
Total Current Assets	2,838	2,003	2,747	3,460
Current Liabilities	489	630	970	1,298
Provisions	42	43	6	10
Current Liabilities & Prov	531	673	976	1,308
Net Current Assets	2,307	1,330	1,771	2,152
Others Assets	5	3	0	0
<b>Application of Funds</b>	<b>5,052</b>	<b>4,857</b>	<b>5,292</b>	<b>6,369</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	2.3	-1.6	48.3	79.5
Cash EPS	4.9	1.0	50.9	82.3
BV	233.1	232.4	266.1	321.2
DPS	2.0	5.0	14.5	24.5
Cash Per Share	129.1	156.0	159.0	194.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	-2.6	-10.5	30.8	38.4
PBT / Total Operating income	0.8	2.7	35.7	43.8
PAT Margin	1.5	-1.6	26.6	32.8
Inventory days	185	189	150	150
Debtor days	47	63	60	60
Creditor days	58	117	100	100
<b>Return Ratios (%)</b>				
RoE	1.0	-0.7	18.1	24.8
RoCE	-2.6	-5.4	20.0	28.1
RoIC	-2.9	-5.7	21.2	29.5
<b>Valuation Ratios (x)</b>				
P/E	274.0	NA	13.1	7.9
EV / EBITDA	NA	NA	8.5	4.7
EV / Net Sales	3.3	4.9	2.6	1.8
Market Cap / Sales	4.0	6.3	3.5	2.6
Price to Book Value	2.7	2.7	2.4	2.0
<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	2.6
Quick Ratio	2.4	1.5	1.3	1.2

Source: Company, ICICI Direct Research

**Exhibit 12: 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	149	165	Hold	90877	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	376	475	Buy	83764	25.5	42.6	45.7	15.6	9.3	8.7	7.8	6.1	5.4	8.8	11.7	12.0	8.5	13.4	12.7
Hind Zinc	340	340	Hold	139098	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	690	800	Buy	162896	32.9	76.0	70.2	20.6	8.9	9.7	10.7	6.5	6.7	13.8	21.4	17.6	17.0	28.3	20.8
NMDC	178	210	Buy	52077	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	2040	2400	Buy	9532	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	631	800	Buy	12388	-2.0	48.0	80.0	NA	13.1	7.9	NA	8.5	4.7	-5.4	20.0	28.1	-0.7	18.1	24.8
Tata Steel	1165	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	130	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7
Jindal Stainless	107	125	Buy	4706	8.6	9.4	10.2	11.0	10.1	9.3	5.4	5.4	5.5	16.0	14.2	12.7	13.0	12.5	11.9
Jindal Stainless Hisar	200	244	Buy	4249	29.0	27.0	32.0	6.3	6.8	5.7	5.2	5.1	4.1	18.6	15.8	16.9	23.2	17.4	16.8
Vedanta	262	300	Hold	93673	33.0	37.9	41.0	8.4	7.4	6.8	5.3	4.0	3.5	17.3	22.5	23.6	19.7	19.9	18.9
HEG	2207	2800	Buy	7985	-7.0	215.0	320.0	NA	11.1	7.4	NA	8.2	5.4	-0.5	27.1	34.3	-0.7	21.1	26.1

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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