

## Mixed bag performance...

**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

**Q3FY22 Results:** Graphite India (GIL) reported a mixed set of numbers for Q3FY22. While the standalone operations reported a steady performance during the quarter, consolidated performance was adversely impacted by muted performance of German operations. For the quarter, German operations reported a loss at the EBITDA level primarily due to a steep rise in electricity and fuel costs despite higher realisations.

- For the quarter, Graphite India reported consolidated capacity utilisation of 90% compared to 65% in Q3FY21 and 81% in Q2FY22 (our estimate 83%). Consolidated topline for the quarter was at ₹ 880 crore, up 76% YoY and 27% QoQ (our estimate: ₹ 765 crore)
- Consolidated EBITDA was at ₹ 137 crore, up 26% QoQ. Consolidated EBITDA margin came in at 15.6% compared to 15.8% in Q2FY22
- Ensuing consolidated net profit during the quarter was at ₹ 132 crore, up 3% QoQ and 474% YoY but lower than our estimate of ₹ 177 crore

**What should investors do?** GIL's share price has given a return of 89% over the last two years (from ~₹ 267 on February 2020 to ~₹ 505 levels in February 2022).

- 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:

- The recovery of graphite electrode demand globally has led to improvement in realisations. Going forward also, the healthy demand momentum trend is likely to continue, which augurs well for graphite electrode realisation
- Indian steel production is expected to continue the positive momentum in 2022, driven by the government's focus on infrastructure development including roads, railways, defence production and launch of PLI scheme

**Alternate Stock Idea:** In our metal sector coverage, we also like Jindal Stainless.

- JSL has a 1.1 million tonnes per annum (MTPA) integrated facility with backward integration.
- BUY with a target price of ₹ 200

### 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	3,108	4,253	47.4
EBITDA	1,444	5,023	-79	-205	NA	548	1,384	NA
EBITDA Margin (%)	44.2	63.9	(2.6)	(10.5)		17.6	32.5	
Adj PAT	1,032	3,396	45	-32	NA	580	1,220	NA
EPS (₹)	52.8	173.8	2.3	(1.6)		29.7	62.4	
EV/EBITDA (x)	6.2	1.5	NA	NA		12.8	4.5	
RoCE (%)	47.1	87.0	(2.6)	(5.4)		10.0	22.6	
RoE (%)	37.8	63.5	1.0	-0.7		11.7	20.7	



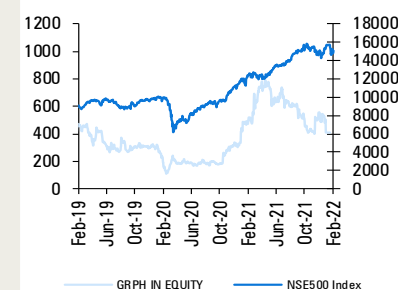
### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 9928
Debt (Q2FY22) (₹ crore)	₹ 333
Cash & Cash Equivalent (Q2FY22) (₹ crore)	₹ 2785
EV (₹ crore)	₹ 7476
52 week H/L	815 / 396
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

### Shareholding pattern

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

### Price Chart



### Key Risks & Event

- During Q3FY22, standalone operations reported capacity utilisation of 99% (78% in Q3FY21 and 93% in Q2FY22)
- Key risks:** (i) Lower-than-expected rise in blended prices of graphite electrodes. (ii) Higher-than-expected increase in operating cost (especially needle coke)

### Research Analyst

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

Consolidated Performance	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q3FY22	QoQ (%)	
Revenue	880	765	499	76%	692	27%	Consolidated topline came in higher than our estimate
Other Income	66	85	142	-54%	79	-16%	
Total Operating expense	743	599	573	30%	583	27%	
<b>EBITDA</b>	<b>137</b>	<b>166</b>	<b>-74</b>	<b>LP</b>	<b>109</b>	<b>26%</b>	EBITDA came in muted on the back of higher than expected operating costs, especially power and fuel cost
EBITDA Margin (%)	15.6	21.7	-14.8	3040 bps	15.8	-18 bps	EBITDA margin came in muted on the back of higher-than-expected operating costs, especially power and fuel cost
Depreciation	14	14	12	17%	13	8%	
Interest	2	1	1	100%	0	NA	
Share of profit/loss from associate	-3	0	-3	0%	-4	-25%	
Exceptional Items	0	0	0	0%	0	NA	
<b>PBT</b>	<b>184</b>	<b>236</b>	<b>52</b>	<b>254%</b>	<b>171</b>	<b>8%</b>	
Tax Outgo	52	59	29	79%	43	21%	
<b>PAT</b>	<b>132</b>	<b>177</b>	<b>23</b>	<b>474%</b>	<b>128</b>	<b>3%</b>	
<b>Key Metrics</b>							
Consolidated Capacity Utilisation (%)	90%	83%	65%		81%		Consolidated capacity utilisation came in higher than our estimate

Source: Company, ICICI Direct Research.

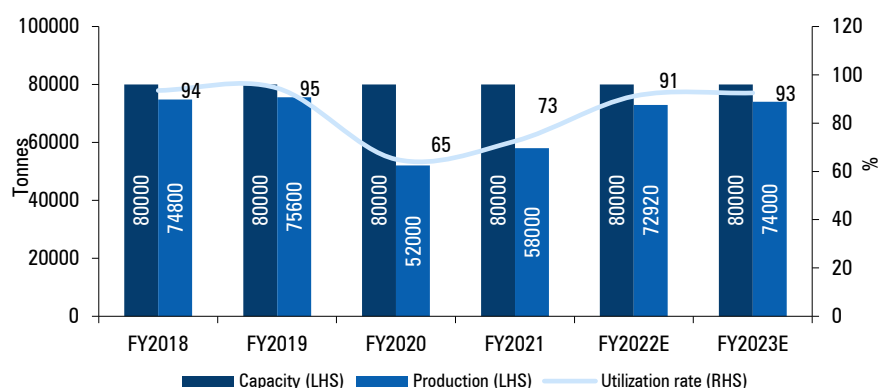
**Exhibit 2: Variance Analysis (Standalone Performance)**

Standalone Performance	Q3FY22	Q3FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	835	453	84%	654	28%
Other Income	61	139	-56%	68	-10%
Total Operating expense	678	458	48%	530	28%
<b>EBITDA</b>	<b>157</b>	<b>-5</b>	<b>LP</b>	<b>124</b>	<b>27%</b>
EBITDA Margin (%)	18.8	-1.1	LP	19.0	-16 bps
Depreciation	11	11	0%	11	0%
Interest	2	1	100%	0	NA
Exceptional Items	0	0	0%	0	NA
<b>PBT</b>	<b>205</b>	<b>122</b>	<b>68%</b>	<b>181</b>	<b>13%</b>
Tax Outgo	50	29	72%	41	22%
<b>PAT</b>	<b>155</b>	<b>93</b>	<b>67%</b>	<b>140</b>	<b>11%</b>
<b>Key Metrics</b>					
Consolidated Capacity Utilisation (%)	99%	78%		93%	

Source: Company, ICICI Direct Research.

## Financial story in charts

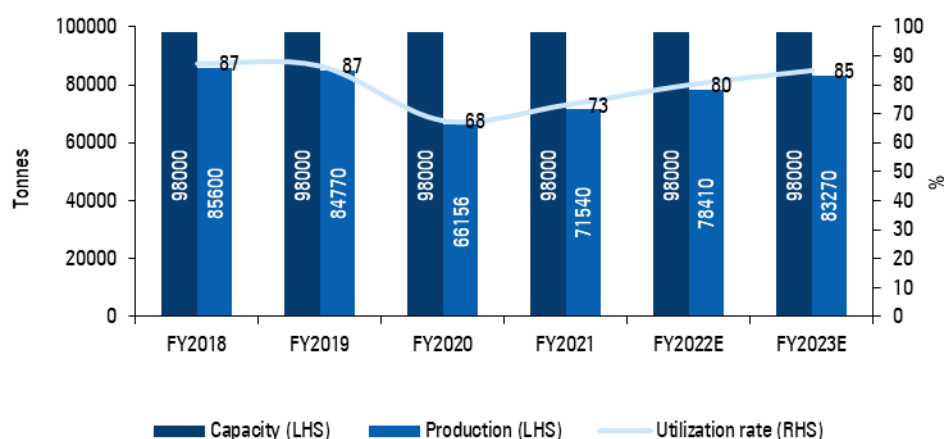
**Exhibit 3: Trend in standalone capacity utilisation level**



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

Source: Company, ICICI Direct Research

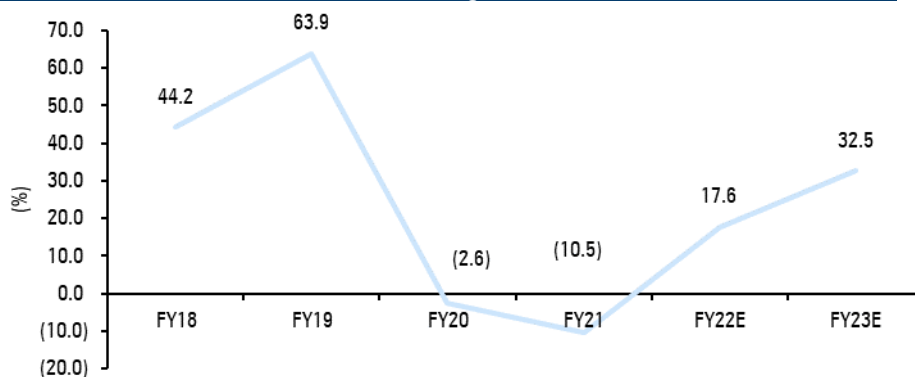
**Exhibit 4: Trend in consolidated capacity utilisation level**



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

Source: Company, ICICI Direct Research

**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	2.9	1.5	63.5	87.0
FY20	3094	-60.6	2.3	-98.7	222.3	NA	1.0	-2.6
FY21	1958	-36.7	-1.6	-171.1	NA	NA	-0.7	-5.4
FY22E	3108	58.7	29.7	NA	17.3	12.8	11.7	10.0
FY23E	4253	36.8	62.4	110.4	8.2	4.5	20.7	22.6

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>3108</b>	<b>4253</b>		
Growth (%)	-61	-37	59	37		
Total Operating Expenditure	3173	2163	2560	2870		
<b>EBITDA</b>	<b>-79</b>	<b>-205</b>	<b>548</b>	<b>1384</b>		
Growth (%)	-102	159	LP	152		
Depreciation	51	52	53	54		
Interest	18	6	5	3		
Other Income	174	316	288	305		
<b>PBT</b>	<b>26</b>	<b>53</b>	<b>779</b>	<b>1631</b>		
Share of loss / (profit) from Asso.	7	10	3	1		
Total Tax	-26	75	196	411		
<b>PAT</b>	<b>45</b>	<b>-32</b>	<b>580</b>	<b>1220</b>		
Growth (%)	-99	-171	NA	110		
<b>EPS (₹)</b>	<b>2</b>	<b>-2</b>	<b>30</b>	<b>62</b>		

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore	
(Year-end March)	FY20	FY21	FY22E	FY23E		
Profit after Tax	45	-32	580	1,220		
Add: Depreciation	51	52	53	54		
(Inc)/dec in Current Asset	841	623	-437	-374		
Inc/(dec) in CL & Provision	-551	142	182	317		
Others	-32	-201	3	0		
<b>CF from operating activities</b>	<b>354</b>	<b>584</b>	<b>380</b>	<b>1,217</b>		
(Inc)/dec in Investments	523	-737	200	-600		
(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>150</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	-145	-305		
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>-370</b>	<b>-303</b>		
Net Cash flow	49	-212	161	164		
Opening Cash	407	456	244	405		
<b>Closing Cash</b>	<b>456</b>	<b>244</b>	<b>405</b>	<b>569</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	4,935	5,852		
Total Shareholders funds	4,554	4,541	4,974	5,891		
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>5,067</b>	<b>5,984</b>		
<b>Assets</b>						
Net Block	638	641	638	634		
Capital WIP	35	79	79	179		
Total Fixed Assets	673	720	717	813		
Investments	2,067	2,804	2,604	3,204		
Inventory	1,565	1,016	1,277	1,655		
Debtors	402	340	511	583		
Loans and Advances	8	5	5	5		
Other Current Assets	407	398	403	328		
Cash	456	244	405	569		
Total Current Assets	2,838	2,003	2,601	3,139		
Current Liabilities	489	630	852	1,165		
Provisions	42	43	3	7		
Current Liabilities & Prov	531	673	855	1,172		
Net Current Assets	2,307	1,330	1,746	1,967		
Others Assets	5	3	0	0		
<b>Application of Funds</b>	<b>5,052</b>	<b>4,857</b>	<b>5,067</b>	<b>5,984</b>		

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					₹ crore	
(Year-end March)	FY20	FY21	FY22E	FY23E		
<b>Per share data (₹)</b>						
EPS	2.3	-1.6	29.7	62.4		
Cash EPS	4.9	1.0	32.4	65.2		
BV	233.1	232.4	254.6	301.5		
DPS	2.0	5.0	7.4	15.6		
Cash Per Share	129.1	156.0	154.0	193.1		
<b>Operating Ratios (%)</b>						
EBITDA Margin	-2.6	-10.5	17.6	32.5		
PBT / Total Operating income	0.8	2.7	25.1	38.4		
PAT Margin	1.5	-1.6	18.7	28.7		
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	11.7	20.7		
RoCE	-2.6	-5.4	10.0	22.6		
RoIC	-2.9	-5.7	10.8	25.0		
<b>Valuation Ratios (x)</b>						
P/E	219.3	NA	17.0	8.1		
EV / EBITDA	NA	NA	12.5	4.4		
EV / Net Sales	2.5	3.6	2.2	1.4		
Market Cap / Sales	3.2	5.0	3.2	2.3		
Price to Book Value	2.2	2.2	2.0	1.7		
<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	3.0	2.7		
Quick Ratio	2.4	1.5	1.5	1.3		

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	167	160	Hold	103384	20.6	25.1	27.7	7.3	6.0	5.5	4.2	4.1	4.1	42.3	41.7	39.8	34.8	36.7	35.5
Hindalco	543	650	Buy	122010	25.5	62.8	60.4	21.3	8.6	9.0	9.6	5.3	5.2	8.8	17.3	15.0	8.5	18.7	15.5
NMDC	158	190	Buy	46332	21.3	34.2	20.9	7.5	4.6	7.6	4.9	3.2	5.1	27.0	34.6	19.0	21.0	28.3	15.9
JSW Steel	672	725	Hold	162353	32.9	93.6	70.9	20.3	7.1	9.4	10.6	5.7	6.3	13.8	21.2	14.6	17.0	32.7	19.9
Ratnamani	2151	2254	Hold	10053	59.0	69.3	90.2	36.4	31.0	23.9	23.9	18.6	14.7	15.7	18.4	19.8	13.9	14.5	16.3
Graphite Ind.	512	650	Buy	9928	-1.6	29.7	62.4	NA	17.3	8.2	NA	12.8	4.5	-5.4	10.0	22.6	-0.7	11.7	20.7
Jindal Stainless	205	250	Buy	10314	8.6	31.9	23.5	23.8	6.4	8.7	9.2	5.3	6.9	16.0	25.4	16.5	13.0	33.3	19.7
Jindal Stainless	395	488	Buy	9321	29.5	70.8	58.9	13.4	5.6	6.7	9.6	5.3	5.4	18.6	28.5	19.8	23.2	34.7	21.9
Hisar Vardhman Special Steel	250	300	Buy	1012	10.9	23.0	25.6	23.6	11.2	10.1	11.3	6.4	6.1	13.7	22.0	20.9	9.6	17.2	16.3
Tata Metaliks	821	975	Hold	2590	69.9	74.3	80.1	12.4	11.7	10.8	6.6	6.5	5.7	24.6	21.6	19.5	17.0	15.6	14.4

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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