

Muted performance...

About the stock: Graphite India (GIL) is the largest Indian producer of graphite electrodes by total capacity. Its manufacturing capacity is 98000 tonnes per annum.

- 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

Q1FY23 Results: GIL reported a muted set of Q1FY23 numbers, primarily on the back of lower-than-expected consolidated capacity utilisation and higher-than-expected operating costs. The reported numbers were also impacted by a one-off charge. Damodar Valley corporation has revised electricity tariff rates and the net charge of ₹ 75 crore had been clubbed under power & fuel costs for the quarter.

- For Q1FY23, Graphite India's standalone capacity utilisation was at 80% (90% in Q1FY22 and 92% in Q4FY22). For Q1FY23, Graphite India reported standalone topline of ₹ 798 crore, up 47% YoY, 4% QoQ. Reported standalone EBITDA for the quarter was at ₹ 75 crore. However, after adjusting for the one-off charge adjusted standalone EBITDA was at ₹ 150 crore. Ensuing standalone reported PAT for the quarter was ₹ 63 crore
- For Q1FY23, Graphite India's consolidated capacity utilisation was at 71% compared to 77% in Q1FY22 and 76% in Q4FY22. For Q1FY23, Graphite India reported consolidated topline of ₹ 866 crore, up 42% YoY, 3% QoQ. Reported consolidated EBITDA for the quarter was at ₹ 28 crore. However, after adjusting for the one-off charge adjusted consolidated EBITDA was at ₹ 103 crore, down 27% YoY but up 17% QoQ. Ensuing consolidated reported PAT for the quarter was at ₹ 24 crore

What should investors do? GIL's share price has given a negative return of 20% over the last six months (from ~₹ 523 in February 2022 to ₹ 417 in August 2022).

- Going forward, we expect GIL's consolidated operating performance to remain subdued, primarily due to muted performance from European operations. Hence, we downgrade the stock from HOLD to **REDUCE**

Target Price and Valuation: We value GIL at ₹ 390, 6x FY24E EV/EBITDA.

Key triggers for future price performance:

- Going forward, demand for graphite electrode and realisation are expected to remain volatile in the near term while cost inflation may continue to add pressure on margins
- Over FY22-24E, we expect GIL's consolidated topline to grow at 5% CAGR while consolidated EBITDA and consolidated PAT are expected to register a CAGR of 23% and 12%, respectively

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

- Jindal Stainless (JSL) has a 1.1 million tonnes per annum (MTPA) integrated facility with backward integration

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22) in %	FY23E	FY24E	CAGR (FY22-FY24E) in %
Net Sales	7,858	3,094	1,958	3,026	16.0	3,283	3,334	5
EBITDA	5,023	-79	-205	475	64.0	543	713	23
EBITDA Margin (%)	63.9	(2.6)	(10.5)	15.7		16.5	21.4	
Adj PAT	3,396	45	-32	505	48.0	489	636	12
EPS (₹)	173.8	2.3	(1.6)	25.8		25.0	32.6	
EV/EBITDA (x)	1.1	NA	NA	11.9		9.8	6.7	
RoCE (%)	87.0	(2.6)	(5.4)	7.8		8.6	11.1	
RoE (%)	63.5	1.0	-0.7	10.2		8.8	11.5	

Source: Company, ICICI Direct Research



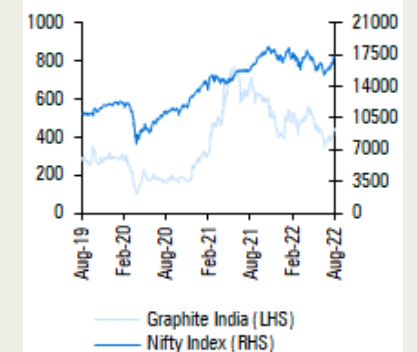
Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 8178
Debt (FY22) (₹ crore)	₹ 428
Cash & Cash Equivalent (FY22) (₹ crore)	₹ 2774
EV (₹ crore)	₹ 5832
52 week H/L	754 / 350
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	65.3	65.3	65.3	65.3
FIs	11.7	6.3	5.1	5.3
DIs	5.7	7.5	9.1	9.5
Public	17.3	20.9	20.5	19.9
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

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

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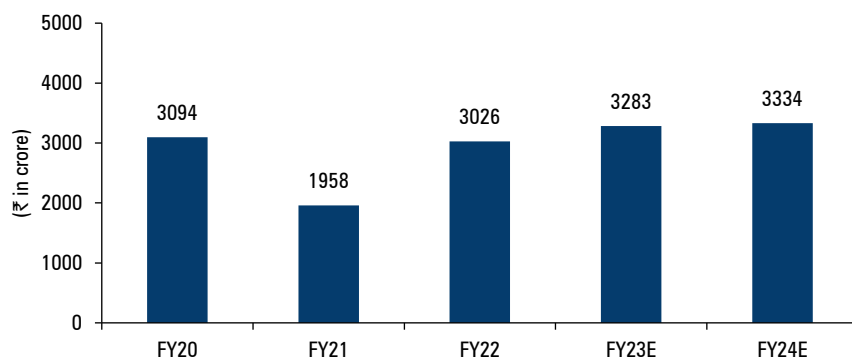
Exhibit 2: Variance Analysis (Consolidated Performance)

Consolidated Performance	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	866	960	610	42%	844	3%	Topline came in lower than our estimate
Other Income	31	63	78	-60%	71	-56%	
Total Operating expense	838	799	469	79%	756	11%	
Reported EBITDA	28	161	141	-80%	88	-68%	
Adjusted EBITDA	103	161	141	-27%	88	17%	Adjusted EBITDA came in lower than our estimate
Adjusted EBITDA Margin (%)	11.9	16.8	23.1	(1120) bps	10.4	150 bps	Adjusted EBITDA margin came in lower than our estimate
Depreciation	14	14	14	0%	14	0%	
Finance cost	2	1	1	100%	2	0%	
Share of loss of an associate	0	0	-7	NA	-2	NA	
PBT	43	209	197	-78%	141	-70%	
Tax Outgo	19	53	47	-60%	46	-59%	
Reported PAT	24	156	150	-84%	95	-75%	Reported PAT came in lower than our estimate
Key Metrics							
Consolidated Capacity Utilisation (%)	71%	83%	77%		76%		Consolidated capacity utilisation levels came in lower than our estimate

Source: Company, ICICI Direct Research.

Financial story in charts

Exhibit 3: Trend in consolidated topline (In ₹ crore)

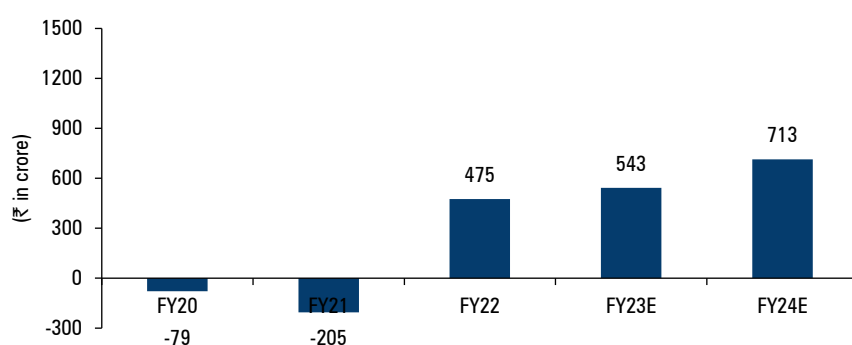


Source: Company, ICICI Direct Research

We expect Graphite India's consolidated topline to grow at a CAGR of 5% during FY22-24E

We downward revise our capacity utilisation estimate for both FY23E and FY24E. For FY23E, we now assume capacity utilisation of 75% (from 82.5% earlier) and 80% for FY24E (from 85% earlier)

Exhibit 4: Trend in consolidated EBITDA (in ₹ crore)

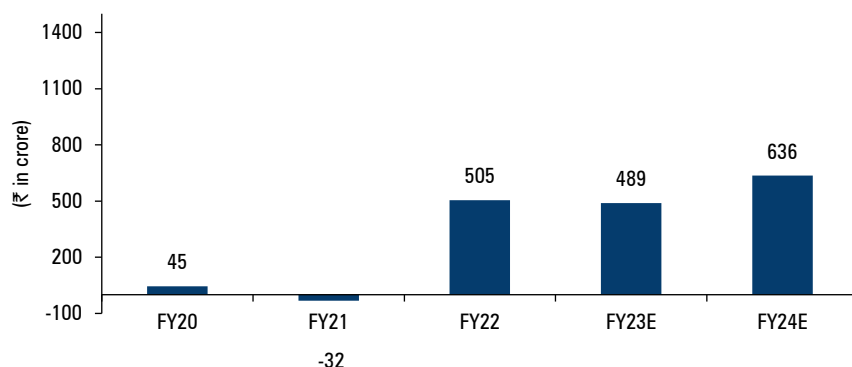


Source: Company, ICICI Direct Research

We expect Graphite India's consolidated EBITDA to grow at a CAGR of 23% during FY22-24E.

During Q1FY23, Graphite India's German business operations continued to remain impacted due to higher energy costs, which got accentuated by ongoing Russia-Ukraine crisis. European operations are likely to adversely impact financials of Graphite India's consolidated operations

Exhibit 5: Trend in consolidated PAT (in ₹ crore)



Source: Company, ICICI Direct Research

We expect Graphite India's consolidated PAT to grow at a CAGR of 12% during FY22-24E

Exhibit 6: Valuation Matrix

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	3094	-60.6	2.3	-98.7	181.1	NA	1.0	-2.6
FY21	1958	-36.7	-1.6	PL	NA	NA	-0.7	-5.4
FY22	3026	54.5	25.8	LP	16.1	11.9	10.2	7.8
FY23E	3283	8.5	25.0	-3.2	16.7	9.8	9.2	8.6
FY24E	3334	1.5	32.6	30.1	12.8	6.7	10.9	11.1

Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Operating Income	1958	3026	3283	3334	
Growth (%)	-37	55	9	2	
Total Operating Expenditure	2163	2551	2740	2621	
EBITDA	-205	475	543	713	
Growth (%)	159	LP	14	31	
Depreciation	52	55	60	62	
Interest	6	5	4	3	
Other Income	316	294	176	203	
PBT	53	709	655	851	
Share of loss / (profit) from Asso.	10	16	1	1	
Total Tax	75	188	165	214	
PAT	-32	505	489	636	
Growth (%)	PL	LP	-3	30	
EPS (₹)	-2	26	25	33	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	-32	505	489	636	
Add: Depreciation	52	55	60	62	
(Inc)/dec in Current Asset	623	-780	54	107	
Inc/(dec) in CL & Provision	142	129	-35	13	
Others	-201	32	0	0	
CF from operating activities	584	-59	569	817	
(Inc)/dec in Investments	-737	20	-200	-200	
(Inc)/dec in Fixed Assets	-99	-168	-150	-150	
Others	0	0	0	0	
CF from investing activities	-836	-148	-350	-350	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	21	205	-128	-300	
Dividend paid & div. tax	-98	-195	-98	-127	
Inc/(dec) in Share Cap	0	0	0	0	
Others	117	96	2	-2	
CF from financing activities	40	106	-224	-429	
Net Cash flow	-212	-101	-5	38	
Opening Cash	456	244	143	138	
Closing Cash	244	143	138	176	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	39	39	39	39	
Reserve and Surplus	4,502	4,908	5,301	5,808	
Total Shareholders funds	4,541	4,947	5,340	5,847	
Total Debt	223	428	300	0	
Deferred Tax Liability	93	122	122	122	
Minority Interest / Others	0	0	0	0	
Total Liabilities	4,857	5,497	5,762	5,969	
Assets					
Gross Block	1,729	1,834	1,884	1,934	
Less: Acc Depreciation	1,088	1,143	1,204	1,266	
Net Block	641	691	681	668	
Capital WIP	79	142	242	342	
Total Fixed Assets	720	833	923	1,010	
Investments	2,804	2,784	2,984	3,184	
Inventory	1,016	1,713	1,619	1,599	
Debtors	340	540	630	594	
Loans and Advances	5	5	5	5	
Other Current Assets	398	281	231	181	
Cash	244	143	138	176	
Total Current Assets	2,003	2,682	2,623	2,554	
Current Liabilities	630	760	765	776	
Provisions	43	42	3	3	
Current Liabilities & Prov	673	802	767	780	
Net Current Assets	1,330	1,880	1,855	1,775	
Others Assets	3	0	0	0	
Application of Funds	4,857	5,497	5,762	5,969	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		FY21	FY22	FY23E	FY24E
(Year-end March)					
Per share data (₹)					
EPS		-1.6	25.8	25.0	32.6
Cash EPS		1.0	28.7	28.1	35.7
BV		232.4	253.2	273.3	299.2
DPS		5.0	10.0	5.0	6.5
Cash Per Share		156.0	149.8	159.8	172.0
Operating Ratios (%)					
EBITDA Margin		-10.5	15.7	16.5	21.4
PBT / Total Operating income		2.7	23.4	19.9	25.5
PAT Margin		-1.6	16.7	14.9	19.1
Inventory days		189	207	180	175
Debtor days		63	65	70	65
Creditor days		117	92	85	85
Return Ratios (%)					
RoE		-0.7	10.2	9.2	10.9
RoCE		-5.4	7.8	8.6	11.1
RoIC		-5.7	8.0	8.8	11.5
Valuation Ratios (x)					
P/E		NA	16.1	16.7	12.8
EV / EBITDA		NA	11.9	9.8	6.7
EV / Net Sales		2.7	1.9	1.6	1.4
Market Cap / Sales		4.2	2.7	2.5	2.4
Price to Book Value		1.8	1.6	1.5	1.4
Solvency Ratios					
Debt/EBITDA		-1.1	0.9	0.6	0.0
Debt / Equity		0.0	0.1	0.1	0.0
Current Ratio		3.0	3.3	3.4	3.3
Quick Ratio		1.5	1.2	1.3	1.2

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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