

CMP: ₹ 371

Target: ₹ 440 (19%)

Target Period: 12 months

BUY

November 14, 2022

Performance likely to improve, going forward...

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

Q2FY23 Results: GIL reported a mixed set of Q2FY23 numbers wherein on the back muted consolidated capacity utilisation level, consolidated topline came in lower than our estimate while consolidated EBITDA came in broadly in line with our estimate, aided by better-than-expected consolidated EBITDA margins.

- For Q2FY23, GIL's consolidated capacity utilisation was at 56%, lower than our estimate of 68%. For Q2FY23, GIL reported a consolidated topline of ₹ 825 crore, lower than our estimate of ₹ 868 crore
- Consolidated EBITDA for the quarter was at ₹ 102 crore (our estimate of ₹ 100 crore). Consolidated EBITDA margin for the quarter was at 12.4% (our estimate of 11.5%). Ensuing consolidated PAT for the quarter was at ₹ 92 crore (our estimate of ₹ 96 crore)

What should investors do? GIL's share price has given a return of ~103% over the last two years (from ~₹ 183 in November 2022 to ₹ 371 in November 2022).

- Countries across the world are moving towards their carbon neutrality goals. Hence, corporates are adopting environment friendly manufacturing processes. Steel manufacturers are gradually moving towards the EAF process, auguring well for graphite electrodes demand over the medium to long term horizon. This is likely to support an uptick in graphite electrode prices. Hence, we upgrade the stock from REDUCE to **BUY**

Target Price and Valuation: We value GIL at ₹ 440, 6.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- Increased government spending on Indian infrastructure and revival of key sectors such as construction, mining, capital goods & automobiles could have a positive impact on steel production & graphite electrode demand
- Over FY22-24E, we expect GIL's consolidated topline to grow at 12% CAGR while consolidated EBITDA and consolidated PAT are expected to register a CAGR of 33% and 22%, respectively

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

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha
- BUY with a target price of ₹ 180



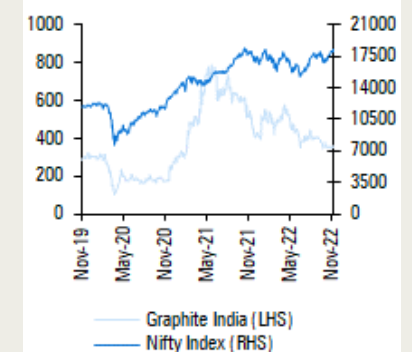
Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 7115
Debt (Q1FY23) (₹ crore)	₹ 415
Cash & Cash Equivalent (Q1FY23) (₹ crore)	₹ 2527
EV (₹ crore)	₹ 5215
52 week H/L	587 / 348
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	65.3	65.3	65.3	65.3
FIs	6.3	5.1	5.3	4.6
DIs	7.5	9.1	9.5	8.7
Public	20.9	20.5	19.9	21.3
Total	100	100	100	100

Price Chart



Key Risks

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

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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	3,291	3,790	12
EBITDA	5,023	-79	-205	475	64.0	387	838	33
EBITDA Margin (%)	63.9	(2.6)	(10.5)	15.7		11.7	22.1	
Adj PAT	3,396	45	-32	505	48.0	373	757	22
EPS (₹)	173.8	2.3	(1.6)	25.8		19.1	38.7	
EV/EBITDA (x)	0.9	NA	NA	10.2		12.0	5.0	
RoCE (%)	87.0	(2.6)	(5.4)	7.8		5.8	13.1	
RoE (%)	63.5	1.0	-0.7	10.2		6.0	13.4	

Source: Company, ICICI Direct Research

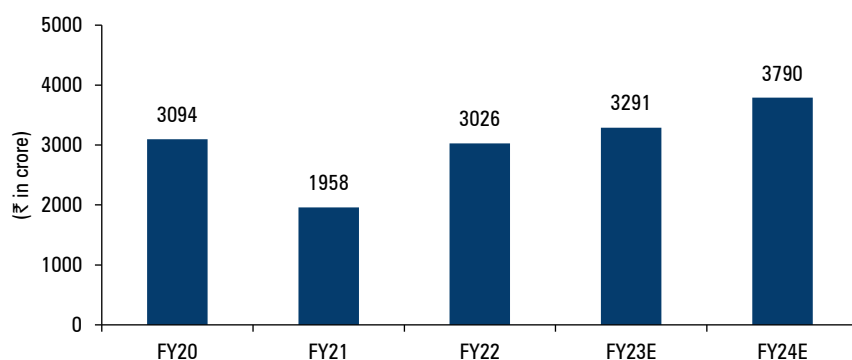
Exhibit 2: Variance Analysis (Consolidated Performance)

Consolidated Performance	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	825	868	692	19%	866	-5%	Consolidated topline came in lower than our estimate
Other Income	111	45	79	41%	31	258%	Consolidated other income included an amount to the tune of ₹ 74 crore on account of fair value gain on investments carried at fair value through profit and loss (FVTPL)
Total Operating expense	723	768	583	24%	838	-14%	
Reported EBITDA	102	100	109	-6%	28	264%	Consolidated EBITDA came in broadly in line with our estimate
Reported EBITDA Margin (%)	12.4	11.5	15.8	(340) bps	3.2	920 bps	Consolidated EBITDA margin came in higher than our estimate
Depreciation	15	14	13	15%	14	7%	
Finance cost	4	2	0	NA	2	100%	
Share of loss of an associate	0	0	-4	NA	0	NA	
Exceptional Expense	-45	0	0	NA	0	NA	During Q2FY23, exceptional item of ₹ 45 crore represents provision on account of restructuring costs/social security cost and impairment of property, plant and equipment of graphite division in Germany
PBT	149	129	171	-13%	43	247%	
Tax Outgo	57	32	43	33%	19	200%	
Reported PAT	92	96	128	-28%	24	283%	Consolidated PAT came in broadly in line with our estimate
Key Metrics							
Consolidated Capacity Utilisation (%)	56%	68%	81%		71%		Consolidated capacity utilisation came in lower than our estimate

Source: Company, ICICI Direct Research.

Financial story in charts (Consolidated)

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

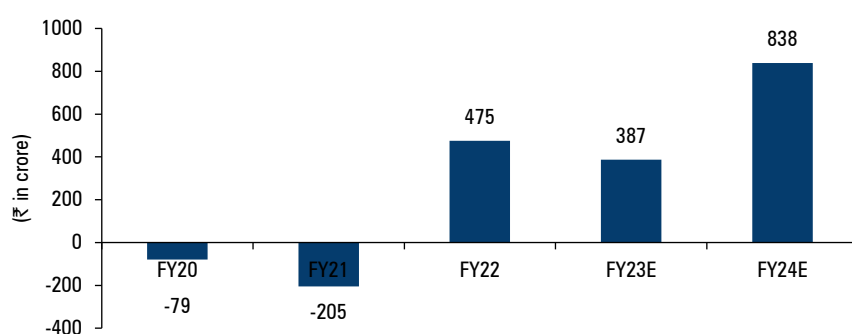


We expect the consolidated topline to grow at a CAGR of 12% during FY22-24E

Going forward, we now assume capacity utilisation of 65% for FY23E and 75% for FY24E

Source: Company, ICICI Direct Research

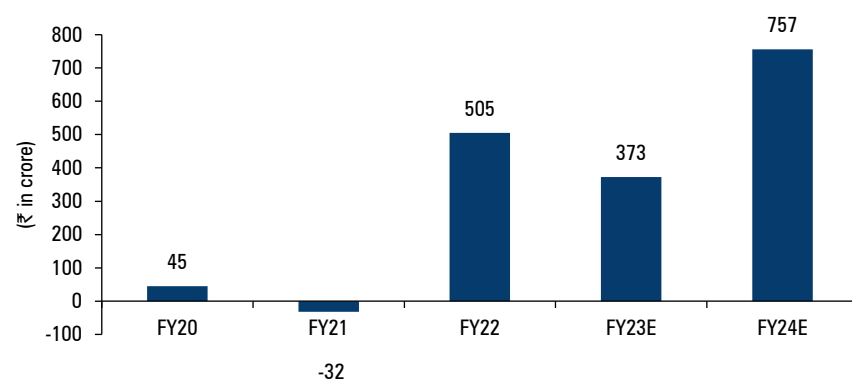
Exhibit 4: Trend in consolidated EBITDA (in ₹ crore)



We expect consolidated EBITDA to grow at a CAGR of 33% during FY22-24E

Source: Company, ICICI Direct Research

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



We expect consolidated PAT to grow at a CAGR of 22% during FY22-24E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	3094	-60.6	2.3	-98.7	162.8	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	14.5	10.2	10.2	7.8
FY23E	3291	8.8	19.1	-26.2	19.7	12.0	7.1	5.8
FY24E	3790	15.1	38.7	102.9	9.7	5.0	13.1	13.1

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	3291	3790	
Growth (%)	-37	55	9	15	
Total Operating Expenditure	2163	2551	2905	2951	
EBITDA	-205	475	387	838	
Growth (%)	159	LP	-19	117	
Depreciation	52	55	58	60	
Interest	6	5	14	10	
Other Income	316	294	249	243	
PBT	53	709	564	1011	
Share of loss / (profit) from Asso.	10	16	4	0	
Exceptional expense	0	0	-45	0	
Total Tax	75	188	142	254	
PAT	-32	505	373	757	
Growth (%)	PL	LP	-26	103	
EPS (₹)	-2	26	19	39	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	-32	505	373	757	
Add: Depreciation	52	55	58	60	
(Inc)/dec in Current Asset	623	-780	49	-136	
Inc/(dec) in CL & Provision	142	129	-33	118	
Others	-201	32	0	0	
CF from operating activities	584	-59	446	799	
(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	0	-300	
Dividend paid & div. tax	-98	-195	-93	-189	
Inc/(dec) in Share Cap	0	0	0	0	
Others	117	96	2	-2	
CF from financing activities	40	106	-91	-491	
Net Cash flow	-212	-101	5	-42	
Opening Cash	456	244	143	148	
Closing Cash	244	143	148	106	

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	5,189	5,755	
Total Shareholders funds	4,541	4,947	5,229	5,794	
Total Debt	223	428	428	128	
Deferred Tax Liability	93	122	122	122	
Minority Interest / Others	0	0	0	0	
Total Liabilities	4,857	5,497	5,779	6,044	
Assets					
Gross Block	1,729	1,834	2,034	2,234	
Less: Acc Depreciation	1,088	1,143	1,201	1,261	
Net Block	641	691	833	973	
Capital WIP	79	142	92	42	
Total Fixed Assets	720	833	925	1,015	
Investments	2,804	2,784	2,984	3,184	
Inventory	1,016	1,713	1,623	1,817	
Debtors	340	540	631	623	
Loans and Advances	5	5	5	5	
Other Current Assets	398	281	231	181	
Cash	244	143	148	106	
Total Current Assets	2,003	2,682	2,638	2,732	
Current Liabilities	630	760	766	883	
Provisions	43	42	2	4	
Current Liabilities & Prov	673	802	769	887	
Net Current Assets	1,330	1,880	1,870	1,845	
Others Assets	3	0	0	0	
Application of Funds	4,857	5,497	5,779	6,044	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		FY21	FY22	FY23E	FY24E
(Year-end March)					
Per share data (₹)					
EPS		-1.6	25.8	19.1	38.7
Cash EPS		1.0	28.7	22.1	41.8
BV		232.4	253.2	267.6	296.5
DPS		5.0	10.0	4.8	9.7
Cash Per Share		156.0	149.8	160.3	168.4
Operating Ratios (%)					
EBITDA Margin		-10.5	15.7	11.7	22.1
PBT / Total Operating income		2.7	23.4	17.1	26.7
PAT Margin		-1.6	16.7	11.3	20.0
Inventory days		189	207	180	175
Debtor days		63	65	70	60
Creditor days		117	92	85	85
Return Ratios (%)					
RoE		-0.7	10.2	7.1	13.1
RoCE		-5.4	7.8	5.8	13.1
RoIC		-5.7	8.0	6.0	13.4
Valuation Ratios (x)					
P/E		NA	14.5	19.7	9.7
EV / EBITDA		NA	10.2	12.0	5.0
EV / Net Sales		2.3	1.6	1.4	1.1
Market Cap / Sales		3.7	2.4	2.2	1.9
Price to Book Value		1.6	1.5	1.4	1.3
Solvency Ratios					
Debt/EBITDA		-1.1	0.9	1.1	0.2
Debt / Equity		0.0	0.1	0.1	0.0
Current Ratio		3.0	3.3	3.4	3.1
Quick Ratio		1.5	1.2	1.3	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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