

On a strong footing...

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

Q1FY22 Results: Graphite India reported a steady set of numbers for Q1FY22.

- For the quarter, GIL reported consolidated capacity utilisation of 75% vs. 36% in Q1FY21 and 73% in Q4FY21 (our estimate 75%). Consolidated topline for the quarter came in at ₹ 610 crore, up 49% YoY, 8% QoQ (our estimate: ₹ 610 crore)
- Consolidated EBITDA came in at ₹ 141 crore, up 81% QoQ, lower than our estimate of ₹ 174 crore. Consolidated EBITDA margin came in at 23.1% compared to 13.8% in Q4FY21, lower than our estimate of 28.5%
- Consolidated other income for the quarter was at ₹ 78 crore, up 39% QoQ, 15% YoY, higher than our estimate of ₹ 64 crore. Better than expected other income aided consolidated PAT during the quarter. Ensuing PAT during the quarter was at ₹ 150 crore, up 134% QoQ (our estimate: ₹ 149 crore).

What should investors do? Graphite India's share price has grown by ~3.7x over the last 12 months (from ~₹ 188 on August 2020 to ~₹ 702 levels in August 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value Graphite India at ₹ 825, 6.5x FY23E EV/EBITDA.

Key triggers for future price performance:

- China's steel exports are expected to decline in CY21. Lower steel exports from China will lead to higher production of steel in EAF steel producing countries, resulting in increased demand for electrodes. However, rising needle coke input prices in line with electrode pricing may exert some pressure
- Domestic demand for steel and electrode has started rising from June 2021 onwards with the easing of lockdown restrictions. With the normalisation of economic activity, there may be strong demand for steel and electrodes both in domestic and international markets

Alternate Stock Idea: In our graphite electrode sector coverage, we also like HEG.

- HEG is a leading manufacturer of graphite electrodes in India and operates the world's largest single-site integrated graphite electrodes plant at Mandideep in Madhya Pradesh
- BUY with a target price of ₹ 2800



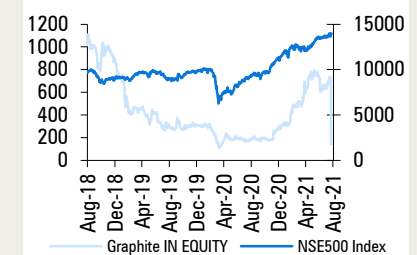
Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 13717
Debt (Q1FY22) (₹ crore)	₹ 267
Cash & Cash Equivalent (Q1FY22) (₹ crore)	₹ 3047
EV (₹ crore)	₹ 10937
52 week H/L	815 / 163
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	65	65	65	65
FIs	7	6	8	10
DIs	5	7	7	6
Others	23	22	20	18
Total	100	100	100	100

Price Chart



Key Risks & Event

- Graphite India balance sheet remains robust with Net cash and cash equivalent of ₹2780 crore as on 30th June 2021.
- Key risks: (i) Lower-than-expected increase in blended prices of graphite electrodes. (ii) Higher-than-expected increase in operating cost (especially needle coke)

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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	3,515	4,874	57.8
EBITDA	1,444	5,023	-79	-205	NA	1,032	1,862	NA
EBITDA Margin (%)	44.2	63.9	(2.6)	(10.5)		29.4	38.2	
Adj PAT	1,032	3,396	45	-32	NA	899	1,584	NA
EPS (₹)	52.8	173.8	2.3	(1.6)		46.0	81.0	
EV/EBITDA (x)	8.8	2.2	NA	NA		10.3	5.2	
RoCE (%)	47.1	87.0	(2.6)	(5.4)		19.0	28.8	
RoE (%)	37.8	63.5	1.0	-0.7		17.4	25.2	

Key highlights....

- For the quarter, Graphite India reported standalone capacity utilisation of 90% vs. 42% in Q1FY21 and 85% in Q4FY21. Standalone topline for the quarter came in at ₹ 543 crore, up 55% YoY but down 4% QoQ
- Standalone EBITDA for the quarter came in at ₹ 136 crore, up 6% QoQ. Standalone EBITDA margin was at 25% compared to 22.7% in Q4FY21
- Standalone other income for the quarter was at ₹ 76 crore, up 43% QoQ, 13% YoY. For the quarter, ensuing PAT of standalone operations was at ₹ 157 crore, up 38% QoQ
- China's steel exports are expected to decline during CY21. Lower steel exports from China will lead to higher production of steel in EAF steel producing countries, resulting in increased demand for electrodes. However, rising needle coke input prices in line with electrode pricing may exert some pressure
- Domestic demand for steel and electrode has started rising from June 2021 onwards with the easing of lockdown restrictions. With the normalisation of economic activity, there may be strong demand for steel and electrodes both in domestic and international markets
- China recently abolished rebate of 13% VAT on certain steel exports to reduce steel production and exports. The lower exports from China may bode well for other EAF steel producing countries
- Growth in EAF steel production globally is expected to drive demand for electrodes in the near term
- The recent announcement of increased government spending on Indian infrastructure and the revival of key sectors such as construction, mining, capital goods and automobiles could have a positive impact on steel production and electrodes demand
- Going forward, for consolidated operations, we model capacity utilisation of 75% for FY22E (upward revised from 72.5% earlier) and 85% for FY23E (upward revised from 82.5% earlier)
- Going forward, for standalone operations, we model capacity utilisation of 85% for FY22E (upward revised from 82% earlier) and 92.5% for FY23E (upward revised from 90% earlier)
- As on June 30, 2021 for the consolidated entity GIL has cash and cash equivalents of ₹ 2780 crore, while for the standalone entity GIL has cash & cash equivalents of ₹ 2272 crore

Peer comparison

Exhibit 1: Peer Comparison

Company	CMP		TP	Mcap	Topline(in ₹ crore)			EBITDA (in ₹ crore)			Adj. PAT(in ₹ crore)			P/E(x)			EV/EBITDA(x)		
	(₹)	(₹)			Rating	(₹)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21
HEG	2380	2800	Buy	9000	1256	2886	3581	(59)	1,054	1,532	(25)	831	1,236	-7.0	11.1	7.4	NA	8.2	5.4
Graphite	702	825	Buy	13717	1958	3515	4874	(205)	1,032	1,862	(32)	899	1,584	NA	15.3	8.7	NA	10.3	5.2

Source: Company, ICICI Direct Research

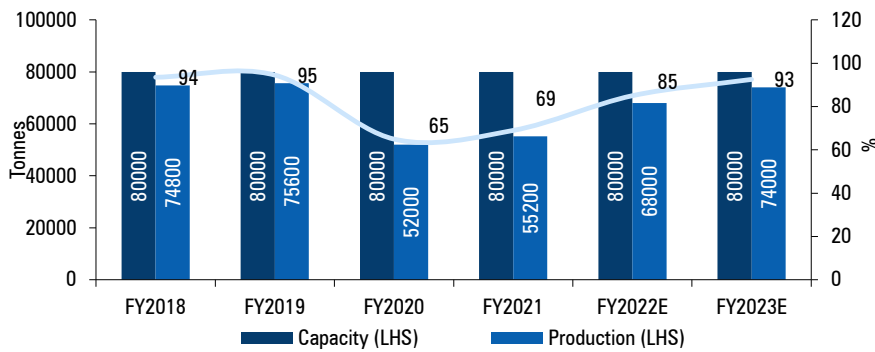
Exhibit 2: Variance Analysis (Consolidated Performance)

Consolidated Performance	Q1FY22	Q1FY21E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
Revenue	610	610	409	49%	565	8%	Topline came in line with our estimates
Other Income	78	64	68	15%	56	39%	Consolidated other Income came in higher than our estimate. Better than expected other income aided the consolidated net profit during the quarter
Total Operating expense	469	436	540	-13%	487	-4%	
EBITDA	141	174	-131	LP	78	LP	EBITDA came in lower than our estimates
EBITDA Margin (%)	23.1	28.5	-32.0	5514 bps	13.8	931 bps	EBITDA margin came in lower than our estimates
Depreciation	14	14	13	8%	14	0%	
Interest	1	1	2	-50%	1	0%	
Exceptional Items / Share of profit/loss from associate	-7	0	-2	NA	-3	133%	
PBT	197	223	-80	LP	116	70%	
Tax Outgo	47	74	-2	NA	52	NA	
PAT	150	149	-78	LP	64	LP	PAT came in line with our estimates.
Key Metrics							
Consolidated Capacity Utilisation (%)	75%	75%	36%		73%		Consolidated capacity utilisation came in line with our estimates.

Source: Company, ICICI Direct Research.

Financial story in charts

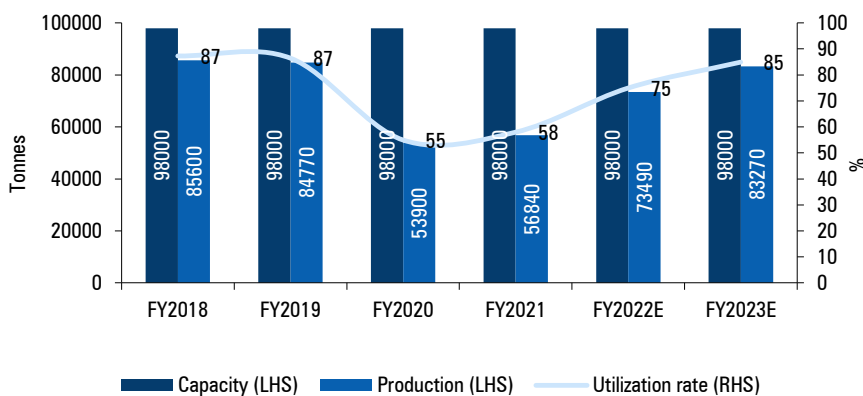
Exhibit 3: Trend in standalone capacity utilisation level



We model standalone capacity utilisation of 85% for FY22E and 92.5% for FY23E

Source: Company, ICICI Direct Research

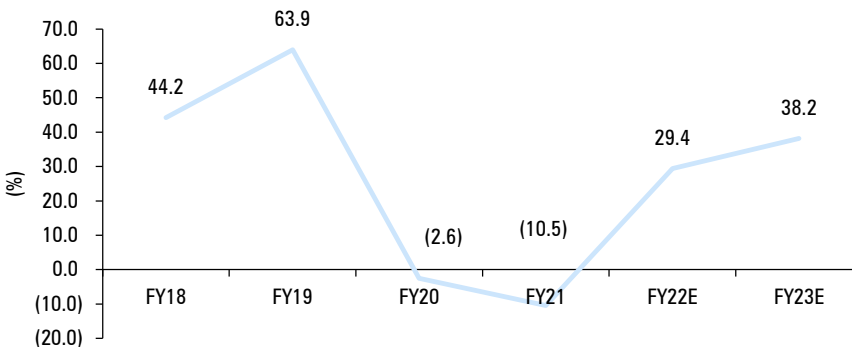
Exhibit 4: Trend in consolidated capacity utilisation level



We model consolidated capacity utilisation of 75% 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	4.0	2.2	63.5	87.0
FY20	3094	-60.6	2.3	-98.7	304.8	NA	1.0	-2.6
FY21	1958	-36.7	-1.6	-171.1	NA	NA	-0.7	-5.4
FY22E	3515	79.5	46.0	NA	15.3	10.3	17.4	19.0
FY23E	4874	38.6	81.0	76.2	8.7	5.2	25.2	28.8

Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	3094	1958	3515	4874
Growth (%)	-61	-37	80	39
Total Operating Expenditure	3173	2163	2483	3011
EBITDA	-79	-205	1032	1862
Growth (%)	-102	159	LP	80
Depreciation	51	52	53	54
Interest	18	6	5	3
Other Income	174	316	230	313
PBT	26	53	1205	2118
Share of loss / (profit) from Asso.	7	10	3	1
Total Tax	-26	75	303	533
PAT	45	-32	899	1584
Growth (%)	-99	-171	NA	NA
EPS (₹)	2	-2	46	81

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	45	-32	899	1,584
Add: Depreciation	51	52	53	54
(Inc)/dec in Current Asset	841	623	-671	-491
Inc/(dec) in CL & Provision	-551	142	296	377
Others	-32	-201	3	0
CF from operating activities	354	584	579	1,523
(Inc)/dec in Investments	523	-737	0	-975
(Inc)/dec in Fixed Assets	-43	-99	-50	-50
Others	0	0	0	0
CF from investing activities	480	-836	-50	-1,025
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	57	21	-223	0
Dividend paid & div. tax	-46	-98	-270	-475
Inc/(dec) in Share Cap	0	0	0	0
Others	-796	117	-2	2
CF from financing activities	-785	40	-494	-473
Net Cash flow	49	-212	34	25
Opening Cash	407	456	244	279
Closing Cash	456	244	279	303

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	39	39	39	39
Reserve and Surplus	4,515	4,502	5,129	6,240
Total Shareholders funds	4,554	4,541	5,168	6,279
Total Debt	416	223	0	0
Deferred Tax Liability	82	93	93	93
Minority Interest / Others	0	0	0	0
Total Liabilities	5,052	4,857	5,261	6,372
Assets				
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	3,779
Inventory	1,565	1,016	1,445	1,896
Debtors	402	340	578	668
Loans and Advances	8	5	5	5
Other Current Assets	407	398	403	353
Cash	456	244	279	303
Total Current Assets	2,838	2,003	2,709	3,225
Current Liabilities	489	630	963	1,335
Provisions	42	43	6	10
Current Liabilities & Prov	531	673	969	1,345
Net Current Assets	2,307	1,330	1,740	1,880
Others Assets	5	3	0	0
Application of Funds	5,052	4,857	5,261	6,372

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	2.3	-1.6	46.0	81.0
Cash EPS	4.9	1.0	48.7	83.8
BV	233.1	232.4	264.5	321.3
DPS	2.0	5.0	13.8	24.3
Cash Per Share	129.1	156.0	157.8	208.9
Operating Ratios (%)				
EBITDA Margin	-2.6	-10.5	29.4	38.2
PBT / Total Operating income	0.8	2.7	34.3	43.5
PAT Margin	1.5	-1.6	25.6	32.5
Inventory days	185	189	150	142
Debtor days	47	63	60	50
Creditor days	58	117	100	100
Return Ratios (%)				
RoE	1.0	-0.7	17.4	25.2
RoCE	-2.6	-5.4	19.0	28.8
RoIC	-2.9	-5.7	20.0	30.3
Valuation Ratios (x)				
P/E	304.8	NA	15.3	8.7
EV / EBITDA	NA	NA	10.3	5.2
EV / Net Sales	3.8	5.6	3.0	2.0
Market Cap / Sales	4.4	7.0	3.9	2.8
Price to Book Value	3.0	3.0	2.7	2.2
Solvency Ratios				
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	2.4
Quick Ratio	2.4	1.5	1.3	1.0

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
Coal India	143	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	435	525	Buy	99336	25.5	46.0	51.1	17.3	9.6	8.6	8.3	6.2	5.4	8.8	12.4	13.0	8.5	14.3	13.9
Hind Zinc	317	340	Hold	140598	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Steel	751	850	Buy	173411	32.9	87.7	71.6	21.8	8.2	10.0	11.2	6.0	6.6	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	175	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	2093	2400	Buy	9652	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.	702	825	Buy	13717	-2.0	46.0	81.0	NA	15.4	8.8	NA	10.5	5.3	-5.4	19.0	28.8	-5.7	20.0	30.3
Tata Steel	1419	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	138	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

Source: Company, ICICI Direct Research

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