

## Performance set 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

**Q3FY23 Results:** Graphite India reported a muted Q3FY23 performance on account of subdued capacity utilisation levels during the quarter.

- For Q3FY23, consolidated capacity utilisation was at 42% compared to 90% in Q3FY22 and 56% in Q2FY23. On the back of lower-than-expected capacity utilisation, consolidated topline came in lower than our estimate. For Q3FY23, GIL reported a consolidated topline of ₹ 701 crore, down 15% QoQ, lower than our estimate of ₹ 1001 crore
- Consolidated EBITDA for the quarter was at ₹ 72 crore, down 29% QoQ. Consolidated EBITDA margin for the quarter was at 10.3% compared to 12.4% for Q2FY23
- During the quarter, consolidated other income was at ₹ 33 crore, down 50% YoY, 70% QoQ. Ensuing consolidated PAT for the quarter was at ₹ 53 crore

**What should investors do?** GIL's share price has given a return of ~19% over the last three years (from ~₹ 277 in February 2020 to ₹ 330 in February 2023).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value GIL at ₹ 385, 6x FY24E EV/EBITDA.

**Key triggers for future price performance:**

- The allocation of ₹ 10 lakh crore towards capital expenditure in Budget 2023 is expected to boost infrastructure development, leading to an increase in domestic steel demand, thereby auguring well for graphite electrode demand
- 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

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

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha
- BUY with a target price of ₹ 300



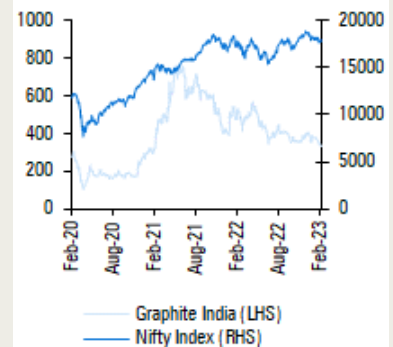
### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 6457
Debt (Q3FY23) (₹ crore)	₹ 345
Cash & Cash Equivalent (Q3FY23) (₹ crore)	₹ 2376
EV (₹ crore)	₹ 4426
52 week H/L	587 / 326
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	65.3	65.3	65.3	65.3
FIs	5.1	5.3	4.6	4.9
DIs	9.1	9.5	8.7	8.4
Public	20.5	19.9	21.3	21.3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### 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	3,051	3,134	2
EBITDA	5,023	-79	-205	475	64.0	289	710	22
EBITDA Margin (%)	63.9	(2.6)	(10.5)	15.7		9.5	22.7	
Adj PAT	3,396	45	-32	505	48.0	265	662	14
EPS (₹)	173.8	2.3	(1.6)	25.8		13.6	33.9	
EV/EBITDA (x)	0.8	NA	NA	8.3		12.9	4.5	
RoCE (%)	87.0	(2.6)	(5.4)	7.8		4.1	11.3	
RoE (%)	63.5	1.0	-0.7	10.2		4.3	11.7	

Source: Company, ICICI Direct Research

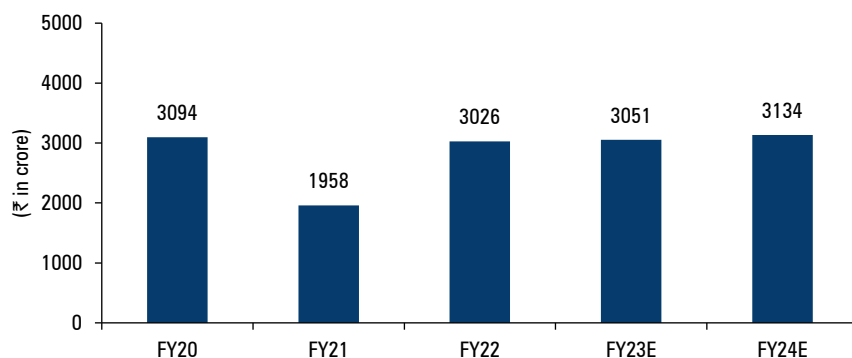
**Exhibit 2: Variance Analysis (Consolidated Performance)**

Consolidated Performance	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	701	880	-20%	825	-15%	Consolidated topline came in 20% lower YoY, 15% QoQ
Other Income	33	66	-50%	111	-70%	Other income was at ₹ 33 crore, down 50% YoY, 13% QoQ
Total Operating expense	629	743	-15%	723	-13%	
<b>Reported EBITDA</b>	<b>72</b>	<b>137</b>	<b>-47%</b>	<b>102</b>	<b>-29%</b>	Consolidated EBITDA came in 47% lower YoY and 29% lower QoQ
Reported EBITDA Margin (%)	10.3	15.6	(530) bps	12.4	(210) bps	
Depreciation	13	14	-7%	15	-13%	
Finance cost	3	2	50%	4	-25%	
Share of loss of an associate	0	-3	NA	0	NA	
Exceptional Expense	-8	0	NA	-45	-82%	During the quarter, an additional provision of ₹ 8 crore was made on German electrode production closure
PBT	81	184	-56%	149	-46%	
Tax Outgo	28	52	-46%	57	-51%	
<b>Reported PAT</b>	<b>53</b>	<b>132</b>	<b>-60%</b>	<b>92</b>	<b>-42%</b>	Ensuing consolidated PAT was at ₹ 53 crore, down 60% YoY, 42% QoQ
<b>Key Metrics</b>						
Consolidated Capacity Utilisation (%)	42%	90%		56%		Consolidated capacity utilisation came in notably subdued at 42% during the quarter, adversely impacting the operational performance during the quarter

Source: Company, ICICI Direct Research.

## Financial story in charts (Consolidated)

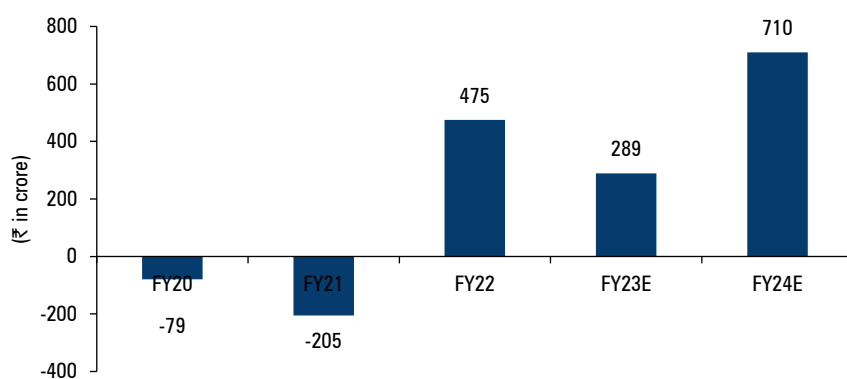
Exhibit 3: Trend in consolidated topline (In ₹ crore)



We expect the consolidated topline to grow at a CAGR of 2% during FY22-24E

Source: Company, ICICI Direct Research

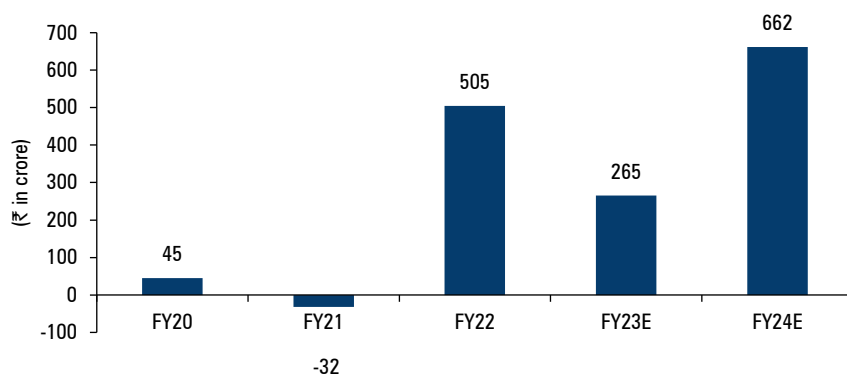
Exhibit 4: Trend in consolidated EBITDA (in ₹ crore)



We expect consolidated EBITDA to grow at a CAGR of 22% 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 14% 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	143.3	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	12.8	8.3	10.2	7.8
FY23E	3051	0.8	13.6	-47.5	24.3	12.9	5.2	4.1
FY24E	3134	2.7	33.9	149.4	9.7	4.5	11.7	11.3

Source: Company, ICICI Direct Research

## Financial summary (Consolidated)

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Total Operating Income</b>	<b>1958</b>	<b>3026</b>	<b>3051</b>	<b>3134</b>	
Growth (%)	-37	55	1	3	
Total Operating Expenditure	2163	2551	2762	2424	
<b>EBITDA</b>	<b>-205</b>	<b>475</b>	<b>289</b>	<b>710</b>	
Growth (%)	159	LP	-39	146	
Depreciation	52	55	58	60	
Interest	6	5	14	10	
Other Income	316	294	212	244	
<b>PBT</b>	<b>53</b>	<b>709</b>	<b>430</b>	<b>884</b>	
Share of loss / (profit) from Asso.	10	16	4	0	
Exceptional expense	0	0	-53	0	
Total Tax	75	188	107	223	
<b>PAT</b>	<b>-32</b>	<b>505</b>	<b>265</b>	<b>662</b>	
Growth (%)	PL	LP	-47	149	
<b>EPS (₹)</b>	<b>-2</b>	<b>26</b>	<b>14</b>	<b>34</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	-32	505	265	662	
Add: Depreciation	52	55	58	60	
(Inc)/dec in Current Asset	623	-780	213	122	
Inc/(dec) in CL & Provision	142	129	-90	21	
Others	-201	32	0	0	
<b>CF from operating activities</b>	<b>584</b>	<b>-59</b>	<b>447</b>	<b>865</b>	
(Inc)/dec in Investments	-737	20	-200	-200	
(Inc)/dec in Fixed Assets	-99	-168	-150	-150	
Others	0	0	0	0	
<b>CF from investing activities</b>	<b>-836</b>	<b>-148</b>	<b>-350</b>	<b>-350</b>	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	21	205	0	-300	
Dividend paid & div. tax	-98	-195	-66	-165	
Inc/(dec) in Share Cap	0	0	0	0	
Others	117	96	-6	6	
<b>CF from financing activities</b>	<b>40</b>	<b>106</b>	<b>-73</b>	<b>-459</b>	
Net Cash flow	-212	-101	24	56	
Opening Cash	456	244	143	167	
<b>Closing Cash</b>	<b>244</b>	<b>143</b>	<b>167</b>	<b>223</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	39	39	39	39	
Reserve and Surplus	4,502	4,908	5,101	5,603	
Total Shareholders funds	4,541	4,947	5,140	5,642	
Total Debt	223	428	428	128	
Deferred Tax Liability	93	122	122	122	
Minority Interest / Others	0	0	0	0	
<b>Total Liabilities</b>	<b>4,857</b>	<b>5,497</b>	<b>5,690</b>	<b>5,892</b>	
<b>Assets</b>					
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	1,505	1,503	
Debtors	340	540	585	515	
Loans and Advances	5	5	5	5	
Other Current Assets	398	281	231	181	
Cash	244	143	167	223	
Total Current Assets	2,003	2,682	2,493	2,427	
Current Liabilities	630	760	711	730	
Provisions	43	42	2	4	
Current Liabilities & Prov	673	802	712	734	
Net Current Assets	1,330	1,880	1,781	1,693	
Others Assets	3	0	0	0	
<b>Application of Funds</b>	<b>4,857</b>	<b>5,497</b>	<b>5,690</b>	<b>5,892</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	-1.6	25.8	13.6	33.9	
Cash EPS	1.0	28.7	16.5	36.9	
BV	232.4	253.2	263.0	288.8	
DPS	5.0	10.0	3.4	8.5	
Cash Per Share	156.0	149.8	161.3	174.4	
<b>Operating Ratios (%)</b>					
EBITDA Margin	-10.5	15.7	9.5	22.7	
PBT / Total Operating income	2.7	23.4	14.1	28.2	
PAT Margin	-1.6	16.7	8.7	21.1	
Inventory days	189	207	180	175	
Debtor days	63	65	70	60	
Creditor days	117	92	85	85	
<b>Return Ratios (%)</b>					
RoE	-0.7	10.2	5.2	11.7	
RoCE	-5.4	7.8	4.1	11.3	
RoIC	-5.7	8.0	4.3	11.7	
<b>Valuation Ratios (x)</b>					
P/E	NA	12.8	24.3	9.7	
EV / EBITDA	NA	8.3	12.9	4.5	
EV / Net Sales	1.9	1.3	1.2	1.0	
Market Cap / Sales	3.3	2.1	2.1	2.1	
Price to Book Value	1.4	1.3	1.3	1.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	-1.1	0.9	1.5	0.2	
Debt / Equity	0.0	0.1	0.1	0.0	
Current Ratio	3.0	3.3	3.5	3.3	
Quick Ratio	1.5	1.2	1.4	1.3	

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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