

June 6, 2023

## 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

**Q4FY23 Results:** GIL reported an operationally muted performance in Q4FY23.

- For Q4FY23, GIL's consolidated capacity utilisation was at 55% compared to 76% in Q4FY22 and 42% in Q3FY23, lower than our estimate of 60%. For Q4FY23, it reported a consolidated topline of ₹ 815 crore, down 3% YoY but up 16% QoQ (our estimate of ₹ 729 crore)
- Consolidated EBITDA for the quarter was at ₹ 62 crore, down 30% YoY and 14%. Consolidated EBITDA margin for the quarter was at 7.6% compared to 10.4% in Q4FY22 and 10.3% for Q3FY23
- During the quarter, consolidated other income was at ₹ 5 crore, down 93% YoY and 85% QoQ (our estimate of ₹ 45 crore). Ensuing consolidated PAT for the quarter was at ₹ 29 crore, down 69% YoY and 45% QoQ

**What should investors do?** GIL's share price has given a return of ~82% over the last three years (from ~₹ 206 in May 2020 to ₹ 375 in May 2023).

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

**Target Price and Valuation:** We value GIL at ₹ 440, 6.5x FY25E EV/EBITDA.

**Key triggers for future price performance:**

- World Steel Association (WSA) forecasts that in CY23, steel demand will see a 2.3% rebound to reach 1822 million tonnes (MT) during CY23 and the demand forecast is expected to grow by 1.7% to reach 1854 MT by 2024. This augurs well for graphite electrodes demand
- Steel manufacturers are shifting towards the EAF process, which is expected to drive sustainable demand for graphite electrodes in the long term. The EAF process is considered to be more environmentally friendly than traditional steel production methods, making it an attractive option for companies looking to reduce their carbon footprint

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

- Jindal Stainless (JSL) has manufacturing facilities at Jajpur, Odisha and Hisar, Haryana and an overseas unit in Indonesia
- BUY with a target price of ₹ 350



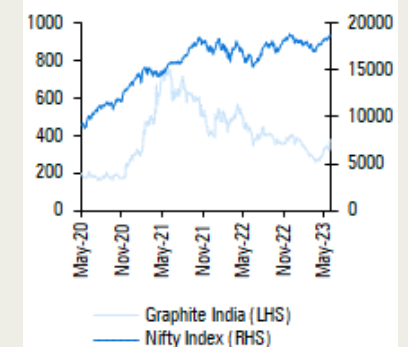
### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	₹ 7401
Debt (Q4FY23) (₹ crore)	₹ 425
Cash & Cash Equivalent (Q4FY23) (₹ crore)	₹ 2356
EV (₹ crore)	₹ 5470
52 week H/L	467 / 252
Equity capital (₹ crore)	₹ 39.1
Face value	₹ 2

### Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	65.3	65.3	65.3	65.3
FIs	5.3	4.6	4.9	4.0
DIs	9.5	8.7	8.4	8.6
Public	19.9	21.3	21.3	22.0
<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)	FY20	FY21	FY22	FY23	CAGR (FY18-FY23) in %	FY24E	FY25E	CAGR (FY23-FY25E) in %
Net Sales	3,094	1,958	3,026	3,181	-1	3,261	3,533	5
EBITDA	-79	-205	475	312	-26	710	867	67
EBITDA Margin (%)	(2.6)	(10.5)	15.7	9.8		21.8	24.6	
Adj PAT	45	-32	505	199	-23	622	743	93
EPS (₹)	2.3	(1.6)	25.8	10.2		31.9	38.0	
EV/EBITDA (x)	NA	NA	10.2	17.0		7.0	5.0	
RoCE (%)	(2.6)	(5.4)	7.8	4.7		11.6	13.2	
RoE (%)	1.0	-0.7	10.2	4.0		11.8	14.2	

Source: Company, ICICI Direct Research

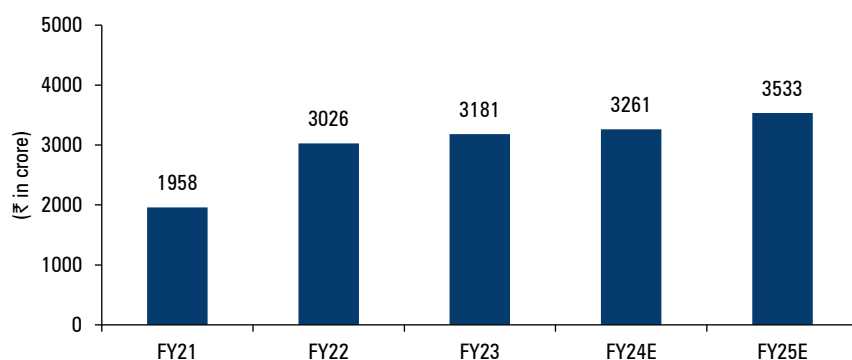
**Exhibit 2: Variance Analysis (Consolidated Performance)**

<b>Consolidated Performance</b>	<b>Q4FY23</b>	<b>Q4FY23E</b>	<b>Q4FY22</b>	<b>YoY (%)</b>	<b>Q3FY23</b>	<b>QoQ (%)</b>	<b>Comments</b>
Revenue	815	729	844	-3%	701	16%	Consolidated topline came in higher than our estimate
Other Income	5	45	71	-93%	33	-85%	
Total Operating expense	753	645	756	0%	629	20%	
<b>Reported EBITDA</b>	<b>62</b>	<b>84</b>	<b>88</b>	<b>-30%</b>	<b>72</b>	<b>-14%</b>	Consolidated EBITDA came in lower than our estimate
Reported EBITDA Margin (%)	7.6	11.5	10.4	(280) bps	10.3	(270) bps	Consolidated EBITDA margin came in lower than our estimate
Depreciation	15	14	14	7%	13	15%	
Finance cost	4	2	2	100%	3	33%	
Share of loss of an associate	0	0	-2	NA	0	NA	
Exceptional Expense	0	0	0	NA	-8	-100%	
PBT	48	113	141	-66%	81	-41%	
Tax Outgo	19	28	46	-59%	28	-32%	
<b>Reported PAT</b>	<b>29</b>	<b>85</b>	<b>95</b>	<b>-69%</b>	<b>53</b>	<b>-45%</b>	Consolidated PAT came in lower than our estimate
<b>Key Metrics</b>							
Consolidated Capacity Utilisation (%)	55%	60%	76%		42%		Consolidated Capacity Utilisation came in lower than our estimate

Source: Company, ICICI Direct Research.

## Financial story in charts (Consolidated)

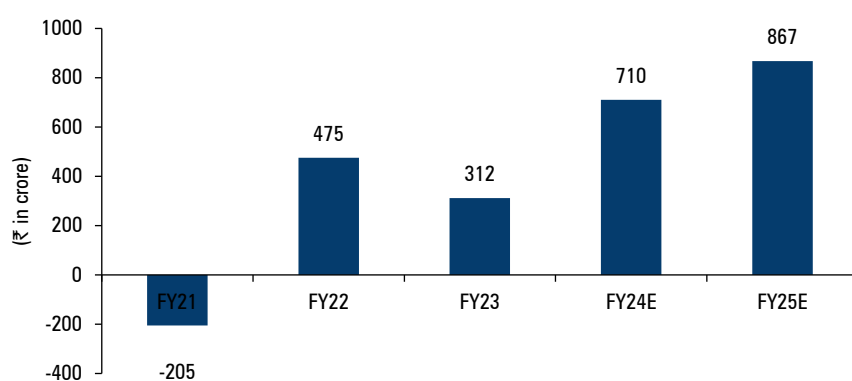
Exhibit 3: Trend in consolidated topline (In ₹ crore)



We expect the consolidated topline to grow at a CAGR of 5% during FY23-25E

Source: Company, ICICI Direct Research

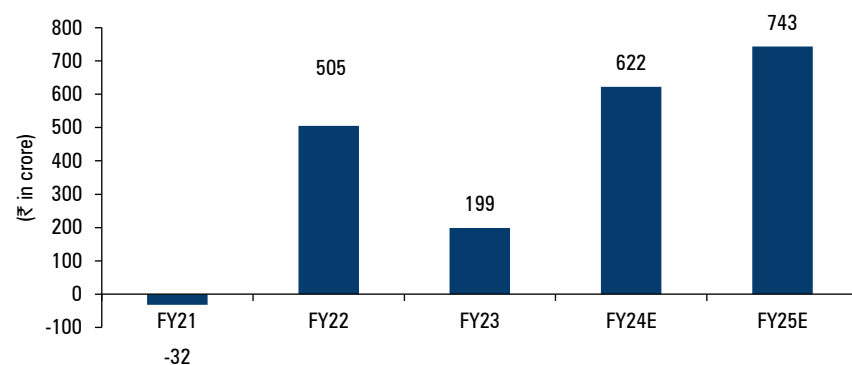
Exhibit 4: Trend in consolidated EBITDA (in ₹ crore)



We expect consolidated EBITDA to grow at a CAGR of 67% during FY23-25E

Source: Company, ICICI Direct Research

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



We expect consolidated PAT to grow at a CAGR of 93% during FY23-25E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Revenue (₹ Cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
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
FY23	3181	5.1	10.2	-60.6	36.8	17.0	4.0	4.7
FY24E	3261	2.5	31.9	212.7	11.8	7.0	11.5	11.6
FY25E	3533	8.3	38.0	19.4	9.9	5.0	12.4	13.2

Source: Company, ICICI Direct Research

## Financial summary (Consolidated)

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
<b>Total Operating Income</b>	<b>3026</b>	<b>3181</b>	<b>3261</b>	<b>3533</b>	
Growth (%)	55	5	2	8	
Total Operating Expenditure	2551	2869	2550	2665	
<b>EBITDA</b>	<b>475</b>	<b>312</b>	<b>710</b>	<b>867</b>	
Growth (%)	LP	-34	128	22	
Depreciation	55	57	59	64	
Interest	5	13	10	8	
Other Income	294	133	190	198	
<b>PBT</b>	<b>709</b>	<b>375</b>	<b>832</b>	<b>993</b>	
Exceptional Expense	16	53	0	0	
Share of loss / (profit) from Asso.	0	0	0	0	
Total Tax	188	123	209	250	
<b>PAT</b>	<b>505</b>	<b>199</b>	<b>622</b>	<b>743</b>	
Growth (%)	LP	-61	213	19	
<b>EPS (₹)</b>	<b>26</b>	<b>10</b>	<b>32</b>	<b>38</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Profit after Tax	505	199	622	743	
Add: Depreciation	55	57	59	64	
(Inc)/dec in Current Asset	-780	-608	21	-47	
Inc/(dec) in CL & Provision	129	202	-73	195	
Others	32	-5	3	3	
<b>CF from operating activities</b>	<b>-59</b>	<b>-155</b>	<b>632</b>	<b>959</b>	
(Inc)/dec in Investments	20	428	-100	-200	
(Inc)/dec in Fixed Assets	-168	-140	-150	-150	
Others	0	0	0	0	
<b>CF from investing activities</b>	<b>-148</b>	<b>288</b>	<b>-250</b>	<b>-350</b>	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	205	-3	-200	-100	
Dividend paid & div. tax	-195	-166	-171	-178	
Inc/(dec) in Share Cap	0	0	0	0	
Others	96	-16	0	0	
<b>CF from financing activities</b>	<b>106</b>	<b>-185</b>	<b>-371</b>	<b>-278</b>	
Net Cash flow	-101	-52	11	330	
Opening Cash	244	143	91	102	
<b>Closing Cash</b>	<b>143</b>	<b>91</b>	<b>102</b>	<b>432</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
<b>Liabilities</b>					
Equity Capital	39	39	39	39	
Reserve and Surplus	4,908	4,925	5,376	5,941	
Total Shareholders funds	4,947	4,964	5,415	5,980	
Total Debt	428	425	225	125	
Deferred Tax Liability	122	117	120	123	
Minority Interest / Others	0	0	0	0	
<b>Total Liabilities</b>	<b>5,497</b>	<b>5,506</b>	<b>5,760</b>	<b>6,228</b>	
<b>Assets</b>					
Gross Block	1,834	1,990	2,190	2,390	
Less: Acc Depreciation	1,143	1,200	1,259	1,323	
Net Block	691	790	931	1,067	
Capital WIP	142	126	76	26	
Total Fixed Assets	833	916	1,007	1,093	
Investments	2,784	2,356	2,456	2,656	
Inventory	1,713	2,328	2,323	2,420	
Debtors	540	546	581	581	
Loans and Advances	5	7	7	7	
Other Current Assets	281	266	216	166	
Cash	143	91	102	432	
Total Current Assets	2,682	3,238	3,228	3,606	
Current Liabilities	760	960	893	1,084	
Provisions	42	44	38	43	
Current Liabilities & Prov	802	1,004	931	1,127	
Net Current Assets	1,880	2,234	2,297	2,479	
Others Assets	0	0	0	0	
<b>Application of Funds</b>	<b>5,497</b>	<b>5,506</b>	<b>5,760</b>	<b>6,228</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY22	FY23	FY24E	FY25E	
<b>Per share data (₹)</b>					
EPS	25.8	10.2	31.9	38.0	
Cash EPS	28.7	13.1	34.8	41.3	
BV	253.2	254.0	277.1	306.0	
DPS	10.0	8.5	8.8	9.1	
Cash Per Share	149.8	125.2	130.9	158.1	
<b>Operating Ratios (%)</b>					
EBITDA Margin	15.7	9.8	21.8	24.6	
PBT / Total Operating income	23.4	11.8	25.5	28.1	
PAT Margin	16.7	6.3	19.1	21.0	
Inventory days	207	267	260	250	
Debtor days	65	63	65	60	
Creditor days	92	110	100	112	
<b>Return Ratios (%)</b>					
RoE	10.2	4.0	11.5	12.4	
RoCE	7.8	4.7	11.6	13.2	
RoIC	8.0	4.8	11.8	14.2	
<b>Valuation Ratios (x)</b>					
P/E	14.5	36.8	11.8	9.9	
EV / EBITDA	10.2	17.0	7.0	5.0	
EV / Net Sales	1.6	1.7	1.5	1.2	
Market Cap / Sales	2.4	2.3	2.2	2.1	
Price to Book Value	1.5	1.5	1.4	1.2	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.9	1.4	0.3	0.1	
Debt / Equity	0.1	0.1	0.0	0.0	
Current Ratio	3.3	3.2	3.5	3.2	
Quick Ratio	1.2	0.9	1.0	1.1	

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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