

Graphite India Ltd.

₹ 70

Recharging Mode**Accumulate**

Jan 31, 2014

Company Background

Graphite India Limited (GIL) is the pioneer in India for manufacture of Graphite Electrodes as well as Carbon and Graphite Specialty products. Apart from Graphite Electrodes, its other main products are Specialty Carbon and Graphite, Impervious Graphite Equipments, Calcined Petroleum Coke & Carbon Electrode Paste and Glass Reinforced Plastic Pipes. Having started in 1967 in collaboration with erstwhile Great Lakes Carbon Corporation (GLCC) of USA, GIL has been continually improving its product quality and services thereby scaling newer heights of excellence and customer recognition. GIL's manufacturing facilities are spread across 6 plants in India and a subsidiary abroad it scales an aggregate electrode manufacturing capacity of 98000 mtpa. Thus brings it in league with the top global electrode producers in the world. The benefits of multi-location facilities, enhanced product range and seamless knowledge integration within it has made it an eminent global player and a reliable partner to buyers.

Key Highlights

- ➔ GIL's Graphite Electrodes are consumables in Electric Arc Furnaces used in the steel industry. It is projected that Electric Arc Furnaces will contribute to over 50% of global steel production by 2020, in view of its various advantages, primarily from the point of view of low emission of carbon dioxide. This development augurs well for the growth of graphite electrode demand in future years, inspite of reducing specific consumption of electrodes per tonne of steel produced, as a result of improvement in manufacturing technology of steel as well as electrodes.
- ➔ The Company has successfully expanded capacity by 20,000 MT per annum at its Durgapur plant with a capital cost of Rs. 275 Crore, funded through internal accruals and borrowings.
- ➔ Graphite India has secured needle coke supplies until the end of FY14. The Company average consolidated capacity utilization is expected to be 70-75% in FY2014.
- ➔ Net Sales of the company are expected to grow at a CAGR of 7% over 2012 to 2015E respectively.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	12,580.3	17,421.3	17,993.6
Rev. growth (%)	8.17	38.48	3.29
EBITDA (INR mn)	3,012.6	3,906.2	3,171.8
Net profit (INR mn)	1,723.2	2,378.9	1,630.8
Shares outstanding (mn)	195.4	195.4	195.4
EPS (INR)	8.8	12.2	8.3
EPS growth (%)	(34.84)	38.05	(31.45)
P/E (x)	10.6	6.9	9.5
RONW (%)	12.9	15.3	9.2
ROCE (%)	10.8	12.3	6.9

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Previous Report

Recommended Buy on May 07, 2010 @ ₹ 95 reached ₹ 112 (18% up) in 1 year.

Info Codes

Reuters	: GRPH.BO
Bloomberg	: GRIL@IN
NSE	: GRAPHITE
BSE	: 509488

Market Data

52 Wk Range (₹)	: 88 / 58
Shares in Issue (mn)	: 195.4
Mkt. Cap (₹ bn)	: 5.47
BSE 2 Wk Avg Vol	: 11000

Share Holding Pattern (%)

Promoters	: 64.51
DII's	: 4.00
FII's	: 15.49
Others	: 16.00

Investment Theme

Graphite India Ltd. is a global player in graphite electrode market. Overall it appears that in the medium term, the Company is well positioned to capitalize on the growing demand for graphite electrodes through its increased capacity and low cost manufacturing base. GIL is also striving to continue its penetration of new markets and clients as well as pursues value enhancing inorganic growth opportunities. Overall, Graphite India is confident of delivering a higher growth profile compared to the broader industry. This will be achieved by leveraging its enhanced capacity, low cost base and high product quality. Over FY2012-15E, we expect the company to post a CAGR of 7% in its top-line and hence recommend an Accumulate on the stock.

Getting Ready for Tomorrow

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	12833.8	17420.2	35.74	18361.8	5.41
Other Income	303.2	708.4	133.64	358.8	(49.35)
Change in Stocks	1222.3	(277.2)	(122.68)	773.8	(379.15)
Raw Material Con.	6774.7	7919.8	16.90	9167.9	15.76
Employee Exp.	971.3	970.4	(0.09)	1199.7	23.63
Indirect Taxes	585.7	742.8	26.82	754.7	1.60
Other Exp.	3017.1	4338.1	43.78	5202.4	19.92
Operating Exp.	10126.5	14248.3	40.70	15550.9	9.14
Operating Profit	2707.3	3171.9	17.16	2810.9	(11.38)
Total Interest	55.5	212.0	281.98	221.4	4.43
Gross Profit	2955.0	3668.3	24.14	2948.3	(19.63)
Net Dep.	396.8	389.4	(1.86)	517.5	32.90
Total Taxation	835.0	900.0	7.78	800.0	(11.11)
Net Profit/Loss	1723.2	2378.9	38.05	1630.8	(31.45)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	14,327.8	16,686.7	20,236.4	22,488.3
Equity Share capital	343.0	390.8	390.8	390.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	11,492.2	13,644.2	15,228.4	16,059.2
Long Term Loans	1,767.0	669.8	1,532.7	1,629.6
Short Term Loans	725.6	1,981.9	3,084.5	4,408.7
USES OF FUNDS	14,327.8	16,686.7	20,236.4	22,488.3
Gross Block	9,000.7	9,131.6	10,532.4	12,177.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	4,341.3	4,721.8	5,099.4	5,578.7
Net Block	4,659.4	4,409.8	5,433.0	6,599.1
Capital Work in Progress	195.5	950.3	1,266.6	26.7
Investments	2,549.9	2,727.8	3,334.8	3,457.4
Current Assets	10,420.0	12,562.7	14,576.6	17,038.5
Less : Current Liabilities	3,497.0	3,965.1	4,375.0	4,633.4
Total Net Current Assets	6,923.0	8,597.6	10,201.6	12,405.1
Misc. Expenses not written	0.0	1.2	0.4	0.0
NOTE				
Bk Val Unquoted Investments	918.5	716.4	1,093.3	1,093.3
Mkt Val. Quoted Investments	1,631.4	1,913.7	2,311.9	2,539.4
Contingent Liabilities	1,123.7	2,556.5	1,211.2	873.8
Dividend (%)	175	175	175	175

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	4,291.00	5,111.80	4,038.10	4,408.70
Cost Of Sales	3,624.30	4,493.90	3,379.80	3,590.70
Operating Profit	666.70	617.90	658.30	818.00
Recurring Income	32.70	98.10	87.00	53.30
Adjusted PBDIT	699.40	716.00	745.30	871.30
Financial Expenses	52.10	70.60	43.50	48.50
Depreciation	129.20	136.70	131.20	135.20
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	518.10	508.70	570.60	687.60
Tax Charges	173.00	193.00	177.50	242.50
Adjusted PAT	345.10	315.70	393.10	445.10
Non Recurring Items	0.00	100.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	345.10	415.70	393.10	445.10

52 Week Index Relative Percentage Appreciation



GIL vs SENSEX

Risks Associated

- ➔ Business projections have an inherent element of uncertainty of unknown elements like sudden reversal of positive trends leading to economic slowdown resulting in possible negative growth for steel, automotive and infrastructure industries slowing down which in turn may adversely impact the industry.
- ➔ Disproportionate increase in taxes and other levies imposed periodically by the Central and State Governments, especially on essential inputs, may increase the cost of manufacture and reduce the profit margins.
- ➔ Economic slowdown and/or cyclical recession in certain major steel consuming industries may adversely impact the demand-supply dynamics as also the profitability.
- ➔ Exports to specific regions may get severely affected by trade barriers in the form of crippling import duties or anti dumping duties or countervailing duties or sanctions as the case may be.
- ➔ There are serious concerns caused by the Eurozone crisis at the centre stage, compounded further by the political turmoil seen in many countries particularly in the Middle East and other recent setbacks to the global economic growth.
- ➔ The increasing price of crude and coal and its direct impact on its derivative materials like Needle Coke, Pitch, Furnace Oil, Met Coke, etc. will all tend to inflate the input cost in a major way.
- ➔ Also volatility in foreign currency market directly impacts the company's prospects.

In a Nutshell

Graphite India (GIL) is a producer of graphite electrodes with a total installed capacity of approximately 98,000 tonne per annum. It is spread over four plants at Durgapur (54,000 MT post expansion), Bangalore (13,000 MT), Nashik (13,000 MT) and Nurnberg in Germany (18,000 MT). The company accounts for approximately 6.5% of global electrode capacity and has over 40 years of technical expertise in the industry. With its corporate office in Kolkata, GIL serves its clients at over 50 countries, with no client accounting for over 6% of revenues. Exports account for approximately 56% of revenues and export volumes increased over three times from FY01 to FY12. The company manufactures the full range of graphite electrodes but stays focused on the higher margin, large diameter and ultra-high power (UHP) electrodes. Approximately, 85% of the company's total capacity is currently UHP. In context of the volatile industry dynamics, the Company remains focused on margin enhancement through improving operational productivity across its facilities globally and implementing cost optimization measures. In particular, the Company actively manages its production schedules to optimize its production costs and enhance plant capacity utilization levels. Graphite India continues to build on its longstanding relationships with its existing customers. The Company continues to target a consolidated capacity utilization range of 60-70% for FY2014. All these factors spell out for a proactive management view to manage growth even in the global slowdown. We therefore feel the company is a good bet among its peers.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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