# Graphite India Limited

Q3 FY2011 Earnings Presentation

# Important Notice

**Forward Looking Statements**

*This presentation contains statements that contain "forward looking statements" including, but without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to Graphite India's future business developments and economic performance.*

*While these forward looking statements indicate our assessment and future expectations concerning the development of our business, a number of risks, uncertainties and other unknown factors could cause actual developments and results to differ materially from our expectations.*

*These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that could affect our business and financial performance.*

*Graphite India undertakes no obligation to publicly revise any forward looking statements to reflect future / likely events or circumstances.*

# Highlights

- Gross Revenue increased by 21.0% y-o-y and 3.7% sequentially
- Electrode sales volume increased by 34% y-o-y and 7% sequentially
- Capacity utilization in Q3 FY2011 was approximately 84% versus an average of 78% for Q2 FY2011
- Moderating electrode prices and higher input costs resulted in a sequential decrease in Operating Profits by 21.6%
- Rs. 60 Crore net cash and cash equivalents surplus
- Durgapur expansion plan of 20,000 MT per annum is on track for completion by Q3 FY2011-12
- Rising electrode demand due to growing steel production

Commenting on the results and performance, **Mr. K. K. Bangur, Chairman** of **Graphite India said:**

*"Graphite India continued to perform well in Q3 FY2011 with strong volume growth in both domestic and export markets. The steel industry is growing steadily across most geographic regions. Through our global presence, we remain well positioned to capitalize on this ongoing growth in steel production.*

*Over the next few quarters our focus would continue on improving capacity utilizations, cost optimization and sales realization. The earlier announced expansion at our Durgapur plant is progressing well."*

# Business Snapshot

**Global Market Position**

- **Largest Indian** producer of graphite electrodes and **one of the** largest globally, by total capacity
- One of the leading players in a highly consolidated industry and accounts for **6.5%** of global electrode capacity
- High barriers to entry due to technology intensive nature of the industry

**Best-in-Class Operations**

- Over **60%** of electrode production **exported** in competition with global players
- **Brownfield expansion** at much **lower capex** compared to greenfield expansion, significantly enhancing global competitiveness
- Despite low pricing during a significant part of the last decade, Graphite India was **consistently profitable** while leading players made losses

**Attractive Industry Dynamics**

- Graphite electrode demand is dependent on Electric Arc Furnace (EAF) steel production. EAF steel production **increased** from **180 million MT** in 1985 to **382 million MT** in 2010
- Strong secular support for future steel production via EAF route due to significant advantages over traditional blast furnace method
- **Global client base** with no client accounting for more than **6.5%** of revenues

**Strong Financial Performance**

- Steady **double-digit revenue CAGR** over the past five years despite a global slowdown
- Strong **cost management** resulting in average EBITDA margins of approximately **25%** from FY 2007 to FY 2010
- Steady growth of **export business**, which **tripled** in size from FY 2001 to FY 2009
- Strong balance sheet with low leverage and large cash position as well as steady cash flow generation provides flexibility for organic and inorganic expansion

# Group Financial Performance

## Standalone Q3 FY2011 Performance

| (Rs. Crore) | Q3 FY2010 | Q3 FY2011 | *% Y-o-Y Growth* | Q2 FY2011 | *% Q-o-Q Growth* | 9 Months FY2010 | 9 Months FY2011 | *% Y-o-Y Growth* |
|---|---|---|---|---|---|---|---|---|
| Gross Sales[1] | 290.8 | 351.8 | *21.0%* | 339.0 | *3.7%* | 827.4 | 961.7 | *16.2%* |
| Net Sales | 278.9 | 337.5 | *21.0%* | 323.9 | *4.2%* | 792.6 | 919.6 | *16.0%* |
| Operating Profit[2] | 108.6 | 76.9 | *(29.2%)* | 98.1 | *(21.6)%* | 308.9 | 237.3 | *(23.2%)* |
| *% Margin* | *38.9%* | *22.8%* | | *30.3%* | | *39.0%* | *25.8%* | |
| Net Profit | 63.0 | 44.2 | *(29.8%)* | 49.2 | *(10.1)%* | 176.6 | 127.8 | *(27.6%)* |
| *% Margin* | *22.6%* | *13.1%* | | *15.2%* | | *22.3%* | *13.9%* | |
| Basic EPS (Rs.) | 3.68 | 2.39 | *(35.1%)* | 2.74 | *(12.8)%* | 10.33 | 6.91 | *(33.1%)* |

Notes:
1 Gross Revenue includes excise duty
2 Operating Profit defined as earnings before depreciation, interest, exceptional items and taxes; includes other income
3 All margins calculated as a percentage of Net Sales

# Segment Financial Performance

## Standalone Q3 FY2011 Segment Performance

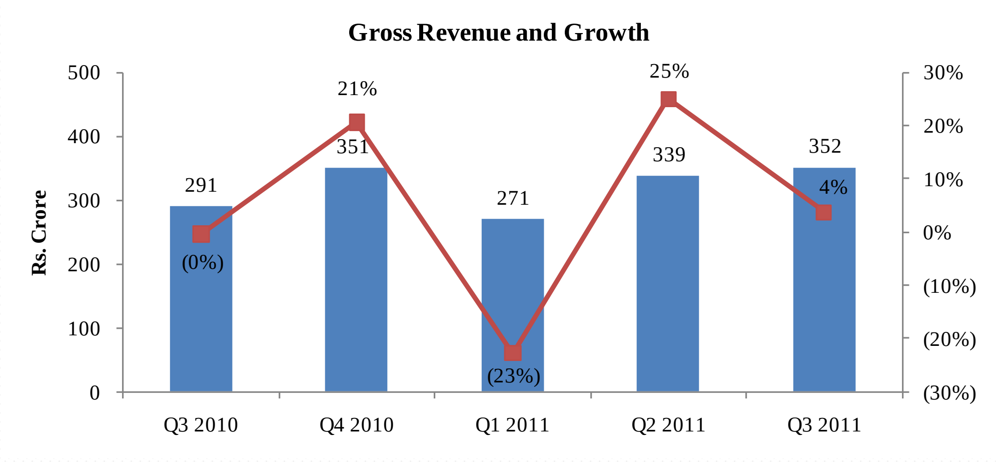
| (Rs. Crore) | Q3 FY2010 | Q3 FY2011 | *% Y-o-Y Growth* | Q2 FY2011 | *% Q-o-Q Growth* | 9 Months FY2010 | 9 Months FY2011 | *% Y-o-Y Growth* | Y-o-Y Comments |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales[1] | | | | | | | | | |
| Graphite and Carbon | 242.2 | 293.7 | *21.2%* | 274.7 | *6.9%* | 780.2 | 673.1 | *15.9%* | Increase in volume and moderating electrode prices |
| Power | 9.4 | 8.8 | *(6.4)%* | 8.4 | *4.9%* | 24.0 | 20.0 | *20.2%* | Increased generation at Hydel plant |
| Steel | 17.0 | 25.5 | *49.9%* | 23.0 | *10.9%* | 70.5 | 46.1 | *52.9%* | Increased volumes |
| Unallocated | 22.7 | 21.5 | *(5.7%)* | 28.1 | *(23.7)%* | 75.0 | 80.1 | *(6.4)%* | |
| EBIT | | | | | | | | | |
| Graphite and Carbon[2] | 83.4 | 54.5 | *(34.7)%* | 53.8 | *1.3%* | 236.3 | 155.5 | *(34.2)%* | Decline in realization and increase in input cost |
| Power | 7.2 | 7.1 | *(0.4)%* | 7.6 | *(6.5)%* | 12.8 | 18.7 | *46.2%* | Increased generation at Hydel plant |
| Steel | (0.4) | 0.8 | *nm* | 0.2 | *420.0%* | (5.3) | 1.2 | *nm* | |
| Unallocated | 5.5 | 6.3 | *13.9%* | 8.0 | *(21.6%)* | 25.8 | 20.1 | *(22.3)%* | |

Notes:

1 Net Sales excludes excise duty

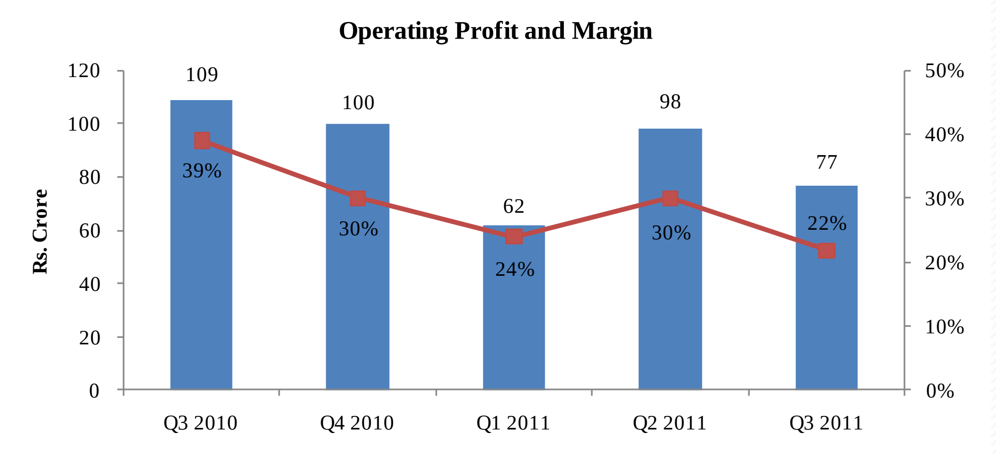
2 Includes the impact of one-time charge of Rs. 12.7 Crore

# Quarterly Financial Performance




### Historical Trends

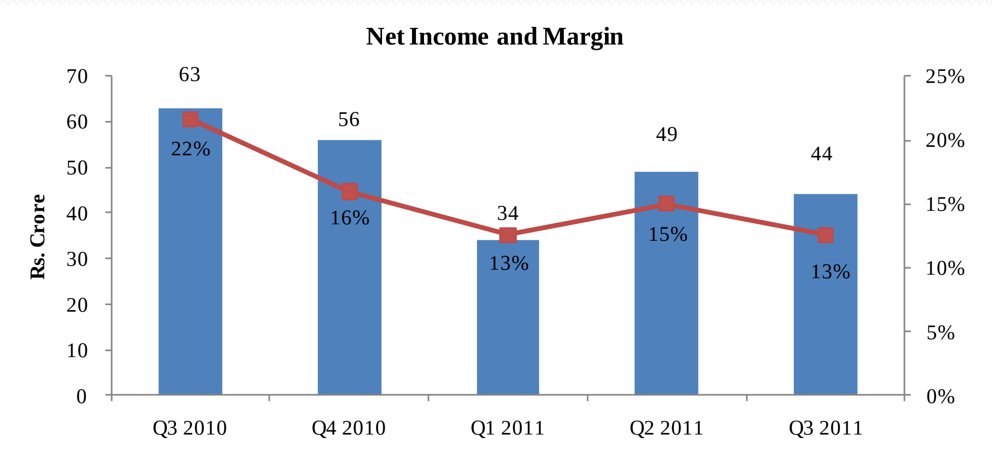
- Q3 FY2011 electrode volume growth increased by 34% y-o-y and 7% q-o-q, offset to some extent by moderation in electrode prices
- Strong steel segment volume growth in Q3 FY2011
- Growth in Q2 FY2011 volumes sequentially
- Larger volumes in Q4 FY2010 q-o-q and better contribution from non-electrode businesses
- Q3 FY2010 electrode volume growth flat q-o-q




- Moderation in electrode prices, rising non-needle coke input costs and one-time rise in employee costs impacted margins in Q3 FY2011
- Higher volumes and capacity utilization in Q2 FY2011 have benefited margins compared to Q1 FY2011
- Moderation in electrode prices and increasing input costs during Q1 FY2011
- Moderation in electrode prices in Q4 FY2010 impacted margins compared to Q3 FY2010

Note:
1 All numbers shown are for the standalone business

# Quarterly Financial Performance




### Historical Trends

- ❖ Q3 FY2011 Net Profit margins impacted by lower electrode pricing and higher non-needle coke costs
- ❖ Net Profit higher despite impact of one-time charge for Bangalore plant restructuring in Q2 FY2011
- ❖ Continued lower interest expense in Q1 and Q2 FY2011
- ❖ Moderation in electrode prices and rising input costs during Q1 FY2011

| **(Rs. Crore)** | **Standalone Q2 FY2011** | **Standalone Q3 FY2011** |
|---|---|---|
| Secured Debt | 32 | 121 |
| Unsecured Debt | 37 | 35 |
| FCCB | 1 | - |
| **Total Debt** | **70** | **156** |
| Less: Cash & Cash Equivalents | (204) | (216) |
| **Net Debt / (Net Cash)** | **(134)** | **(60)** |
| LTM Net Interest | 0.47 | 0.71 |

### Capital Structure

- ❖ No FCCB outstanding as of Dec 31, 2010
- ❖ Outstanding shares as of December 31, 2010 is 195,375,594
- ❖ Net cash position of Rs. 60 Crore
- ❖ Significant financial flexibility available for future capacity expansions or inorganic acquisitions

# Strategic Initiatives

## Durgapur Plant Expansion

- Electrode capacity expansion plan of 20,000 MT per annum
  - Continue to position Graphite India as the largest Indian producer of graphite electrodes
  - Key drivers are access to capital at competitive costs and anticipated improvement in electrode demand in the medium term
  - Eco-friendly advanced technology and greater energy efficiency
  - Cost of expansion expected to be Rs. 255 Crore, to be funded through internal accruals and debt. Additional capacity expansion of 9,500 MT at a low capex of Rs. 67.5 Crore, as compared to Rs. 187.5 Crore for the original expansion of 10,500 MT
  - Project completion by Q3 FY2011-12

## Power Capacity Expansion

- Coal based thermal power plant of 50 MW capacity at Durgapur at an investment of Rs. 214 Crore
  - Power generation capacity to increase to 83 MW
  - Will enable Graphite India to further optimize its cost of production and increase its competitiveness in the global market
  - Suppliers have been identified
  - Currently waiting for environment clearance from Government
  - This power plant will meet 100% of the power requirements of  the Durgapur Plant post expansion

# Outlook

| | |
|---|---|
| **Revenues** | ❖ New orders of electrodes due to increased production by steel manufacturers<br>❖ Stabilization in electrode prices<br>❖ Exports to continue to show strong volume growth |
| **Costs** | ❖ Capacity utilization expected to be 75-80% in FY2011<br>❖ Negotiations ongoing for needle coke requirements in FY2012<br>❖ Reduced power costs through tie up with Wardha Power Company for Nasik plant, from Q1 FY2012 |

# Fact Sheet

## COMPANY BACKGROUND

Graphite India is the largest Indian producer of graphite electrodes and one of the largest globally, by total capacity. Its manufacturing capacity of approximately 78,000 tonnes per annum is spread over four plants at Durgapur (34,000 MT), 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, India, the Company services its clients in over fifty countries, with no client accounting for over 6% of revenues. Exports account for approximately 60% of revenues and export volumes increased over 3 times from FY2001 to FY2009. Graphite India manufactures the full range of graphite electrodes but stays focused on the higher margin, large diameter, ultra-high power ("UHP") electrodes. Approximately 85% of the Company's total capacity is currently UHP.

Graphite India is well poised in the global graphite electrode industry through its quality, scale of operations and low cost production base. The Company's competitive edge was particularly evident during the last decade, when low prices for graphite electrodes resulted in many of the leading players generating losses, but Graphite India however remained consistently profitable and declared dividends.

The Company experienced steady double digit revenue CAGR over the past five years despite a global slowdown. Graphite India currently has a conservative leverage profile, with significant financial capacity for organic or inorganic expansion.

The Company's strategy is to become further vertically integrated, continue its penetration of new markets and clients as well as pursue value enhancing inorganic growth opportunities. Graphite India currently manufactures Calcined Petroleum Coke ("CPC") for use in electrode manufacturing. It is also enhancing its presence in value added graphite products for the auto, aerospace, chemical, pharmaceutical, metallurgical and machine tool industries.

The Company is further targeting focused reductions in its manufacturing costs. A capacity expansion plan has been initiated in its Durgapur (West Bengal) plant, to increase capacity by 20,000 MT per annum, taking the total capacity towards 100,000 MT per annum.

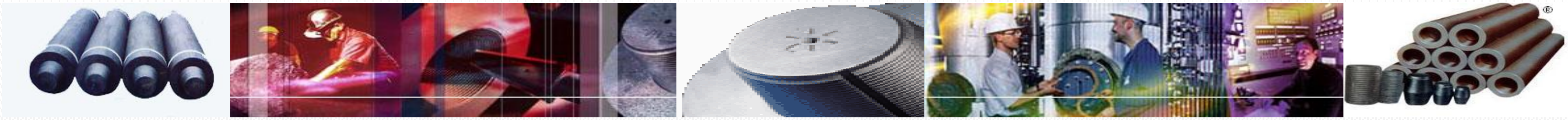
The Company also has facilities designed for the manufacture of impervious graphite equipment and glass reinforced plastic pipes and tanks. It has an installed capacity of 33 MW of power generation through hydel and multi-fuel routes, which will be enhanced to 83 MW with installation of a 50 MW thermal power plant.

## INDUSTRY

Graphite electrodes are used in electric arc furnace ("EAF") based steel mills and is a consumable item for the steel industry. The graphite electrode industry is highly consolidated with the top five major global players accounting for 75% of the high end UHP electrode capacity. Majority of this capacity however, is currently located in high cost regions like US, Europe and Japan. The manufacturing process, for the high end UHP electrodes is technology intensive and is a significant barrier for the entry of new players.

Due to the global economic recession, demand for electrodes is currently less than total installed capacity of 1.2 million MT, of which UHP capacity is 0.9 million MT. Global steel production continues to recover post-recession.

The EAF method of manufacturing steel is becoming increasingly attractive due to its low capital costs, lower breakeven tonnage, flexibility in locating plants closer to consumption points and significantly lower pollution levels than in the blast furnace steel plants. As a result, EAF production has increased from 180 million tonnes in 1985 to 382 million MT in 2010.



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