

## Graphite India Ltd

Hold

Result Update

12 May 2014

## Margins dip due to weak realizations; maintain hold

We maintain Hold rating on Graphite India Ltd (GIL) with a target price of Rs93 as operating environment remains challenging for the company with subdued demand and weak pricing due to increased competition among global electrode players. FY14 results disappointed due to sharp drop in realizations and EBITDA was lower by 7.7% YoY on a consolidated basis as overseas subsidiary recorded losses. We cut our consolidated EBITDA estimates by 5.4%/6.1% for FY15E/16E on account of lower realizations and higher costs. Reduction in debt led by working capital release, strong balance sheet and good dividend yield are key positives, but valuations at 6.2x FY15E EV/EBITDA leave limited upside. Recommend a switch to Vesuvius India.

- **Utilizations pick up QoQ, but realizations dip sharply:** Capacity utilization for Q4 stood at 83% (up from 70% in Q3) but realizations fell by ~9% QoQ due to severe competition among electrode producers globally for greater market share. Global steel production growth remains subdued (ex-China) despite improvements in Europe and management commentary of various producers indicate further weakness in realizations going ahead.
- **EBITDA margin drops sharply, working capital release reduces debt:** EBITDA was flat QoQ at Rs682mn (vs exp: Rs767mn) and margin dropped by 160bps QoQ to 14.3% (vs exp: 16.6%) due to sharp fall in electrode realizations and higher other expenses. Cons EBITDA in FY14 was lower by ~7.7% YoY led by subdued standalone performance and losses at the European subsidiary. GIL reduced its gross debt on a consolidated basis from ~Rs7.1bn to Rs4.3bn on the back of working capital release (led mainly by inventory reduction of needle coke).
- **Earnings revised downwards due to lower realizations:** Management has guided for capacity utilization of ~70% in FY15 while realizations are expected to remain muted due to high competition. We see pressure on volumes and realizations due to weak demand and high competition and reduce our consolidated EBITDA estimates by 5.4%/6.1% for FY15E/16E. We build in capacity utilizations of 70%/72% for standalone operations and 55%/60% for overseas subsidiary for FY15E/16E. We factor in lower debt and reduced working capital requirements going ahead.
- **Valuations – maintain Hold:** We like the strong balance sheet and good dividend yield of the company, but see current valuation at 6.2x FY15E EV/EBITDA offering limited upside potential, particularly in a weak global demand environment. We maintain Hold with a revised target price of Rs93 (based on 6x FY16E EV/EBITDA) as the stock lacks positive triggers. Recommend a switch to Vesuvius India in steel consumables space. Key upside risks are better volumes & higher realizations while downside risks are further investments at the overseas subsidiary to fund losses and lower realizations.

Y/E Mar (Rsmn)	Q4FY14	Q4FY13	YoY%	Q3FY14	QoQ%	Q4FY14E	Var %
Net sales	4,753	4,983	(4.6)	4,303	10.5	4,612	3.0
RM costs	2,128	2,067	3.0	1,890	12.6	1,932	10.1
EBITDA	682	618	10.3	685	(0.5)	767	(11.1)
EBITDA margin (%)	14.3	12.4		15.9		16.6	
Depreciation	134	137	(1.8)	135	(0.7)	140	(3.9)
Interest	39	71		38		62	
Other income	159	98	62.0	103	54.4	108	47.3
PBT	667	509	31.1	614	8.6	673	(0.9)
Provision for tax	218	93	133.9	193	13.0	222	
-effective tax rate	32.6	18.3		31.3		33.0	
PAT	449	416	8.1	422	6.6	451	(0.3)

Source: Company, Centrum Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
FY13	19,030	1.7	2,709	14.2	1,344	(35.7)	6.9	7.9	6.4	12.9	8.1
FY14	19,731	3.7	2,501	12.7	1,299	(3.4)	6.6	7.4	6.6	13.4	7.2
FY15E	18,858	(4.4)	2,690	14.3	1,538	18.4	7.9	8.5	7.7	11.3	6.2
FY16E	19,946	5.8	2,891	14.5	1,666	8.3	8.5	8.8	8.1	10.4	5.7
FY17E	21,061	5.6	3,086	14.7	1,790	7.4	9.2	9.0	8.5	9.7	5.2

Source: Company, Centrum Research Estimates

Target Price	Rs93	Key Data	
CMP*	Rs89	Bloomberg Code	GRIL IN
Upside	4.6%	Curr Shares O/S (mn)	195.4
Previous Target	Rs80	Diluted Shares O/S(mn)	195.4
Previous Rating	Hold	Mkt Cap (Rsbn/USDmn)	17.4/290.7
Price Performance (%)*		52 Wk H / L (Rs)	95/57
		5 Year H / L (Rs)	106.6/29.9
GRIL IN	(2.5)	13.2	13.5
NIFTY	2.9	15.9	14.2
		Daily Vol. (3M NSE Avg.)	90007.8

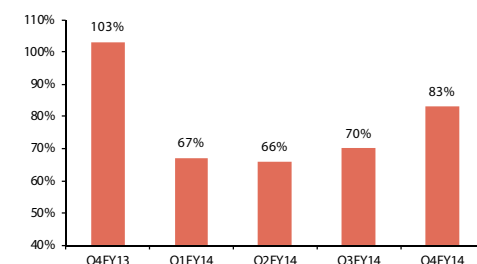
\*as on 09 May2014; Source: Bloomberg, Centrum Research

## Shareholding pattern\* (%)

	Mar-14	Dec-13	Sep-13	Jun-13
Promoter	65.0	64.5	63.9	63.2
FII	15.7	15.5	15.2	15.4
Dom. Inst.	3.5	4.0	4.8	5.0
Public & Others	15.8	16.0	16.2	16.3

Source: BSE, \*as on 09 May2014

## Capacity utilization trend



Source: Company, Centrum Research

## Earnings Revision (Cons)

Particulars (Rs mn)	FY15E			FY16E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	18,858	19,715	(4.3)	19,946	21,344	(6.5)
EBITDA	2,690	2,844	(5.4)	2,891	3,080	(6.1)
EBITDA Margin (%)	14.3	14.4		14.5	14.4	
PAT-adj.	1,538	1,477	4.1	1,666	1,642	1.5

Source: Centrum Research Estimates

## Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	FY15E			FY16E		
	Centrum	BBG	Chg (%)	Centrum	BBG	Chg (%)
Sales	18,858	20,549	(8.2)	19,946	22,946	(13.1)
EBITDA	2,690	2,953	(8.9)	2,891	3,459	(16.4)
PAT	1,538	1,549	(0.7)	1,666	1,900	(12.3)

\*as on 09 May2014

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
4	0	2	100	93	(7.0)

\*as on 09 May2014; Source: Bloomberg, Centrum Research

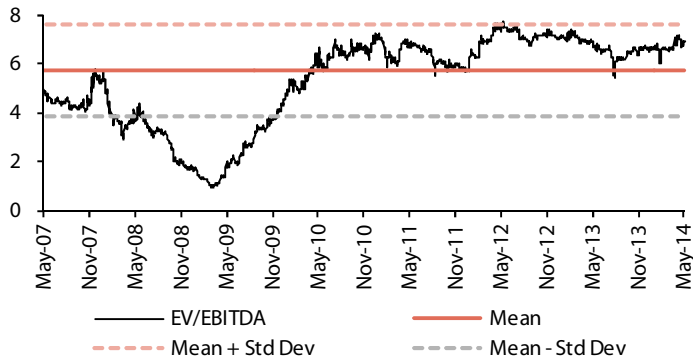
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**Exhibit 1: Sensitivity Analysis (FY15E)**

For 1% change	% impact on EBITDA	% impact on EPS
Electrode volumes	1.5	1.8
Electrode realizations	2.4	2.6

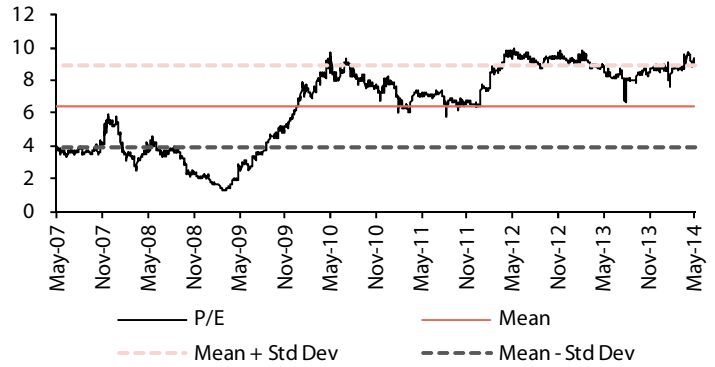
Source: Company, Centrum Research Estimates

**Exhibit 2: 1 year forward EV/EBITDA chart**



Source: Bloomberg, Company, Centrum Research Estimates

**Exhibit 3: 1 year forward P/E chart**



Source: Bloomberg, Company, Centrum Research Estimates

**Exhibit 4: Comparative Valuations**

Company	Mkt Cap (USDmn)	CAGR FY14-FY16E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Graphite India	291	0.5	7.5	13.3	12.7	14.3	14.5	13.4	11.3	10.4	7.2	6.2	5.7	7.4	8.5	8.8	3.9	4.5	4.5
SGL Carbon	2,365	(0.1)	12.0	(96.1)	6.8	4.9	8.5	302.5	(12.3)	(22.7)	31.6	29.7	15.7	(28.8)	(12.1)	(1.5)	0.2	0.3	0.4
Tokai Carbon	673	7.4	14.4	47.5	11.0	11.1	12.5	32.7	38.2	24.2	8.5	6.7	5.8	1.5	2.2		2.0	2.0	2.0
Graftec	1,452	0.1	18.2	153.1	12.4	14.2	17.3	12.6	93.9	79.3	14.7	12.5	9.8	1.0	3.9	4.2			

Source: Bloomberg, Centrum Research Estimates

**Exhibit 5: Graphite India EV/EBITDA valuation**

(Rs mn)	FY16E
EBITDA	2,891
Justified EV/EBITDA (x)	6
EV	17,348
Less: Debt	2,973
Add: Cash	3,874
Fair Value Mkt Cap	18,248
No. of Shares (mn)	195
<b>Fair value/share (Rs)</b>	<b>93</b>

Source: Company, Centrum Research Estimates

## Quarterly financials, operating metrics and key performance indicators

### Exhibit 6: Quarterly Financials (GIL-Standalone)

Particulars (Rs mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
<b>Net sales</b>	<b>4,068</b>	<b>3,947</b>	<b>4,192</b>	<b>4,983</b>	<b>3,948</b>	<b>4,307</b>	<b>4,303</b>	<b>4,753</b>
Other Operating Income	107.5	123.7	99.3	129.2	89.8	102.1	42	137
<b>Total Income</b>	<b>4,175</b>	<b>4,071</b>	<b>4,291</b>	<b>5,112</b>	<b>4,038</b>	<b>4,409</b>	<b>4,345</b>	<b>4,890</b>
Accretion to Stocks in trade & work in progress	(158.1)	(328.0)	(672.0)	384.3	(385.9)	58.1	(1.9)	122.8
Cost of Raw Materials consumed	1,807	1,778	2,236	2,067	2,105	1,859	1,890	2,128
Consumption of Stores & Spares	311	321	357	423	284	323	292	363
Power & Fuel	742	697	815	785	659	561	592	630
Staff Cost	261	285	336	318	309	316	350	373
Other Operational expenses	482	488	472	518	409	474	538	591
<b>Operating Profit (Core EBITDA)</b>	<b>731</b>	<b>774</b>	<b>667</b>	<b>618</b>	<b>658</b>	<b>818</b>	<b>685</b>	<b>682</b>
Depreciation	115	120	129	137	131	135	135	134
<b>EBIT</b>	<b>616</b>	<b>654</b>	<b>538</b>	<b>481</b>	<b>527</b>	<b>683</b>	<b>550</b>	<b>547</b>
Interest	53	45	52	71	44	49	38	39
Other Revenue/Income	45	87	33	98	87	53	103	159
Exceptional Items	0	0	0	0	0	0	0	0
<b>Profit Before Tax</b>	<b>608</b>	<b>696</b>	<b>518</b>	<b>509</b>	<b>571</b>	<b>688</b>	<b>614</b>	<b>667</b>
Tax	203	232	173	93	178	243	193	218
<b>Profit After Tax</b>	<b>406</b>	<b>464</b>	<b>345</b>	<b>416</b>	<b>393</b>	<b>445</b>	<b>422</b>	<b>449</b>
<b>Growth (%)</b>								
Revenue	30.8	(11.9)	(3.9)	13.0	(2.9)	9.1	2.6	(4.6)
EBITDA	17.4	1.3	(24.8)	(25.4)	(9.9)	5.7	2.7	10.3
PAT	10.0	10.9	(38.6)	(43.3)	(3.1)	(4.2)	22.2	8.1
<b>Margin (%)</b>								
EBITDA	17.5	19.0	15.5	12.1	16.3	18.6	15.8	13.9
EBIT	14.8	16.1	12.5	9.4	13.1	15.5	12.7	11.2
PAT	9.7	11.4	8.0	8.1	9.7	10.1	9.7	9.2
<b>Key Drivers</b>								
Average Capacity Utilization (Electrodes) (%)	89	91	96	103	67	66	70	83

Source: Company, Centrum Research

### Exhibit 7: Key Assumptions

Operating Metrics	FY13	FY14	FY15E	FY16E	FY17E
<b>Sales Volumes (Tonne)</b>					
Graphite Electrodes (standalone)	57,000	57,200	56,000	57,600	60,000
CP Coke	11,288	19,196	19,245	18,837	18,445
<b>Realizations</b>					
Graphite Electrodes (US\$/tonne)	4,828	4,350	3,850	3,966	4,084
CP Coke (Rs/tonne)	29,349	29,936	30,535	31,146	31,769

Source: Company, Centrum Research Estimates

## Financials (Cons)

### Exhibit 8: Income Statement

Y/E March (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>Revenues</b>	<b>19,030</b>	<b>19,731</b>	<b>18,858</b>	<b>19,946</b>	<b>21,061</b>
Raw Materials consumed	8,490	8,764	7,797	8,258	8,873
% of net sales	44.6	44.4	41.3	41.4	42.1
Employee expenses	1,861	2,028	1,886	1,995	2,106
% of net sales	9.8	10.3	10.0	10.0	10.0
Other operational expenses	2,375	2,394	2,263	2,354	2,317
% of net sales	12.5	12.1	12.0	11.8	11.0
<b>Total expenses</b>	<b>16,779</b>	<b>17,592</b>	<b>16,566</b>	<b>17,493</b>	<b>18,456</b>
% of net sales	88.2	89.2	87.8	87.6	87.6
<b>EBITDA</b>	<b>2,709</b>	<b>2,501</b>	<b>2,690</b>	<b>2,891</b>	<b>3,086</b>
EBITDA Margin (%)	14.2	12.7	14.3	14.5	14.7
Depreciation & Amortisation	620	581	636	656	676
<b>EBIT</b>	<b>2,089</b>	<b>1,920</b>	<b>2,054</b>	<b>2,235</b>	<b>2,410</b>
Interest expenses	307	239	208	178	148
Other Income	390	447	450	430	410
Excep. items	-	-	-	-	-
<b>EBT</b>	<b>2,172</b>	<b>2,128</b>	<b>2,296</b>	<b>2,487</b>	<b>2,672</b>
Provision for tax	828	829	758	821	882
Effective tax rate (%)	38.1	39.0	33.0	33.0	33.0
<b>Net Profit Adjusted</b>	<b>1,344</b>	<b>1,299</b>	<b>1,538</b>	<b>1,666</b>	<b>1,790</b>

Source: Company, Centrum Research Estimates

### Exhibit 9: Key Ratios

Y/E March	FY13	FY14	FY15E	FY16E	FY17E
<b>Growth Ratio (%)</b>					
Revenue	1.7	3.7	(4.4)	5.8	5.6
EBITDA	(16.1)	(7.7)	7.6	7.5	6.7
Net Profit	(35.7)	(3.4)	18.4	8.3	7.4
<b>Margin Ratios (%)</b>					
PBIT Margin	11.0	9.7	10.9	11.2	11.4
PBT Margin	11.4	10.8	12.2	12.5	12.7
Adj. PAT Margin	7.1	6.6	8.2	8.4	8.5
<b>Return Ratios (%)</b>					
ROE	7.9	7.4	8.5	8.8	9.0
ROCE	6.4	6.6	7.7	8.1	8.5
ROIC	7.2	8.2	9.8	10.1	10.4
<b>Turnover Ratios (days)</b>					
Debtors	99	87	90	90	90
Inventory	234	192	190	190	190
Creditors	35	45	40	40	40
Net Working capital	314	237	244	244	244
<b>Gearing Ratio (x)</b>					
Debt-equity	0.4	0.2	0.2	0.2	0.1
Net debt-equity	0.3	0.0	0.0	0.0	-0.1
Current ratio	2.2	2.4	2.7	2.8	2.9
Interest coverage ratio	6.8	8.0	9.9	12.5	16.2
<b>Dividend</b>					
Dividend per share (Rs)	3.5	3.5	4.0	4.0	4.0
Dividend Payout (%)	50.9	52.7	50.8	46.9	43.7
Dividend Yield (%)	4.0	4.0	4.6	4.6	4.6
<b>Per share Ratios (Rs)</b>					
Basic EPS-adj	6.9	6.6	7.9	8.5	9.2
Fully diluted EPS-adj.	6.9	6.6	7.9	8.5	9.2
Book value	87.3	89.9	93.1	97.0	101.5
Cash earnings per share	10.1	9.6	11.1	11.9	12.6
<b>Valuation (x)</b>					
P/E (Fully Diluted)	12.9	13.4	11.3	10.4	9.7
P/BV	1.0	1.0	1.0	0.9	0.9
EV/EBITDA	8.1	7.2	6.2	5.7	5.2
EV/Sales	0.3	0.4	0.4	0.4	0.3
M-cap/Sales	0.9	0.9	0.9	0.9	0.8

Source: Company, Centrum Research Estimates

### Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Equity Share Capital	391	391	391	391	391
Reserves & surplus	16,677	17,180	17,810	18,567	19,448
Shareholders' fund	17,068	17,571	18,201	18,958	19,839
Long term borrowings	1,269	1,002	802	602	402
Total non-current liabilities	2,261	1,933	1,739	1,539	1,340
Short term borrowings	5,759	3,229	2,629	2,329	2,029
Total debt	7,070	4,273	3,473	2,973	2,473
Trade Payables	1,823	2,416	2,067	2,186	2,308
Total current liabilities	10,138	8,439	7,537	7,520	7,510
<b>Total Liabilities</b>	<b>29,467</b>	<b>27,943</b>	<b>27,476</b>	<b>28,017</b>	<b>28,689</b>
Net Block	6,379	6,513	6,527	6,321	6,095
Capital work in progress	817	452	302	352	402
Long term loans & advances	179	214	155	164	173
Non-current investments	284	421	421	421	421
Total non-current assets	7,659	7,600	7,405	7,258	7,091
Current Investments	2,364	3,427	3,427	3,427	3,427
Inventories	12,207	10,354	9,817	10,383	10,963
Trade Receivables	5,156	4,723	4,650	4,918	5,193
Cash & cash equivalents	74	316	680	447	342
Short term loans & advances	1,804	1,332	1,292	1,366	1,443
Other current assets	202	192	207	219	231
Total current assets	21,807	20,343	20,071	20,760	21,599
<b>Total Assets</b>	<b>29,467</b>	<b>27,943</b>	<b>27,476</b>	<b>28,017</b>	<b>28,689</b>

Source: Company, Centrum Research Estimates

### Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>PBT</b>	<b>2,172</b>	<b>2,128</b>	<b>2,296</b>	<b>2,487</b>	<b>2,672</b>
Interest	307	239	208	178	148
Depreciation	620	581	636	656	676
Change in working capital	(1,681)	3,503	399	(646)	(662)
Tax	828	829	758	821	882
<b>Cash flow from operations</b>	<b>590</b>	<b>5,622</b>	<b>2,782</b>	<b>1,854</b>	<b>1,953</b>
Change in fixed assets	500	350	500	500	500
Change in investments	152	1,199	-	-	-
<b>Cash flow from investments</b>	<b>(652)</b>	<b>(1,549)</b>	<b>(500)</b>	<b>(500)</b>	<b>(500)</b>
Change in equity capital	-	-	-	-	-
Change in debt	1,094	(2,797)	(800)	(500)	(500)
Dividends paid	795	795	909	909	909
Interest paid	307	239	208	178	148
<b>Cash flow from financing</b>	<b>(8)</b>	<b>(3,831)</b>	<b>(1,917)</b>	<b>(1,587)</b>	<b>(1,557)</b>
Net cash flow	(71)	242	365	(233)	(105)
Opening cash balance	145	74	316	680	447
<b>Closing cash balance</b>	<b>74</b>	<b>316</b>	<b>680</b>	<b>447</b>	<b>342</b>

Source: Company, Centrum Research Estimates

## Appendix A

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Buy	Upside > 25%	Upside > 20%	Upside > 15%
Hold	Upside between -25% to +25%	Upside between -20% to +20%	Upside between -15% to +15%
Sell	Downside > 25%	Downside > 20%	Downside > 15%

#### Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

##### Registration Nos.

**CAPITAL MARKET SEBI REGN. NO.:** BSE: INB011454239, NSE: INB231454233

**DERIVATIVES SEBI REGN. NO.:** NSE: INF231454233 (TRADING & SELF CLEARING MEMBER)

**CDSL DP ID:** 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-661-2012

**PMS REGISTRATION NO.:** INP000004383

**MCX – SX (Currency Derivative segment) REGN. NO.:** INE261454230

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