

Graphite India (CAREVE)

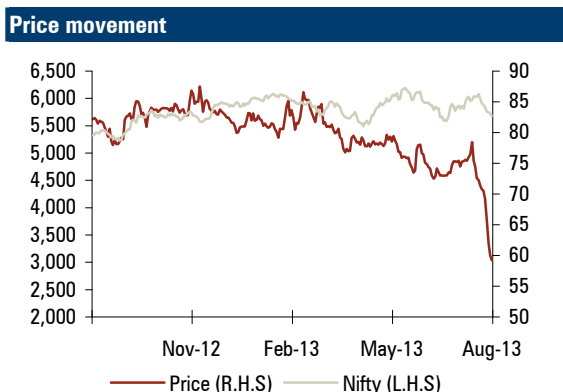
₹ 58

Rating matrix	
Rating	: Buy
Target	: ₹ 68
Target Period	: 12-15 months
Potential Upside	: 18%

Key Financials				
(₹ Crore)	FY12	FY13	FY14E	FY15E
Total Operating Income	1912.5	1948.8	1877.3	2018.4
EBITDA	323.0	270.9	292.4	320.1
EBITDA Margin %	16.9	13.9	15.6	15.9
Net Profit	212.5	134.4	147.8	162.2

Valuation summary				
	FY12	FY13	FY14E	FY15E
EPS	10.9	6.9	7.6	8.3
PE (x)	5.3	8.4	7.7	7.0
Target PE (x)	6.3	9.9	9.0	8.2
EV/EBITDA (x)	4.9	5.8	5.2	4.8
P/BV (x)	0.7	0.7	0.6	0.6
RoNW (%)	12.8	7.9	8.3	8.7
RoCE (%)	12.2	8.6	9.3	10.0

Stock data	
Market Capitalisation	₹ 1133 Crore
Debt (FY13P)	₹ 705 Crore
Cash & Cash Equivalent (FY13P)	₹ 253 Crore
EV	₹ 1585 Crore
52 week H/L	97/58
Equity capital	₹ 39.08 Crore
Face value	₹ 2
DII Holding (%)	5.0
FII Holding (%)	15.4



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WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 81 to ₹ 68
EPS (FY14E)	Changed from ₹ 7.1 to ₹ 7.6
EPS (FY15E)	Changed from ₹ 8.8 to ₹ 8.3
RATING	Changed from Hold to Buy

Topline disappoints, margins in line...

Graphite India's (GIL's) Q1FY14 performance was marginally below our estimate on the back of muted capacity utilisation. Capacity utilisation during the quarter under review stood at 67%, lower than our expectation of 74%. Subsequently, the standalone topline during the quarter stood at ₹ 403.8 crore, lower by 21.0% QoQ and 3.3% YoY and below our estimate of ₹ 464.2 crore. Electrode prices improved YoY although electrode sales volumes were lower during the quarter. Standalone EBITDA margin during the quarter was at 16.3%, broadly in line with our estimate of 16.7% and notably higher than 12.1% reported in Q4FY13. The subsequent standalone EBITDA for Q1FY14 came in at ₹ 65.8 crore (our estimate: ₹ 77.7 crore) while the consequent standalone PAT was at ₹ 39.3 crore (our estimate: ₹ 45.0 crore). Going forward, we believe currency depreciation will aid the operating margins in absolute terms. We have modelled consolidated capacity utilisation of 67% and 70% (on expanded capacity of 98,000 tonne) in FY14E and FY15E, respectively, and arrived at a BUY rating on the stock with a target price of ₹ 68.

Operational Highlights

- Better operating efficiencies from expanded capacity at Durgapur coupled with improved export realisations due to rupee depreciation benefitted Q1FY14 margins. However, the Q1FY14 topline was impacted by lower sales volumes
- The company is aiming at a consolidated capacity utilisation range of 70-75% for FY14

Cheap valuations make case for upgrade to BUY!!!

On the back of a muted global steel demand scenario, the demand for graphite electrodes is likely to remain subdued over the short to medium term. However, GIL is trading at a substantial discount (~38%) to its international peers, thus making the case for upgrading the stock from HOLD to BUY. Going forward, we have modelled capacity utilisation of 67% and 70% (on a consolidated basis) in FY14E and FY15E, respectively. We have valued the company at a 30% discount to its global peer's average EV/EBITDA of 7.7x (resultant FY15E EV/EBITDA at 5.4x) and arrived at a target price of ₹ 68 with a BUY rating on the stock.

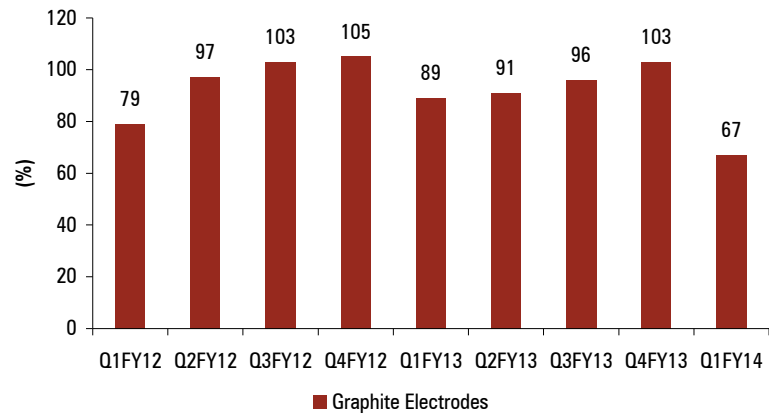
Exhibit 1: Financial Performance (Standalone)

(₹ Crore)	Q1FY14	Q1FY14E	Q4FY13	Q1FY13	QoQ (Chg %)	YoY (Chg %)
Total Income from Operations	403.8	464.2	511.2	417.5	-21.0	-3.3
EBITDA	65.8	77.7	61.8	73.1	6.5	-9.9
EBITDA Margin (%)	16.3	16.7	12.1	17.5	420 bps	(120) bps
Depreciation	13.1	14.1	13.7	11.5	-4.0	14.4
Interest	4.4	6.4	7.1	5.3	-38.4	-18.5
Reported PAT	39.3	45.0	41.6	40.6	-5.4	-3.1

Source: Company, ICICIdirect.com Research

Exhibit 2: Capacity utilisation trend

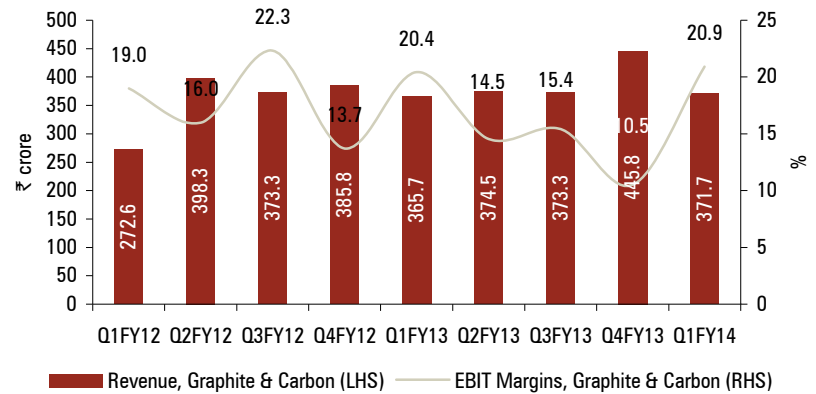
The capacity utilisation during Q1FY14 stands at 67% as against 89% in Q1FY13. However, 67% capacity utilisation in Q1FY14 is based on the expanded capacity of 98,000 tonne. Hence, it is not comparable on a QoQ and YoY basis



Source: Company, ICICIdirect.com Research

Exhibit 3: Graphite & carbon segment revenues vs. EBIT margins

Revenue from the graphite and carbon segment stands at ₹ 371.7 crore, lower by 16.6% QoQ but flattish YoY



Source: Company, ICICIdirect.com Research

Exhibit 4: Assumptions (Consolidated)

Particulars	Units	FY14E	FY15E
Capacity Utilisation level (Cons)	%	67	70
Graphite Electrode Realisation	US\$/tonne	4576	4793

Source: ICICIdirect.com Research

Other Highlights

Graphite India has secured needle coke supplies until the end of FY14 at competitive prices, which are lower compared to FY13. The company will benefit from the lower cost needle coke in the coming months.

The demand remains weak in Europe and the company's plant in Germany is operating at sub-optimum levels of around sub 50% capacity utilisation.

The decrease in interest costs during the quarter was on account of liquidation of needle coke inventory and receipt of account receivable for the sales incurred in Q4FY13.

The company's gross debt as of June 30, 2013 was at ₹ 414 crore while net debt stands at ₹ 164 crore.

Valuations

On the back of a muted global steel demand scenario, the demand for graphite electrodes is likely to remain subdued over the short to medium term. However, GIL is trading at a substantial discount (~38%) to its international peers, thus making the case for upgradation of the stock from HOLD to **BUY**. Going forward, we have modelled, on a consolidated basis, capacity utilisation of 67% and 70% in FY14E and FY15E, respectively. We have valued the company at a 30% discount to its global peer's average EV/EBITDA of 7.7x (resultant FY15E EV/EBITDA at 5.4x) and arrived at a target price of ₹ 68 with a **BUY** rating on the stock.

Exhibit 5: Peer Comparison

Company	P/E		EV/EBITDA	
	CY13E	CY14E	CY13E	CY14E
SGL	NA	41.0	20.8	10.4
Graftec	54.0	22.2	10.2	8.5
Tokai Carbon	23.7	16.4	6.2	4.9
Showa Denko	20.0	12.0	8.5	7.1
Global Average	32.6	22.9	11.4	7.7

Source: Bloomberg, ICICIdirect.com Research

Exhibit 6: Valuation Matrix

	Total Op.Income (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
FY12	1912.5	10.9	5.3	4.9	12.8	12.2
FY13	1948.8	6.9	8.4	5.8	7.9	8.6
FY14E	1877.3	7.6	7.7	5.2	8.3	9.3
FY15E	2018.4	8.3	7.0	4.8	8.7	10.0

Source: Company, ICICIdirect.com Research

Financial summary (Consolidated)

Profit and loss statement		(₹ crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E	
Total Operating Income	1,912.5	1,948.8	1,877.3	2,018.4	
Growth (%)	32.5	1.9	-3.7	7.5	
Raw Material Expenses	775.4	736.5	719.4	783.5	
Employee Expenses	156.0	186.1	194.6	209.2	
Other expenses	658.1	755.3	670.9	705.5	
Total Operating Expenditure	1,589.4	1,677.9	1,584.9	1,698.3	
EBITDA	323.0	270.9	292.4	320.1	
Growth (%)	4.5	-16.1	7.9	9.5	
Depreciation	48.7	62.0	69.3	72.1	
Interest	18.6	30.7	29.9	27.9	
Other Income	38.1	39.0	27.4	22.0	
PBT	293.8	217.2	220.5	242.0	
Exceptional Item	-3.4	0.0	0.0	0.0	
Total Tax	84.7	82.8	72.8	79.9	
PAT	212.5	134.4	147.8	162.2	
Growth (%)	12.4	-36.7	9.9	9.8	
EPS (₹)	10.9	6.9	7.6	8.3	

Source: Company, ICICIdirect.com Research

Cash flow statement		(₹ crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E	
Profit after Tax	212.5	134.4	147.8	162.2	
Add: Depreciation	48.7	62.0	69.3	72.1	
(Inc)/dec in Current Asset	-300.2	-237.5	39.0	-147.5	
Inc/(dec) in CL & Provision	28.1	44.8	-42.9	26.6	
Others	8.0	25.5	0.0	0.0	
CF from operating activities	-2.9	29.2	213.2	113.4	
(Inc)/dec in Investments	-24.4	-15.2	20.0	20.0	
(Inc)/dec in Fixed Assets	-180.3	-47.5	-67.5	-41.0	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-204.7	-62.7	-47.5	-21.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	257.1	109.7	-80.0	-9.0	
Dividend paid & div. tax	-79.5	-80.0	-80.0	-80.0	
Inc/(dec) in Share Cap	0.8	1.7	-1.7	1.7	
Others	0.0	0.0	0.0	0.0	
CF from financing activities	178.4	31.4	-161.7	-87.3	
Net Cash flow	-29.1	-2.0	4.0	5.1	
Opening Cash	48.1	18.9	16.9	20.9	
Closing Cash	18.9	16.9	20.9	26.0	

Source: Company, ICICIdirect.com Research

Balance sheet		(₹ crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E	
Liabilities					
Equity Capital	39.1	39.1	39.1	39.1	
Reserve and Surplus	1,616.6	1,672.8	1,738.8	1,822.7	
Total Shareholders funds	1,655.7	1,711.9	1,777.9	1,861.8	
Total Debt	594.8	704.5	624.5	615.5	
Deferred Tax Liability	70.8	95.0	95.0	95.0	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	2,321.4	2,511.4	2,497.4	2,572.4	
Assets					
Gross Block	1,181.4	1,351.9	1,421.9	1,462.9	
Less: Acc Depreciation	578.3	639.3	708.6	780.7	
Net Block	603.1	712.7	713.3	682.2	
Capital WIP	126.7	2.5	0.0	0.0	
Total Fixed Assets	729.7	715.2	713.3	682.2	
Investments	249.6	264.8	244.8	224.8	
Inventory	1,037.5	1,220.7	1,183.0	1,271.9	
Debtors	457.4	515.6	514.3	553.0	
Loans and Advances	186.5	198.3	198.3	218.3	
Other Current Assets	36.0	20.3	20.3	20.3	
Cash	18.9	16.9	20.9	26.0	
Total Current Assets	1,736.4	1,971.8	1,936.8	2,089.4	
Current Liabilities	267.3	300.8	282.9	304.1	
Provisions	128.3	139.6	114.6	119.9	
Current Liabilities & Prov	395.6	440.4	397.5	424.1	
Net Current Assets	1,340.8	1,531.4	1,539.3	1,665.3	
Others Assets	1.2	0.0	0.0	0.0	
Application of Funds	2,321.4	2,511.4	2,497.4	2,572.4	

Source: Company, ICICIdirect.com Research

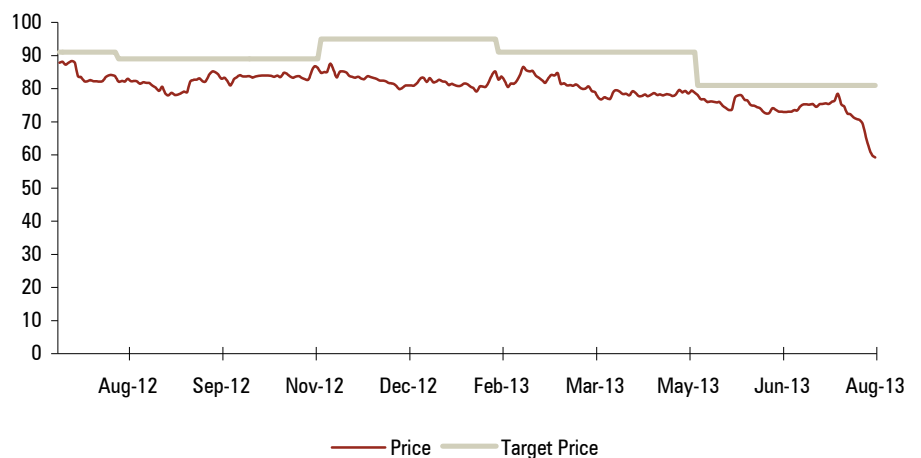
Key ratios					
(Year-end March)	FY12	FY13	FY14E	FY15E	
Per share data (₹)					
EPS	10.9	6.9	7.6	8.3	
Cash EPS	13.4	10.1	11.1	12.0	
BV	84.7	87.6	91.0	95.3	
DPS	3.5	3.5	3.5	3.5	
Cash Per Share	1.0	0.9	1.1	1.3	
Operating Ratios (%)					
EBITDA Margin	16.9	13.9	15.6	15.9	
PBT / Total Operating income	15.4	11.1	11.7	12.0	
PAT Margin	11.1	6.9	7.9	8.0	
Inventory days	198.0	228.6	230.0	230.0	
Debtor days	87.3	96.6	100.0	100.0	
Creditor days	51.0	56.3	55.0	55.0	
Return Ratios (%)					
RoE	12.8	7.9	8.3	8.7	
RoCE	12.2	8.6	9.3	10.0	
RoIC	12.3	8.7	9.4	10.1	
Valuation Ratios (x)					
P/E	5.3	8.4	7.7	7.0	
EV / EBITDA	4.9	5.8	5.2	4.8	
EV / Net Sales	0.8	0.8	0.8	0.8	
Market Cap / Sales	0.6	0.6	0.6	0.6	
Price to Book Value	0.7	0.7	0.6	0.6	
Solvency Ratios					
Debt/EBITDA	1.8	2.6	2.1	1.9	
Debt / Equity	0.4	0.4	0.4	0.3	
Current Ratio	4.4	4.5	4.9	4.9	
Quick Ratio	1.8	1.7	1.9	1.9	

Source: Company, ICICIdirect.com Research

Company Description

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.

Exhibit 7: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
10-Jul-12	Event Update	88	91	HOLD
6-Aug-12	Q1FY13 Result update	82	89	HOLD
8-Oct-12	Q2FY13 Result preview	84	89	HOLD
12-Nov-12	Q2FY13 Result update	85	95	Buy
8-Jan-13	Q3FY13 Result preview	83	95	Buy
4-Feb-13	Q3FY13 Result update	83	91	Buy
5-Apr-13	Q4FY13 Result preview	78	91	Buy
10-May-13	Q4FY13 Result update	78	81	HOLD
5-Jul-13	Q1FY14 Result preview	75	81	HOLD

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Graphite Electrodes)

Sector/Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
					FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Grahite India	58	68	Buy	1133.3	6.9	7.6	8.3	8.4	7.7	7.0	5.8	5.2	4.8	8.6	9.3	8.6	7.9	8.3	8.7
HEG	149	197	Hold	594.0	26.5	18.9	29.7	5.6	7.9	5.0	8.3	10.3	8.0	11.1	7.1	9.5	12.3	8.2	11.9

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps/midcaps, respectively; with strong conviction
 Buy: Between 10% and 15%/20% for large caps/midcaps, respectively;
 Hold: Up to +/-10%;
 Sell: -10% or more;



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