

### Sequential improvement seen; upgrade to Buy

We upgrade Graphite India (GIL) to buy from hold earlier post Q1FY14 results which were above our expectations at operational level with EBITDA at Rs569mn (up ~16% QoQ and 16% over our est.) on account of lower costs for power & fuel, stores and other expenses. We like the stock on account of the strong balance sheet with good dividend yield and post the recent sharp fall in stock price, we find current valuations attractive. We see demand pressure continuing in the near future for graphite electrodes due to low steel production growth globally but see realizations supported by lower rupee mitigating the overall impact on earnings. We revise our EBITDA estimates downwards for FY14E/15E by 4.7%/7.1% factoring in lower volumes.

- **Electrode volumes flat YoY due to lower demand:** Capacity utilization (incl. 20ktpa new capacity) stood at 67% implying almost flat YoY electrode volumes but was better than our expectations of 62%. Lower global demand due to slow steel production growth (~2%YoY higher in H1CY13) led to expanded capacity not being fully utilized. Electrode realizations remained subdued but were positively impacted in rupee terms by sharp rupee depreciation.
- **EBITDA margin improves but inventory increases:** EBITDA margin improved to 14.4% during the quarter on account of lower other expenses and power & fuel costs and negative expense for inventory build up.

Y/E Mar (Rsmn)	Q1FY14	Q1FY13	YoY%	Q4FY13	QoQ%	Q1FY14E	Var %
<b>Net sales</b>	<b>3948</b>	<b>4068</b>	<b>(2.9)</b>	<b>4983</b>	<b>(20.8)</b>	<b>3970</b>	<b>(0.5)</b>
RM costs	2105	1807	16.5	2067	1.9	1694	24.3
% to sales	53.3	44.4		41.5		42.7	
Staff costs	309	261	18.6	318	(2.9)	278	11.2
% to sales	7.8	6.4		6.4		7.0	
Power & Fuel	659	742	(11.2)	785	(16.0)	715	(7.7)
% to sales	16.7	18.2		15.8		18.0	
<b>EBITDA</b>	<b>569</b>	<b>623</b>	<b>(8.8)</b>	<b>489</b>	<b>16.3</b>	<b>490</b>	<b>16.1</b>
<b>EBITDA margin (%)</b>	<b>14.4</b>	<b>15.3</b>		<b>9.8</b>		<b>12.3</b>	
Depreciation	131	115	14.4	137	(4.0)	135	(3.1)
Interest	44	53		71		63	
Other income	87	45	92.1	98	(11.3)	100	(13.0)
<b>PBT</b>	<b>571</b>	<b>608</b>	<b>(6.2)</b>	<b>509</b>	<b>12.2</b>	<b>517</b>	<b>10.3</b>
Provision for tax	178	203	(12.3)	93	90.9	171	
Effective tax rate	31.1	33.3		18.3		33.0	
<b>PAT</b>	<b>393</b>	<b>406</b>	<b>(3.1)</b>	<b>416</b>	<b>(5.4)</b>	<b>347</b>	<b>13.4</b>

\*adjusted for forex (after tax adjustment); Source: Company, Centrum Research

- **Outlook – Earnings to be supported by lower debt and depreciating rupee:** Lacklustre demand from steelmakers globally has put pressure on graphite electrode demand and price for electrodes has seen a downward bias in US\$ terms but the same has been mitigated to a large extent by sharp rupee depreciation, which we believe would support revenues and earnings for GIL. Needle coke has been contracted 15-18% lower for different grades and total gross debt has been reduced to Rs4bn from Rs6bn by the end of Q1FY14 thus reducing costs. Management continues to focus on achieving economies of scale from its expansion at Durgapur for achieving further cost optimization. We see pressure on volumes and realizations due to low demand and reduce our EBITDA estimates by 4.7%/7.1% for FY14E/15E but still expect adj. PAT to grow by ~20%/15% for FY14E/15E. We expect electrode volumes of 56000/60000 tonne from domestic operations in FY14E/15E.

- **Valuations – Upgrade to Buy:** We like the strong balance sheet and good dividend yield of the company. We value the company at an average of 5.5x FY14E EV/EBITDA and 9x FY14E P/E and arrive at a target price of Rs80. Upgrade to Buy from Hold on account of steep fall in stock price and valuations recently. Key Risks are fall in electrode prices and lower than expected electrode volumes.

Target Price	Rs80	Key Data			
CMP*	Rs60	Bloomberg Code	GRIL IN		
Upside	33.1%	Current Shares O/S (mn)	195.4		
Previous Target	Rs88	Diluted Shares O/S(mn)	195.4		
Previous Rating	Hold	Mkt Cap (Rsbm/USDmn)	11.7/192.6		
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	96.9/57		
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>		
GRIL IN	(20.5)	(27.2)	(27.0)	5 Year H / L (Rs)	106.6/16.2
NIFTY	(5.5)	(7.0)	4.9	Daily Vol. (3M NSE Avg.)	57,132
				Face Value (Rs)	2

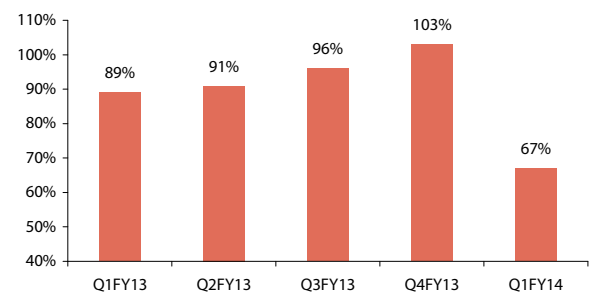
\*as on 6 August 2013; Source: Bloomberg, Centrum Research

#### Shareholding pattern (%)

	Q1FY14	Q4FY13	Q3FY13	Q2FY13
Promoter	63.2	62.8	62.7	62.2
FII	15.4	15.9	15.4	16.0
DII	5.0	4.9	4.9	4.8
Public & others	16.4	16.4	17.0	17.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

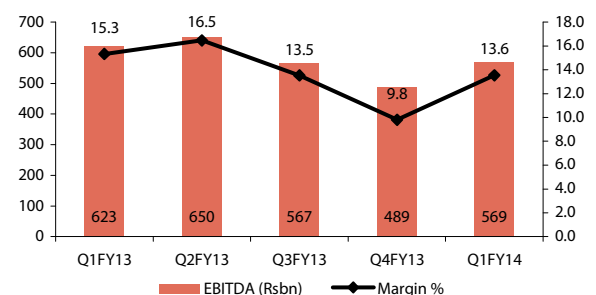
Source: BSE

#### Capacity utilization remains strong



Source: Company, Centrum Research

#### EBITDA margin falls



Source: Company, Centrum Research

#### Earning Revision

	FY14E			FY15E		
	Rev.	Prev.	Chg (%)	Rev.	Prev.	Chg (%)
Revenue (Rsmn)	20,451	20,253	1.0	22,238	21,935	1.4
EBITDA (Rsmn)	2,458	2,579	(4.7)	2,831	3,048	(7.1)
EBITDA Margin %	12.0	12.7		12.7	13.9	
PAT (Rsmn)	1,612	1,693	(4.8)	1,854	1,999	(7.3)

Source: Company, Centrum Research

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Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS (Rs)	RoE (%)	RoCE (%)	PE (x)	PB (x)	EV/EBITDA (x)
FY11	14,439	7.2	3,092	21.4	1,891	(19.5)	9.7	12.4	14.0	6.2	0.8	4.2
FY12	18,716	29.6	2,822	15.1	2,125	12.4	10.9	12.8	10.4	5.5	0.7	5.8
FY13	19,030	1.7	2,251	11.8	1,344	(36.7)	6.9	7.9	6.7	8.7	0.7	7.2
FY14E	20,451	7.5	2,458	12.0	1,612	19.9	8.2	9.1	7.4	7.3	0.7	5.4
FY15E	22,238	8.7	2,831	12.7	1,854	15.0	9.5	9.9	8.7	6.3	0.6	4.6

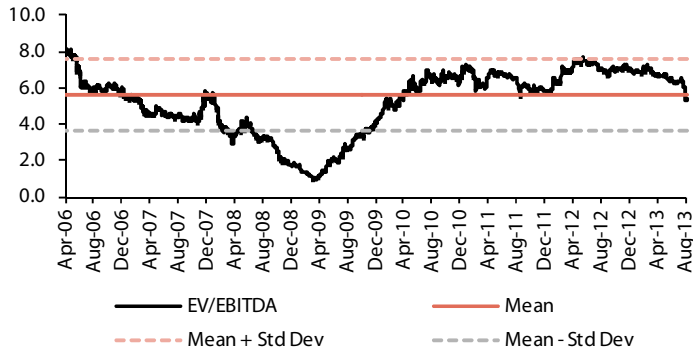
Source: Company, Centrum Research Estimate

**Exhibit 1: Sensitivity Analysis**

For 1% change	% impact on EBITDA	% impact on EPS
Electrode volumes	1.5	1.8
Electrode realizations	3.4	4.0

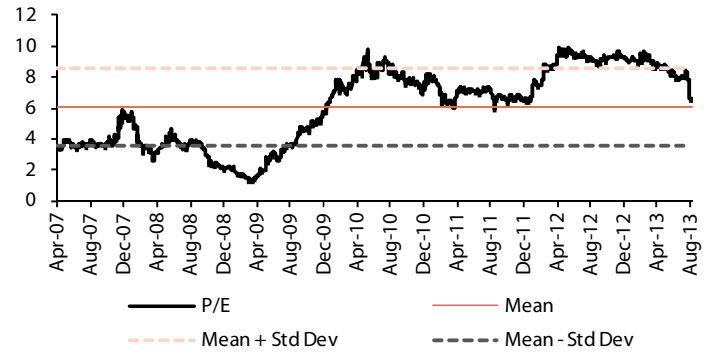
Source: Company, Centrum Research Estimates

**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 FY13-FY15E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Graphite India	192	8.1	12.2	17.4	11.8	12.0	12.7	8.7	7.3	6.3	7.2	5.4	4.6	7.9	9.1	9.9	5.8	6.7	6.7
HEG	93	3.4	2.5	21.7	18.9	17.2	18.6	5.4	4.8	3.7	6.1			13.0	12.1	14.1	5.6	5.3	6.3
SGL Carbon	2,301	2.5	3.2	146.4	11.7	6.5	11.9	244.0	(10.7)	40.1	12.8	21.6	10.9	0.7	(14.6)	5.0	0.7	0.5	0.8
Tokai Carbon	723	8.4	4.7	37.2	14.6	12.4	13.6	33.7	25.9	18.0	6.2	6.5	5.3	1.9			1.9	1.9	1.9
Graftec	1,019	2.6	(10.8)	(37.0)	19.1	13.2	14.4	8.9	53.5	22.0	7.5	9.8	7.7	8.7	0.8	4.2	0.0		

Source: Bloomberg, Centrum Research Estimates

**Exhibit 5: Quarterly Financials (GIL-Standalone)**

Particulars (Rs mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
<b>Net sales</b>	<b>4,478</b>	<b>4,360</b>	<b>4,411</b>	<b>4,068</b>	<b>3,947</b>	<b>4,192</b>	<b>4,983</b>	<b>3,948</b>
Other Operating Income	145.2	0	111.1	107.5	123.7	99.3	129.2	89.8
<b>Total Income</b>	<b>4,623</b>	<b>4,360</b>	<b>4,522</b>	<b>4,175</b>	<b>4,071</b>	<b>4,291</b>	<b>5,112</b>	<b>4,038</b>
Accretion to Stocks in trade & work in progress	370.0	58.8	37.8	(158.1)	(328.0)	(672.0)	384.3	(385.9)
Cost of Raw Materials consumed	1,674	1,798	1,964	1,807	1,778	2,236	2,067	2,105
Consumption of Stores & Spares	316	508	314	311	321	357	423	284
Power & Fuel	617	452	675	742	697	815	785	659
Staff Cost	223	263	279	261	285	336	318	309
Other Operational expenses	659	395	425	482	488	472	518	409
<b>Operating Profit (Core EBITDA)</b>	<b>619</b>	<b>886</b>	<b>717</b>	<b>623</b>	<b>650</b>	<b>567</b>	<b>489</b>	<b>569</b>
Depreciation	99	99	108	115	120	129	137	131
<b>EBIT</b>	<b>520</b>	<b>787</b>	<b>609</b>	<b>509</b>	<b>530</b>	<b>438</b>	<b>352</b>	<b>437</b>
Interest	26	32	58	53	45	52	71	44
Other Revenue/Income	4	73	219	45	87	33	98	87
Exceptional Items	0	0	296	0	0	0	0	0
<b>Profit Before Tax</b>	<b>643</b>	<b>828</b>	<b>1,177</b>	<b>608</b>	<b>696</b>	<b>518</b>	<b>509</b>	<b>571</b>
Tax	224	266	148	203	232	173	93	178
<b>Profit After Tax</b>	<b>419</b>	<b>562</b>	<b>1,030</b>	<b>406</b>	<b>464</b>	<b>345</b>	<b>416</b>	<b>393</b>
<b>Growth (%)</b>								
Revenue	38.3	29.2	48.8	30.8	(11.9)	(3.9)	13.0	(2.9)
EBITDA	(26.8)	21.1	36.9	15.3	5.1	(36.0)	(31.8)	(8.8)
PAT	(14.9)	27.1	131.2	10.0	10.9	(38.6)	(59.6)	(3.1)
<b>Margin (%)</b>								
EBITDA	13.4	20.3	15.9	14.9	16.0	13.2	9.6	14.1
EBIT	11.2	18.0	13.5	12.2	13.0	10.2	6.9	10.8
PAT	9.1	12.9	22.8	9.7	11.4	8.0	8.1	9.7
<b>Key Drivers</b>								
Average Capacity Utilization (Electrodes) (%)	97	103	105	89	91	96	103	67

Source: Company, Centrum Research

**Exhibit 6: Key Assumptions**

Operating Metrics	FY11	FY12	FY13	FY14E	FY15E
<b>Sales Volumes (Tonne)</b>					
Graphite Electrodes (standalone)	44,641	57,600	57,000	56,000	60,000
CP Coke	22,812	19,000	18,788	18,804	18,152
<b>Realizations</b>					
Graphite Electrodes (US\$/tonne)	4,674	4,846	4,900	4,500	4,725
CP Coke (Rs/tonne)	25,184	30,063	32,000	32,640	34,272

Source: Company, Centrum Research Estimates

## Financials (Cons)

### Exhibit 7: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
<b>Revenues</b>	<b>14,439</b>	<b>18,716</b>	<b>19,030</b>	<b>20,451</b>	<b>22,238</b>
<i>Growth in revenues (%)</i>	7.2	29.6	1.7	7.5	8.7
Raw Materials consumed	6,634	7,506	8,490	8,329	9,083
<i>% of net sales</i>	45.9	40.1	44.6	40.7	40.8
Employee expenses	1,307	1,560	1,861	1,954	2,051
<i>% of net sales</i>	9.1	8.3	9.8	9.6	9.2
Other operational expenses	1,513	2,155	2,375	2,454	2,669
<i>% of net sales</i>	10.5	11.5	12.5	12.0	12.0
<b>Total expenses</b>	<b>11,347</b>	<b>15,894</b>	<b>16,779</b>	<b>17,993</b>	<b>19,407</b>
<i>% of net sales</i>	78.6	84.9	88.2	88.0	87.3
<b>EBITDA</b>	<b>3,092</b>	<b>2,822</b>	<b>2,251</b>	<b>2,458</b>	<b>2,831</b>
<i>EBITDA Margin (%)</i>	21.4	15.1	11.8	12.0	12.7
Depreciation & Amortisation	486	487	620	653	685
<b>EBIT</b>	<b>2,606</b>	<b>2,334</b>	<b>1,630</b>	<b>1,804</b>	<b>2,146</b>
Interest expenses	86	186	307	291	293
Other Income	345	381	390	480	460
<b>EBT bef. Excep. Items</b>	<b>2,864</b>	<b>2,529</b>	<b>1,713</b>	<b>1,993</b>	<b>2,313</b>
Excep. items	(127)	34	-	-	-
<b>EBT</b>	<b>2,737</b>	<b>2,563</b>	<b>1,713</b>	<b>1,993</b>	<b>2,313</b>
Provision for tax	846	847	828	794	913
Effective tax rate (%)	30.9	33.0	48.3	39.8	39.5
<b>Net Profit Adjusted</b>	<b>1,891</b>	<b>2,125</b>	<b>1,344</b>	<b>1,612</b>	<b>1,854</b>

Source: Company, Centrum Research Estimates

### Exhibit 8: Key Ratios

Y/E March	FY11	FY12	FY13	FY14E	FY15E
<b>Margin Ratios (%)</b>					
<i>EBITDA Margin</i>	21.4	15.1	11.8	12.0	12.7
<i>PBIT Margin</i>	18.0	12.5	8.6	8.8	9.7
<i>PBT Margin</i>	19.0	13.7	9.0	9.7	10.4
<i>Adj. PAT Margin</i>	13.1	11.4	7.1	7.9	8.3
<b>Growth Ratio (%)</b>					
<i>Revenue</i>	7.2	29.6	1.7	7.5	8.7
<i>EBITDA</i>	(21.9)	(8.7)	(20.2)	9.2	15.2
<i>Net Profit</i>	(19.5)	12.4	(36.7)	19.9	15.0
<b>Return Ratios (%)</b>					
<i>ROE</i>	12.4	12.8	7.9	9.1	9.9
<i>ROCE</i>	14.0	10.4	6.7	7.4	8.7
<i>ROIC</i>	7.9	7.3	3.1	4.3	5.4
<b>Turnover Ratios</b>					
Asset turnover ratio (x)	0.6	0.7	0.6	0.7	0.7
Debtors (days)	85.7	89.2	98.9	80.0	80.0
Inventory (days)	291.4	238.2	265.5	225.0	220.0
Creditor (days)	54.7	42.9	39.6	45.0	45.0
<b>Per share Ratios (Rs)</b>					
Basic EPS	9.7	10.9	6.9	8.2	9.5
Fully diluted EPS	9.7	10.9	6.9	8.2	9.5
Book value	77.9	84.7	87.5	91.1	96.0
Cash earnings per share	12.2	13.4	10.1	11.6	13.0
<b>Dividend</b>					
Dividend per share	3.3	3.5	3.5	4.0	4.0
<i>Dividend payout (%)</i>	33.7	32.0	50.9	48.5	42.2
Dividend per share	5.4	5.8	5.8	6.7	6.7
<b>Gearing Ratio (x)</b>					
Debt-equity	0.2	0.4	0.4	0.4	0.3
Interest coverage ratio	30.2	12.5	5.3	6.2	7.3
<b>Valuation (x)</b>					
P/E (Fully Diluted)	6.2	5.5	8.7	7.3	6.3
P/BV	0.8	0.7	0.7	0.7	0.6
EV/EBITDA	4.2	5.8	7.2	5.4	4.6
EV/Sales	0.2	0.1	0.0	0.1	0.0
M-cap/Sales	0.8	0.6	0.6	0.6	0.5

Source: Company, Centrum Research Estimates

### Exhibit 9: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	391	391	391	391	391
Reserves & surplus	14,828	16,162	16,711	17,414	18,359
Shareholders' fund	15,219	16,553	17,102	17,805	18,749
Long term borrowings	746	1,576	1,269	1,069	869
Total non current liabilities	1,380	2,317	2,261	2,055	1,856
Short term borrowings	2,627	4,358	5,759	5,359	4,959
Total debt	3,411	5,976	7,070	6,470	5,870
Trade Payables	1,701	1,869	1,823	2,218	2,393
Total current liabilities	6,287	8,294	10,138	10,244	10,242
<b>Total Liabilities</b>	<b>22,886</b>	<b>27,165</b>	<b>29,501</b>	<b>30,103</b>	<b>30,847</b>
Net Block	5,031	6,049	6,379	6,576	6,541
Capital work in progress	950	1,267	817	467	317
Long term loans & advances	257	135	179	168	183
Non current investments	443	1,212	284	284	284
Total non current assets	6,683	8,664	7,659	7,494	7,324
Current Investments	1,809	1,284	2,364	2,364	2,364
Inventories	9,058	10,375	12,207	11,092	11,697
Trade Recievables	3,390	4,574	5,156	4,482	4,874
Cash & cash equivalents	481	179	108	2,430	2,151
Short term loans & advances	1,228	1,730	1,804	1,793	1,950
Other current assets	238	360	202	448	487
Total current assets	16,204	18,501	21,842	22,609	23,523
<b>Total Assets</b>	<b>22,886</b>	<b>27,165</b>	<b>29,501</b>	<b>30,103</b>	<b>30,847</b>

Source: Company, Centrum Research Estimates

### Exhibit 10: Cash Flow

Y/E March (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
<b>PBT</b>	<b>2,737</b>	<b>2,972</b>	<b>2,172</b>	<b>2,406</b>	<b>2,767</b>
Interest	86	186	307	291	293
Depreciation	486	487	620	653	685
Change in working capital	(2,153)	(2,619)	(1,681)	2,065	(808)
Tax	846	847	828	794	913
<b>Cash flow from operations</b>	<b>311</b>	<b>179</b>	<b>590</b>	<b>4,621</b>	<b>2,024</b>
Change in fixed assets	970	1,822	500	500	500
Change in investments	229	244	152	-	-
<b>Cash flow from investments</b>	<b>(1,199)</b>	<b>(2,065)</b>	<b>(652)</b>	<b>(500)</b>	<b>(500)</b>
Change in equity capital	-	-	-	-	-
Change in debt	1,505	2,561	1,094	(600)	(600)
Dividends paid	744	791	795	909	909
Interest paid	86	186	307	291	293
<b>Cash flow from financing</b>	<b>674</b>	<b>1,584</b>	<b>(8)</b>	<b>(1,800)</b>	<b>(1,802)</b>
Net cash flow	(322)	(301)	(71)	2,321	(279)
Opening cash balance	802	481	179	108	2,430
<b>Closing cash balance</b>	<b>481</b>	<b>179</b>	<b>108</b>	<b>2,430</b>	<b>2,151</b>

Source: Company, Centrum Research Estimates

## Appendix A

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