



# Graphite India Limited

Q1 FY2014 Earnings Presentation

05 August 2013





# 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.*



# Financial Performance

## Standalone Performance – Q1 FY2014 vs. Q1 FY2013

- Gross Sales of Rs. 413 Crore
- Operating Profit of Rs. 75 Crore with margin of 18.5%
- Net Profit of Rs. 39 Crore with margin of 9.7%
- Significant reduction in Net Debt to Rs. 164 Crore as of June 30, 2013
- Net Debt / Equity is 0.10x as of June 30, 2013

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

*“Global steel production increased marginally during the quarter primarily because of robust activity levels in China. However in the rest of the world, key economies failed to deliver positive growth, reflecting ongoing macroeconomic challenges. For our industry, the recent decline in electrode prices coupled with lower electrode demand has clear implications for operating margins. This is likely to continue in the near term as major steel producers readjust their production levels and destock inventories. The recent softening in needle coke prices has been a positive although offset to some extent by the depreciation of the Rupee.*

*With this challenging economic backdrop in mind, we are pleased to report a satisfactory financial performance during the quarter. Management remains watchful over the developments in the steel industry and continues to drive efficiencies across our world class production facilities. Graphite India is one of the major players in the global electrode industry and will continue to reap the benefits from our longstanding customer relationships”*

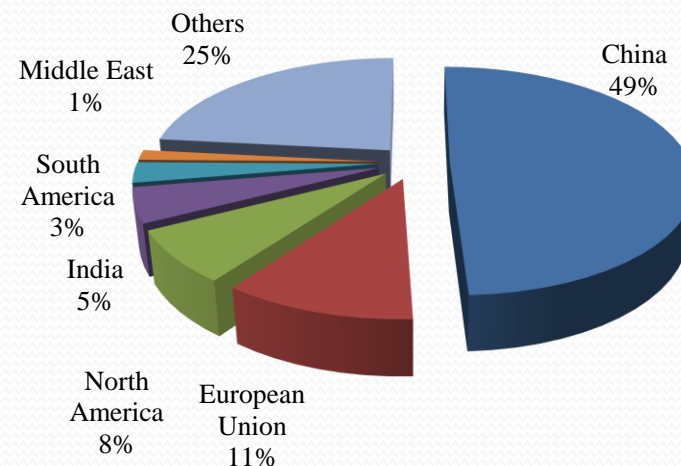


# Economic Environment

## Industry Highlights

- During the quarter, global crude steel production increased by 1.9% y-o-y to 400 million MT. Major steel producing economies, except for China and Middle East, have declined during the quarter. Overall, the steel sector remained under pressure due to the lower realizations and subdued volume growth
- Capacity utilization levels remained weak as a result of de-stocking activities
- Growth in the steel industry during quarter varied significantly across regions. North American steel production was down by 5.7% y-o-y and Europe continued to be under pressure with a decline of 4.4% y-o-y. Asia produced 268 million MT of crude steel, an increase of 4.7% year on year primarily driven by China

### Regional Production: Q2 CY 2013



- India crude steel production increased moderately at 1.0% y-o-y as a result of a subdued domestic demand. Profitability was impacted by low price realizations, increase in fuel costs, the higher cost of imported raw material and further weakening of Rupee. The slowdown in infrastructure spending coupled with overall delays in implementation of capex plans have also led to this low consumption environment
- Crude steel production in China continues to grow strongly at 6.2% y-o-y. However, Chinese steel prices declined on account of weak demand, recent policy reforms and de-stocking activity

Source: Worldsteel and industry research



# Economic Environment

## Industry Highlights

Crude Steel Production (million MT)	Three Months Ended					Six Months Ended		
	Jun-13	Jun-12	Y-o-Y Change (%)	Mar-13	Q-o-Q Change (%)	Jun-13	Jun-12	Y-o-Y Change (%)
Asia	268	256	4.7%	260	2.8%	528	500	5.5%
India	20	19	1.0%	20	(2.0%)	40	39	2.5%
China	197	186	6.2%	192	2.9%	389	361	7.7%
South America	12	12	(1.9%)	11	6.3%	23	24	(4.6%)
North America	29	31	(5.7%)	30	(0.7%)	59	63	(5.8%)
European Union	43	45	(4.4%)	41	3.8%	84	89	(5.1%)
Middle East	6	6	1.6%	5	5.3%	11	11	0.2%
Others	43	43	(1.7%)	41	3.1%	84	86	(3.1%)
<b>Total</b>	<b>400</b>	<b>393</b>	<b>1.9%</b>	<b>389</b>	<b>2.8%</b>	<b>789</b>	<b>772</b>	<b>2.0%</b>

- The global average steel capacity utilization has decreased to 79.6% in Q2 CY2013 from 80.4% in Q2 CY2012. However, it has increased sequentially from 77.0% in Q1 CY2013
- Brent crude oil prices have ranged between \$98 - \$111/barrel in Q2 CY2013 as compared \$107 - \$119/barrel in Q1 CY2013

Source: Worldsteel



# Financial Performance

## Standalone Performance

(Rs. Crore)	Q1		y-o-y	Q4	q-o-q
	FY2014	FY2013	Growth (%)	FY2013	Growth (%)
Gross Sales	413	428	(3.5)%	518	(20.3)%
Net Sales (incl Other Operating Income)	404	418	(3.3)%	511	(21.0)%
Operating Profit	75	78	(4.0)%	72	4.1%
<i>Margin (%)</i>	18.5%	18.6%		14.0%	
Net Profit	39	41	(3.1)%	42	(5.4)%
<i>Margin (%)</i>	9.7%	9.7%		8.1%	
Basic EPS (Rs)	2.01	2.08	(3.4)%	2.13	(5.6)%

Notes:

- 1 Gross Sales 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 (including Other Operating Income)



# Financial Performance

## Standalone Performance Discussion and Analysis

- **Revenue:** Q1 FY2014 Net Sales (incl. other operating income) declined marginally by (3.3)% to Rs. 404 Crore compared to Q1 FY2013. Electrode prices improved on a year over year basis although electrode sales volumes lowered during the quarter

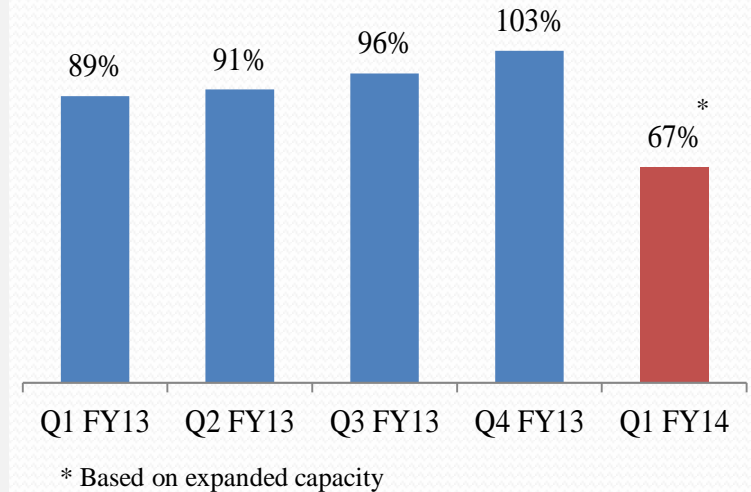
Both export and domestic sales volumes were impacted due to the global subdued steel demand scenario. Export realizations benefited to some extent on account of the recent depreciation of the Rupee

- **Operating Profit:** During Q1 FY2014, Operating Profit decreased by (4.0)% to Rs 75 Crore as compared to same period last year. This was primarily a result of the lower sales volumes and an increase in input costs

Electrode production volumes increased marginally on a year over year basis. Other income increased from Rs. 4.5 Crore in Q1 FY2013 to Rs. 8.7 Crore in Q1 FY2014

- **Net Profit:** Q1 FY2014 Net Profit decreased by (3.1)% to Rs 39 Crore as compared to Q1 FY2013. Interest expense decreased from Rs. 5.3 Crore in Q1 FY2013 to Rs. 4.4 Crore in Q1 FY2014. This decrease is primarily due to better inventory management and a corresponding decrease in working capital requirements
- **Operations:** Capacity utilization of 67% was achieved in Q1 FY2014 as compared to 89% in Q1 FY2013. Expansion of 20,000 MT capacity at Durgapur plant has started contributing from Q1 FY2014

### GIL Capacity Utilization (standalone)



# Segment Performance

## Standalone Performance

(Rs. Crore)	Q1		y-o-y Growth (%)	Q4	
	FY2014	FY2013		FY2013	q-o-q Growth (%)
<b>Segment Revenue</b>	<b>404</b>	<b>418</b>	<b>(3.3)%</b>	<b>511</b>	<b>(21.0)%</b>
Graphite and Carbon	372	379	(1.9)%	475	(21.7)%
Steel	19	24	(20.8)%	21	(11.2)%
Unallocated	13	15	(11.0)%	15	(13.9)%
Less: Inter Segment Sales	0	0		(0)	

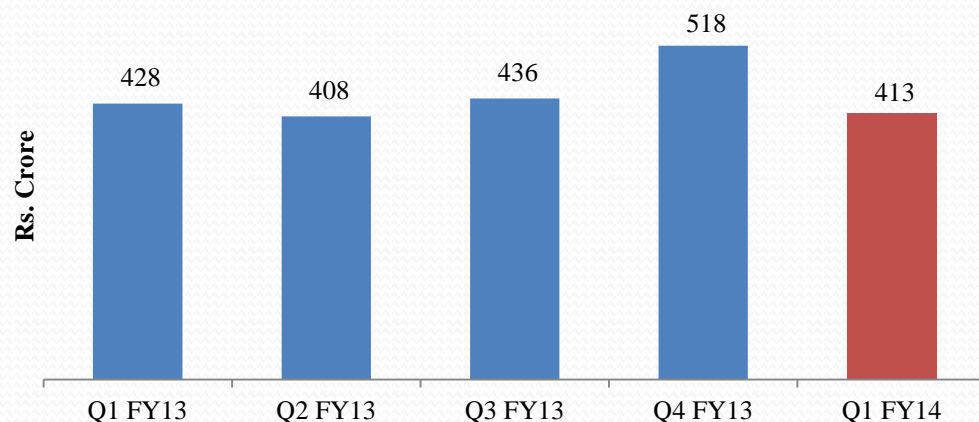
<b>Segment Results</b>	<b>81</b>	<b>80</b>	<b>0.8%</b>	<b>66</b>	<b>22.3%</b>
<b>Profit before tax and interest</b>					
Graphite and Carbon	78	80	(2.4)%	62	25.8%
Steel	4	0	nm	8	(52.7)%
Unallocated	(1)	(0)	nm	(4)	(77.8)%





# Quarterly Financial Trends – Standalone

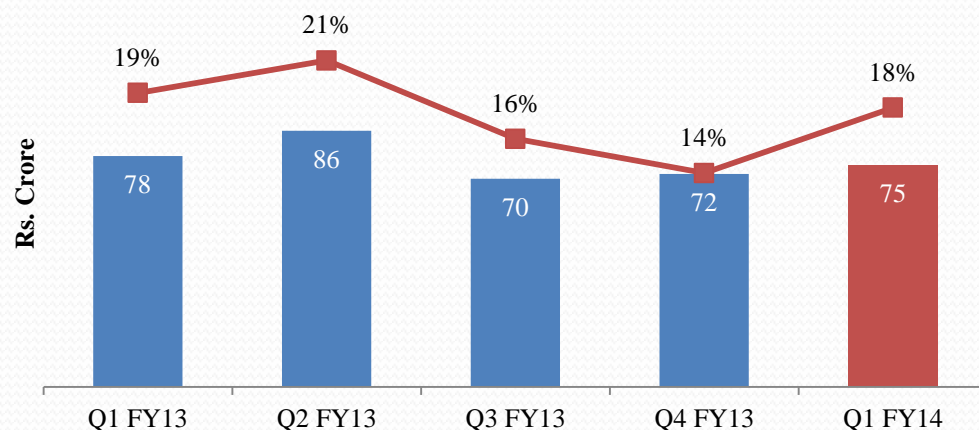
## Gross Sales



## Historical Trends

- Lower sales volumes have impacted Q1 FY2014 Gross sales
- Increase in Q4 FY2013 sales due to higher volumes
- Q3 FY2013 Gross Sales were higher due to relatively better performance of steel and other divisions
- Contraction in Q2 FY2013 volumes partly due to subdued demand scenario and temporary closure of the Bangalore plant

## Operating Profit and Margins

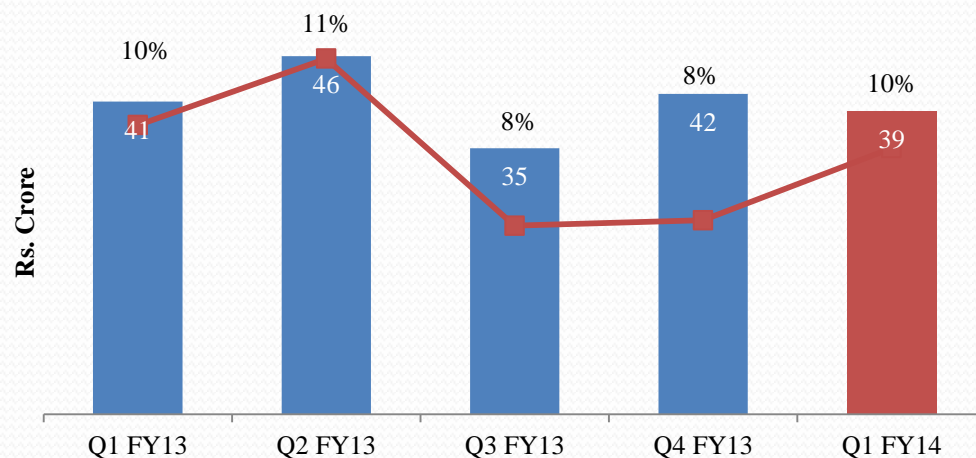


- Better operating efficiencies from expanded capacity at Durgapur coupled with improved export realizations due to Rupee depreciation benefitted Q1 FY2014 margins
- Margins in Q4 FY2013 were impacted due to increase in input cost
- Lower operating margins in Q3 FY2013 were due to higher input cost and moderation in price realisations
- Better margins in Q2 FY2013 due to higher price realisations coupled with favourable foreign exchange fluctuations



# Quarterly Financial Trends – Standalone

## Net Profit and Margins



## Historical Trends

- Better margins in Q1 FY2014 due to higher operating margins and lower interest expense
- Higher margins in Q4 FY2013 due to lower tax incidence
- Q3 FY2013 lower operating profits due to higher interest costs and depreciation
- Higher Q2 FY2013 Net Profits due to better operating margins and lower interest costs

## Capital Structure

- Outstanding shares as of June 30, 2013 are 195,375,594
- Significant financial flexibility available for future organic / inorganic growth

(Rs. Crore)	Standalone 30.06.2013	Standalone 31.03.2013
Secured Debt	288	360
Unsecured Debt	126	244
<b>Total Debt</b>	<b>414</b>	<b>604</b>
Less: Cash & Cash Equivalents	250	242
<b>Net Debt / (Net Cash)</b>	<b>164</b>	<b>362</b>
<b>Net Worth</b>	1,684	1,645
<b>Net Debt / Equity (x)</b>	0.10x	0.22x

Note:

1 All numbers shown are for the standalone business



# Performance Outlook

## Steel Industry

- Overall growth outlook remains weak with low infrastructure investments and consumer spending across markets. The global steel demand scenario has been challenging which has resulted in downward pressure on steel prices
- In addition to the above, overcapacity and margin pressures have negatively effected the near term outlook of the global steel sector. Due to the continued slow down in the global steel industry, graphite electrode demand is also expected to be impacted
- Within India, near term steel demand has been lowered as a result of postponed construction / capex activity and high interest rates

## Graphite India

- The current market softness is likely to continue for the coming months. Graphite India is cautiously optimistic on its near term operational and financial performance. Management remains focused on maintaining margins through operational efficiencies and improving capacity utilization levels
- Graphite India has secured needle coke supplies until the end of FY2014 at competitive prices which are lower as compared to FY2013. The Company will benefit from the lower cost needle coke in the coming months
- The Company continues to target a consolidated capacity utilization range of 70-75% for FY2014
- 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

Source: Worldsteel and industry research





# Graphite India: At a Glance

## 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 98,000 tonnes per annum 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 has over 40 years of technical expertise in the industry. Exports account for approximately 65% of total revenues. Graphite India manufactures the full range of graphite electrodes but stays focused on the higher margin, large diameter, ultra-high power (“UHP”) electrodes.

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 six

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 also manufactures Calcined Petroleum Coke (“CPC”) for use in electrode manufacturing. It is 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. The Company has successfully expanded capacity by 20,000 MT per annum at its Durgapur (West Bengal) plant.

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.

## 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.

The EAF method of manufacturing steel is becoming increasingly attractive due to its low capital costs, lower breakeven tonnage, and 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 410 million MT in 2012.



# Statutory Financials



## Unaudited Standalone First Quarter Results for FY 2014 (All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

### PART I

(₹ in Lakhs)

Particulars	Quarter ended 30th June	Quarter ended 31st March	Quarter ended 30th June	Year ended 31st March
	2013 (Unaudited)	2013 (Unaudited)	2012 (Unaudited)	2013 (Audited)
<b>Income from Operations</b>				
Gross Sales / Income from Operations	41,277	51,797	42,795	179,021
Less: Excise Duty on Sales	1,794	1,971	2,117	7,132
Net Sales / Income from Operations	39,483	49,826	40,678	171,889
Other Operating Income	898	1,292	1,075	4,597
<b>Total Income from Operations (net)</b>	<b>40,381</b>	<b>51,118</b>	<b>41,753</b>	<b>176,486</b>
<b>Expenses</b>				
Cost of materials consumed	21,049	20,665	18,072	78,883
Purchase of stock-in-trade	-	-	-	1,345
Changes in inventories of finished goods, work-in-progress and stock-in-trade	(3,859)	3,843	(1,581)	(7,738)
Employee benefits expense	3,091	3,183	2,606	11,997
Consumption of stores and spare parts	2,836	4,225	3,105	14,115
Power and fuel	6,593	7,848	7,423	30,394
Depreciation and amortisation expense	1,312	1,367	1,147	5,004
Other expenses	4,088	5,175	4,820	19,599
<b>Total Expenses</b>	<b>35,110</b>	<b>46,306</b>	<b>35,592</b>	<b>153,599</b>
<b>Profit from operations before other income, finance costs and exceptional items</b>	<b>5,271</b>	<b>4,812</b>	<b>6,161</b>	<b>22,887</b>



# Statutory Financials



## Unaudited Standalone First Quarter Results for FY 2014 (All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

Other Income	870	981	453	2,635
<b>Profit from ordinary activities before finance costs and exceptional items</b>	<b>6,141</b>	<b>5,793</b>	<b>6,614</b>	<b>25,522</b>
Finance Costs	435	706	534	2,214
<b>Profit from ordinary activities after finance costs but before exceptional items</b>	<b>5,706</b>	<b>5,087</b>	<b>6,080</b>	<b>23,308</b>
Exceptional Items	-	-	-	-
<b>Profit from ordinary activities before tax</b>	<b>5,706</b>	<b>5,087</b>	<b>6,080</b>	<b>23,308</b>
Tax expense relating to				
- Current period	1,775	1,930	2,025	8,000
- Earlier period	-	(1,000)	-	(1,000)
<b>Net Profit from ordinary activities after tax</b>	<b>3,931</b>	<b>4,157</b>	<b>4,055</b>	<b>16,308</b>
Extraordinary Items	-	-	-	-
<b>Net Profit for the period</b>	<b>3,931</b>	<b>4,157</b>	<b>4,055</b>	<b>16,308</b>
Paid-up equity share capital ( Face Value ₹ 2/- each )	3,908	3,908	3,908	3,908
Reserves excluding Revaluation Reserve as per balance sheet of previous accounting year				160,592
Earnings Per Share (EPS) (before and after extraordinary items) - Face Value ₹ 2/- each (not annualised)				
Basic EPS (₹)	2.01	2.13	2.08	8.35
Diluted EPS (₹)	2.01	2.13	2.08	8.35



# Statutory Financials



## Unaudited Standalone First Quarter Results for FY 2014 (All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

### PART II

Particulars	Quarter ended 30th June	Quarter ended 31st March	Quarter ended 30th June	Year ended 31st March
	2013	2013	2012	2013
<b>PARTICULARS OF SHAREHOLDING</b>				
Public Shareholding				
- Number of shares	71,842,906	72,753,944	73,793,736	72,753,944
- Percentage of shareholding	36.77	37.24	37.77	37.24
Promoters and Promoter Group Shareholding				
a) Pledged/Encumbered				
- Number of shares	-	-	-	-
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	-	-	-	-
- Percentage of shares (as a % of the total share capital of the company)	-	-	-	-
b) Non-Encumbered				
- Number of shares	123,532,688	122,621,650	121,581,858	122,621,650
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	100.00	100.00	100.00	100.00
- Percentage of shares (as a % of the total share capital of the company)	63.23	62.76	62.23	62.76

Particulars	Quarter ended 30th June 2013
<b>INVESTOR COMPLAINTS</b>	
Pending at the beginning of the quarter	Nil
Received during the quarter	9
Disposed of / attended to during the quarter	9
Remaining unresolved at the end of the quarter	Nil



# Statutory Financials



## Unaudited Standalone First Quarter Results for FY 2014 (All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

Segment-wise Revenue, Results and Capital employed in terms of Clause 41 of the Listing Agreement

(₹ in Lakhs)

	Particulars	Quarter ended	Quarter ended	Quarter ended	Year ended
		30th June	31st March	30th June	31st March
		2013 (Unaudited)	2013 (Unaudited)	2012 (Unaudited)	2013 (Audited)
<b>1</b>	<b>SEGMENT REVENUE -</b>				
	Graphite and Carbon	37,172	47,459	37,899	164,087
	Steel	1,908	2,149	2,409	7,858
	Unallocated	1,302	1,512	1,463	4,581
	<b>Total</b>	<b>40,382</b>	<b>51,120</b>	<b>41,771</b>	<b>176,526</b>
	Less: Inter Segment Revenue	1	2	18	40
	<b>Sales/Income from Operations-Net</b>	<b>40,381</b>	<b>51,118</b>	<b>41,753</b>	<b>176,486</b>
<b>2</b>	<b>SEGMENT RESULTS -</b>				
	Profit / (Loss) before tax and interest				
	Graphite and Carbon	7,775	6,181	7,964	27,866
	Steel	362	766	35	888
	Unallocated	(80)	(360)	(2)	(399)
	<b>Total</b>	<b>8,057</b>	<b>6,587</b>	<b>7,997</b>	<b>28,355</b>
	Less:				
	Interest	435	706	534	2,214
	(Including other finance costs)				
	Other un-allocable expenditure/(income)(net)	1,916	794	1,383	2,833
	<b>Total Profit Before Tax</b>	<b>5,706</b>	<b>5,087</b>	<b>6,080</b>	<b>23,308</b>
<b>3</b>	<b>CAPITAL EMPLOYED -</b>				
	(Segment Assets - Segment Liabilities)				
	Graphite and Carbon	183,058	197,293	178,173	197,293
	Steel	19,698	19,422	18,594	19,422
	Unallocated	4,444	4,855	5,014	4,855
	<b>Total</b>	<b>207,200</b>	<b>221,570</b>	<b>201,781</b>	<b>221,570</b>







# Statutory Financials

## Unaudited Standalone First Quarter Results for FY 2014 (All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

### Notes :

- 1 The above results have been reviewed by the Audit Committee and approved by the Board at its meeting held on 5th August, 2013. The Auditors of the Company have carried out a Limited Review of the financial results for the quarter ended 30th June, 2013 in terms of Clause 41 of the Listing Agreement with Stock Exchanges.
- 2 The figures of the quarter ended 31st March, 2013 are the balancing figures between the audited figures in respect of the full financial year ended 31st March, 2013 and the unaudited year-to-date figures up to the third quarter ended 31st December, 2012.
- 3 Figures for the previous year/periods have been regrouped / rearranged wherever necessary to conform to current period's classification.

By Order of the Board  
For Graphite India Limited

Place : Kolkata  
Date : 5th August, 2013

K.K.Bangur  
Chairman





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