



Graphite India Limited

(NSE: GRAPHITE, BSE: 509488)

Q2 FY2015 Earnings Presentation
November 10, 2014



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Profit and Loss

- Gross Sales of Rs. 409.2 Crore
- Operating Profit of Rs. 44.4 Crore; Operating margin of 11.2%
- Net Profit of Rs. 20.1 Crore, Net Profit margin of 5.1%
- Interest Coverage: 13.0x (Q1 FY2015: 11.2x)

Balance Sheet

- Gross Debt of Rs. 288 Crore (Q1 FY2015: Rs. 311 Crore)
- Net Cash of Rs. 54 Crore (Q1 FY2015: Net Cash of Rs. 114 Crore)
- Gross Debt / EBITDA: 6.5x (Q1 FY2015: 6.0x)
- Net Worth of Rs. 1,766 Crore

Operations

- Capacity utilization of 69% in Q2 FY2015 (Q1 FY2015: 70%)

Performance Outlook

- Graphite India is well positioned to enhance its market share with the expected improvement in the global steel markets. This will be achieved by leveraging its expanded capacity, low cost base and high product quality
- Decline in electrode prices has moderated and expected to stabilize at current levels. The Company is likely to benefit from the lower needle coke prices in the near term



Mr. K. K. Bangur,
Chairman

“Overall global steel production growth has moderated in the recent months. This is primarily driven by the weaker industrial activity in China and Europe. However, the key emerging economies, other than China, are poised to deliver encouraging growth and perform better in 2015. The demand for steel in more developed economies is also expected to gain traction.

The global electrode industry is currently going through a transitional phase. In particular, the rationalization of operating facilities taking place globally should lead to capacity optimization and ultimately translate into firmer prices, which is a positive development for the overall industry.

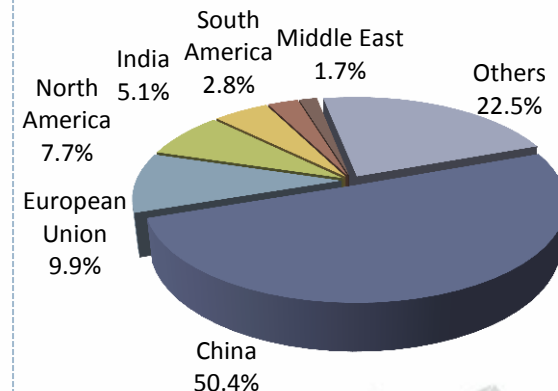
Our domestic markets fared well and we expect this performance to be sustainable going forward. We remain focused on our own cost optimization initiatives and the timely delivery of high quality products to our end customers.

With expectations of a continued global recovery and improved economic growth in India, we are well positioned to capitalize on the renewed demand. We look forward to starting the new year with vigor and zeal to outperform and create value for all of our stakeholders.”

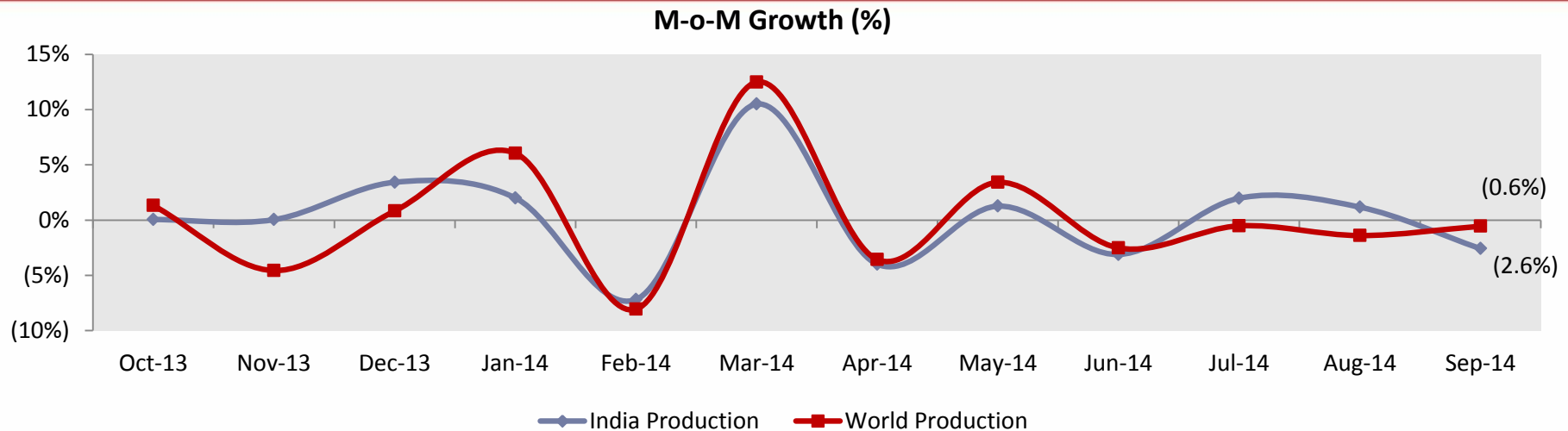
Crude Steel Production (million MT)	Three Months Ended					Nine Months Ended		
	Sep-14	Sep-13	Y-o-Y (%)	Jun-14	Q-o-Q (%)	Sep-14	Sep-13	Y-o-Y (%)
Asia	276	266	3.8%	281	(1.7%)	834	813	2.5%
India	21	20	2.9%	21	0.2%	62	61	1.8%
China	205	197	3.9%	209	(1.8%)	618	604	2.3%
South America	12	12	(3.2%)	11	3.3%	34	35	(2.6%)
North America	31	30	2.3%	30	3.5%	91	89	2.3%
European Union	40	40	0.5%	44	(8.1%)	128	124	2.9%
Middle East	7	7	4.1%	7	(6.3%)	21	19	7.6%
Others	41	41	(1.6%)	42	(4.4%)	124	124	(0.6%)
Total	407	396	2.6%	416	(2.2%)	1,231	1,205	2.1%

- The upward trend in the economic activity levels and the revival of industry in the developed economies has improved business sentiment. However, the emerging markets have not yet come out of the slowdown which has adversely impacted the overall economic outlook. Potential interest rate increases in the US may impact the global capital flows, creating instability in the some emerging markets.
- World crude steel production for the quarter was 407 million MT, a growth of 2.6% y-o-y and a compression of (2.2)% sequentially.
- The momentum of recovery in the steel demand has moderated due to slackening demand in China, reflecting the structural transformation of the economy.
- Global capacity utilization level continues to remain below 80%. Though steel production has improved, oversupply and weak demand remains the concern.
- The global average steel capacity utilization has dropped to 75.2% in Q3 CY2014 from 77.2% in Q3 CY2013 and decreased sequentially from 78.5% in Q2 CY2014.

Regional Production*



* Q3 CY2015



Industry Outlook

- The global steel demand is expected to grow at 2.0% in 2014 followed by another 2.0% growth in 2015 to 1,594 million MT. Global steel demand (excluding China) is likely to grow at 3.2% in 2015
- Steel demand growth in developed economies is expected to moderate in 2015, whilst most emerging economies are expected to recover. However, China rebalancing is expected to continue in the following year
- According to the World Steel Association, steel demand in the developed economies is expected to grow by over 4% in 2014, but slow down to 1.7% in 2015. However, the developing economies excluding China are expected to grow by 1.7% in 2014, followed by a rebound of 4.7% growth in 2015
- India's economic outlook is improving owing to a positive sentiment after the election of a new, stable central government. Structural reforms, revamp of policies and improving confidence is expected to support a 3.4% growth in steel demand in 2014 and 6.0% growth in 2015

Standalone Financial Performance

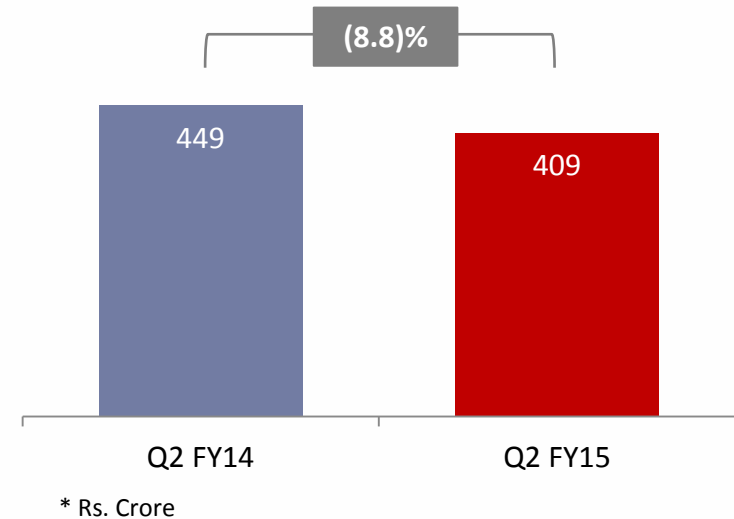
(Rs. Crore)	Q2		y-o-y Growth (%)	Q1	q-o-q Growth (%)	Half Year Ended		y-o-y Growth (%)
	FY2015	FY2014		FY2015		FY2015	FY2014	
Gross Sales	409.2	448.9	(8.8)%	385.6	6.1%	794.8	861.6	(7.8)%
Net Sales (including Other Operating Income)	397.3	440.9	(9.9)%	370.2	7.3%	767.5	844.7	(9.1)%
Operating Profit	44.4	87.1	(49.0)%	51.5	(13.7)%	95.9	161.7	(40.7)%
Margin (%)	11.2%	19.8%		13.9%		12.5%	19.1%	
Interest	2.6	4.9	(47.2)%	3.6	(28.5)%	6.1	9.2	(33.3)%
Depreciation	10.6	13.5	(21.9)%	9.2	15.3%	19.7	26.6	(26.0)%
Profit Before Tax	31.3	68.8	(54.5)%	38.7	(19.2)%	70.0	125.8	(44.3)%
Net Profit	20.1	44.5	(54.9)%	27.5	(26.9)%	47.6	83.8	(43.2)%
Margin (%)	5.1%	10.1%		7.4%		6.2%	9.9%	
Basic EPS (Rs.)	1.03	2.28	(54.9)%	1.41	(27.1)%	2.44	4.29	(43.2)%

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)

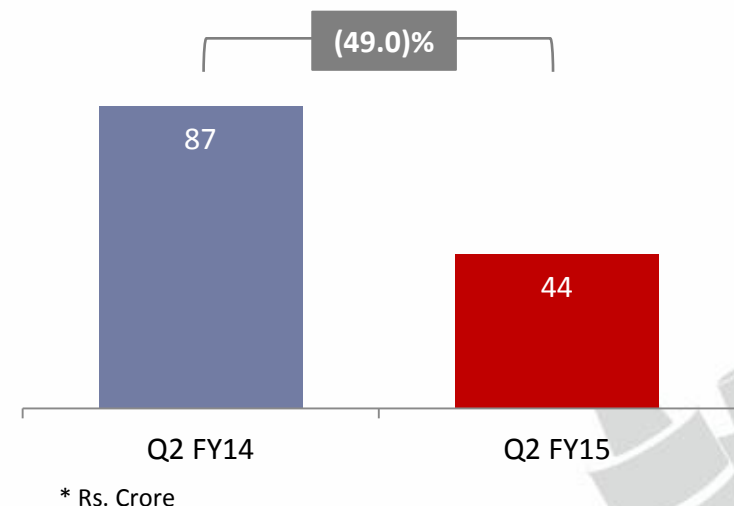
1 Sales

- Gross Sales decreased by (8.8)% y-o-y to Rs. 409 Crore. This decline was primarily due to the continued pressure on electrode demand and lower price realizations. Sales volume decreased by 12% y-o-y during Q2 FY2015
- During the quarter, export volumes declined while domestic volumes registered a steady growth
- Export realization during the quarter was significantly lower despite the benefit of rupee depreciation



2 Operating Profit

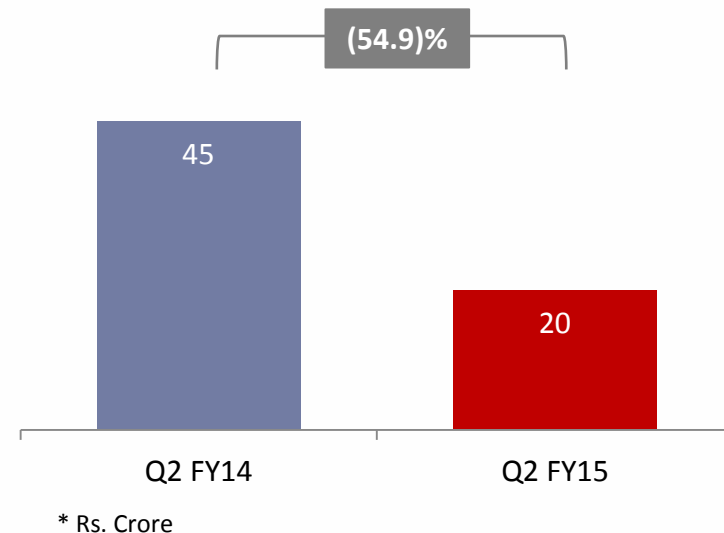
- Operating Profit for the quarter was Rs. 44 Crores, a decline of (49.0)% compared to the same period last year. This was primarily due to the lower sale volumes coupled with lower price realizations, offset to some extent by lower input costs
- Electrode production volumes increased by 4% y-o-y
- Other Income decreased from Rs. 5.3 Crore in Q2 FY2014 to Rs. 4.6 Crore in Q2 FY2015



3

Net Profit

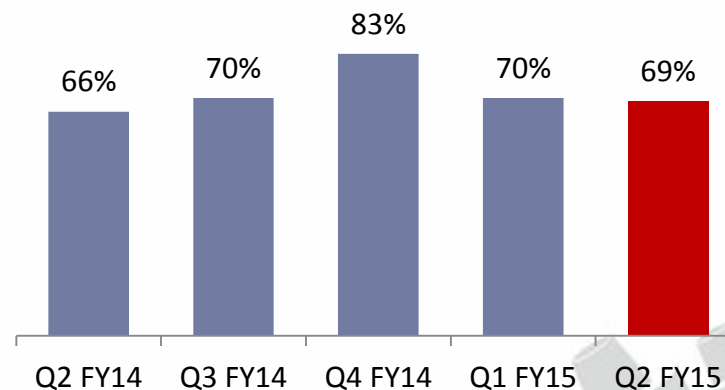
- Net Profit for the quarter was Rs. 20 Crores, a decline of (54.9)% compared to the same period last year
- Interest cost decreased significantly by 47.2% due to better working capital management. Interest coverage remains stable at 13.0x during Q2 FY2015, compared to 13.1x in Q2 FY2014
- The Company has revised the useful lives of fixed assets in accordance with the provisions of Schedule II to the Companies Act, 2013. As a result, depreciation for Q2 FY2015 is lower by Rs. 2.3 Crores



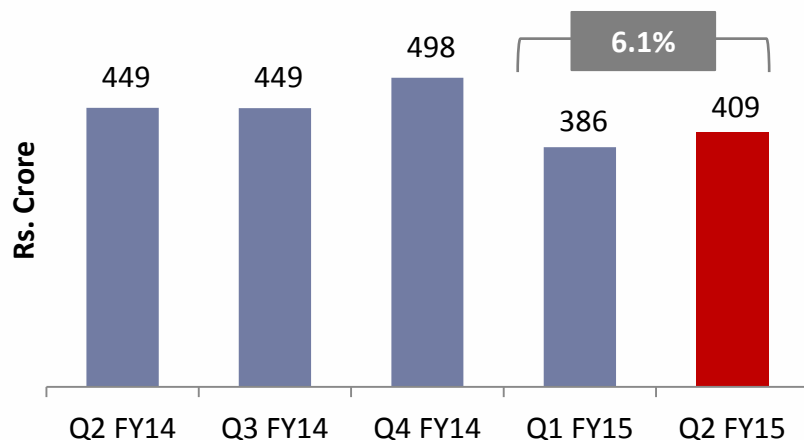
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Operations

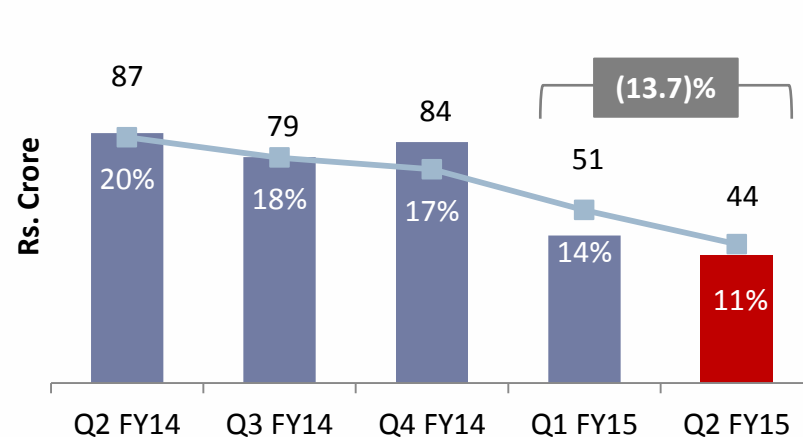
- Q2 FY2015 capacity utilization was 69% as compared to 66% in Q2 FY2014



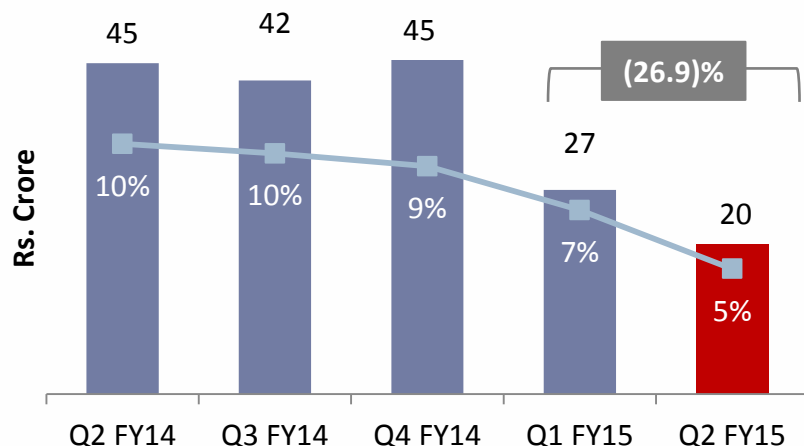
Gross Sales



Operating Profit and Margins



Net Profit and Margins



- Q2 FY2015 Gross Sales were higher due to relatively better performance of divisions other than electrode
- Lower Operating Margins in Q2 FY2015 due to moderation in price realizations coupled with lower other income
- Q2 FY2015 Net Profit margins decreased to 5% due to lower operating margins and higher tax incidence

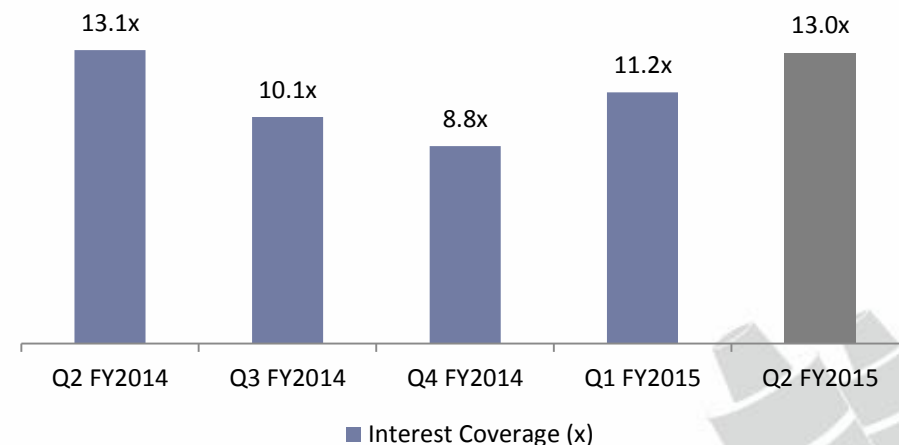
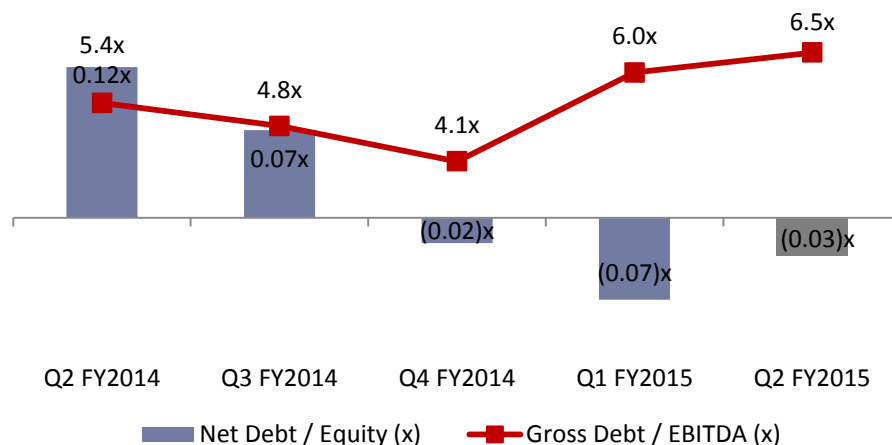
Standalone Financial Performance

(Rs. Crore)	Q2		y-o-y Growth (%)	Q1 FY2015	q-o-q Growth (%)	Half Year Ended		y-o-y Growth (%)
	FY2015	FY2014				FY2015	FY2014	
Segment Revenue	397.3	440.9	(9.9)%	370.2	7.3%	767.5	844.7	(9.1)%
Graphite and Carbon	343.8	411.1	(16.4)%	337.2	2.0%	680.9	782.8	(13.0)%
Steel	21.1	18.2	16.1%	21.4	(1.3)%	42.5	37.3	14.0%
Unallocated	32.5	11.8	174.6%	11.8	175.3%	44.3	24.8	78.1%
Less: Inter Segment Sales	(0.0)	(0.2)		(0.2)		(0.2)	(0.2)	

Segment Results	37.3	87.3	(57.3)%	41.1	(9.3)%	78.4	167.9	(53.3)%
Profit before tax and interest								
Graphite and Carbon	33.3	87.4	(61.8)%	33.4	(0.2)%	66.7	165.1	(59.6)%
Steel	0.1	0.6	(86.2)%	5.3	(98.5)%	5.3	4.2	27.1%
Unallocated	3.9	(0.6)		2.5		6.4	(1.4)	

Significant financial flexibility available for future organic / inorganic growth

(Rs. Crore)	30.9.2014	30.6.2014	31.3.2014
Secured Debt	221	201	235
Unsecured Debt	67	110	106
Total Debt	288	311	341
Less: Cash & Cash Equivalents	342	425	373
Net Debt / (Net Cash)	(54)	(114)	(32)
Net Worth	1,766	1,748	1,736



Performance Outlook

- In context of the ongoing macro economic uncertainty, Graphite India remains cautiously optimistic with continued focus on cost control and optimizing utilization levels across facilities
- Renewed business sentiment following the general elections in India is expected to contribute positively towards the growth of various steel consuming sectors in the country such as auto, industrial and infrastructure
- Graphite India is well positioned to enhance its market share with the expected improvement in the global steel markets. This will be achieved by leveraging its expanded capacity, low cost base and high product quality
- Decline in graphite electrode prices has moderated and expected to stabilise at current levels. The Company is likely to benefit from the lower needle coke prices in the near term
- The Company continues to target a consolidated capacity utilization in the region of 65%-70% for FY2015

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 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 60% 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. 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 almost 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. EAF production in 2013 was 453 million MT, which was approximately 30% of the total steel production.

Unaudited Standalone Results for the quarter ended 30th September 2014
(All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

PART I

(₹ in Lakhs)

Particulars	Quarter ended			Half Year ended		Year ended
	30th September 2014 (Unaudited)	30th June 2014 (Unaudited)	30th September 2013 (Unaudited)	30th September 2014 (Unaudited)	30th September 2013 (Unaudited)	31st March 2014 (Audited)
Income from Operations						
Gross Sales / Income from Operations	40,923	38,561	44,886	79,484	86,163	180,780
Less: Excise Duty on Sales	1,746	1,858	1,820	3,604	3,614	7,681
Net Sales / Income from Operations	39,177	36,703	43,066	75,880	82,549	173,099
Other Operating Income	555	314	1,021	869	1,919	3,709
Total Income from operations (net)	39,732	37,017	44,087	76,749	84,468	176,808
Expenses						
Cost of materials consumed	18,480	19,067	18,587	37,547	39,636	79,811
Purchases of stock-in-trade	-	-	-	-	-	-
Changes in inventories of finished goods, work-in-progress and stock-in-trade	183	(2,895)	581	(2,712)	(3,278)	(2,069)
Employee benefits expense	3,508	3,504	3,162	7,012	6,253	13,473
Consumption of stores and spare parts	3,231	3,133	3,228	6,364	6,064	12,617
Power and fuel	5,460	6,573	5,611	12,033	12,204	24,429
Depreciation and amortisation expense (Refer Note 2)	1,056	916	1,352	1,972	2,664	5,360
Other expenses	4,888	3,874	4,738	8,762	8,826	20,120
Total Expenses	36,806	34,172	37,259	70,978	72,369	153,741

Profit from operations before other income, finance costs and exceptional items	2,926	2,845	6,828	5,771	12,099	23,067
Other Income	459	1,387	533	1,846	1,403	4,021
Profit from ordinary activities before finance costs and exceptional items	3,385	4,232	7,361	7,617	13,502	27,088
Finance Costs	256	358	485	614	920	1,696
Profit from ordinary activities after finance costs but before exceptional items	3,129	3,874	6,876	7,003	12,582	25,392
Exceptional Items	-	-	-	-	-	-
Profit from ordinary activities before tax	3,129	3,874	6,876	7,003	12,582	25,392
Tax expense	1,120	1,125	2,425	2,245	4,200	8,300
Net Profit from ordinary activities after tax	2,009	2,749	4,451	4,758	8,382	17,092
Extraordinary Items	-	-	-	-	-	-
Net Profit for the period	2,009	2,749	4,451	4,758	8,382	17,092
Paid-up equity share capital (Face Value ₹ 2/- each)	3,908	3,908	3,908	3,908	3,908	3,908
Reserves excluding Revaluation Reserve as per balance sheet of previous accounting year						169,683
Earnings Per Share (EPS) (before and after extraordinary items) -Face Value ₹ 2/- each (not annualised)						
Basic EPS (₹)	1.03	1.41	2.28	2.44	4.29	8.75
Diluted EPS (₹)	1.03	1.41	2.28	2.44	4.29	8.75

PART II

Particulars	Quarter ended			Half Year ended		Year ended
	30th September 2014	30th June 2014	30th September 2013	30th September 2014	30th September 2013	31st March 2014
PARTICULARS OF SHAREHOLDING						
Public Shareholding						
- Number of shares	68,262,202	68,262,202	70,571,078	68,262,202	70,571,078	68,476,252
- Percentage of shareholding	34.94	34.94	36.12	34.94	36.12	35.05
Promoters and Promoter Group Shareholding						
a) Pledge/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	127,113,392	127,113,392	124,804,516	127,113,392	124,804,516	126,899,342
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	100.00	100.00	100.00	100.00	100.00	100.00
- Percentage of shares (as a % of the total share capital of the company)	65.06	65.06	63.88	65.06	63.88	64.95

Particulars	Quarter ended 30th September 2014
INVESTOR COMPLAINTS	
Pending at the beginning of the quarter	Nil
Received during the quarter	8
Disposed of / attended to during the quarter	8
Remaining unresolved at the end of the quarter	Nil

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

(₹ in Lakhs)

	Particulars	Quarter ended			Half Year ended		Year ended
		30th September 2014 (Unaudited)	30th June 2014 (Unaudited)	30th September 2013 (Unaudited)	30th September 2014 (Unaudited)	30th September 2013 (Unaudited)	31st March 2014 (Audited)
1	SEGMENT REVENUE -						
	Graphite and Carbon	34,377	33,717	41,106	68,094	78,278	163,644
	Steel	2,111	2,138	1,818	4,249	3,726	6,862
	Unallocated	3,246	1,179	1,182	4,425	2,484	6,325
	Total	39,734	37,034	44,106	76,768	84,488	176,831
	Less: Inter Segment Revenue	2	17	19	19	20	23
	Sales/Income from Operations-Net	39,732	37,017	44,087	76,749	84,468	176,808
2	SEGMENT RESULTS -						
	Profit/ (Loss) before tax and interest						
	Graphite and Carbon	3,334	3,340	8,735	6,674	16,510	29,402
	Steel	8	526	58	534	420	1,200
	Unallocated	388	248	(61)	636	(141)	(217)
	Total	3,730	4,114	8,732	7,844	16,789	30,385
	Less:						
	Interest	256	358	485	614	920	1,696
	(Including other finance costs)						
	Other un-allocable expenditure/(income)(net)	345	(118)	1,371	227	3,287	3,297
	Total Profit Before Tax	3,129	3,874	6,876	7,003	12,582	25,392
3	CAPITAL EMPLOYED -						
	(Segment Assets - Segment Liabilities)						
	Graphite and Carbon	156,222	158,175	179,911	156,222	179,911	163,790
	Steel	20,648	20,505	19,795	20,648	19,795	20,439
	Unallocated	4,748	3,984	4,591	4,748	4,591	4,461
	Total	181,618	182,664	204,297	181,618	204,297	188,690

Notes :

1 Statement of Assets and Liabilities -

(₹ in Lakhs)

Particulars	As at	
	30th September 2014 (Unaudited)	31st March 2014 (Audited)
A. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	3,908	3,908
Reserves and Surplus	172,694	169,683
Sub-total - Shareholders' funds	176,602	173,591
Non-current liabilities		
Long-term borrowings	8,217	10,017
Deferred tax liabilities (net)	8,267	8,967
Other long-term liabilities	1	47
Sub-total - Non-current liabilities	16,485	19,031
Current liabilities		
Short-term borrowings	14,429	20,085
Trade Payables	19,190	22,575
Other current liabilities	14,304	12,643
Short-term provisions	5,836	14,039
Sub-total - Current liabilities	53,759	69,342
TOTAL - EQUITY AND LIABILITIES	246,846	261,964
B. ASSETS		
Non-current assets		
Fixed assets	60,477	64,147
Non-current investments	17,258	15,756
Long-term loans and advances	1,084	767
Other non-current assets	-	2
Sub-total - Non-current assets	78,819	80,672
Current assets		
Current investments	30,715	34,266
Inventories	88,099	88,300
Trade receivables	37,246	42,339
Cash and bank balances	1,371	2,397
Short-term loans and advances	9,782	11,901
Other current assets	814	2,089
Sub-total - Current assets	168,027	181,292
TOTAL - ASSETS	246,846	261,964

Notes (Contd.) :

- 2 The estimated useful lives of fixed assets have been revised in keeping with the provisions of Schedule II to the Companies Act, 2013 effective 1st April, 2014. Pursuant to the said revision in useful lives, the depreciation expense for the quarter and the half year ended 30th September, 2014 is lower and the profit before tax is higher by ₹ 225 lakhs and ₹ 504 lakhs respectively and the net book value aggregating ₹ 1,747 lakhs (net of deferred tax ₹ 768 lakhs) relating to assets, where the revised useful lives have expired by 31st March, 2014, has been adjusted against opening balance of retained earnings as on 1st April, 2014.
- 3 Figures for the previous periods have been regrouped / rearranged wherever necessary to conform to current period's classification.
- 4 The above results have been reviewed by the Audit Committee and approved by the Board at its meeting held on 10th November, 2014. The Auditors of the Company have carried out a Limited Review of the above financial results for the quarter ended 30th September, 2014 in terms of Clause 41 of the Listing Agreement with Stock Exchanges.

By Order of the Board
For Graphite India Limited

Place : Kolkata
Date : 10th November, 2014

K.K.Bangur
Chairman

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 Limited’s (“Graphite India” or the “Company”) 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.

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