

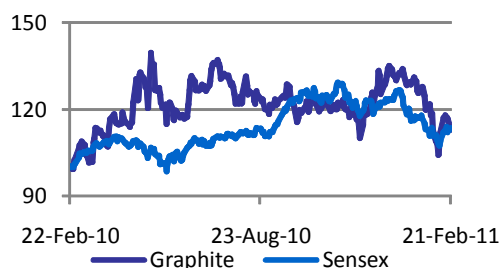
CMP Rs. 88

February 21, 2011

BSE Code	509488
BSE ID	GRAPHITE
High/Low 1Y (Rs.)	109 / 78
Avg. vol (3m)	69,304
Market Cap (Rs Cr)	1,722
Net IB Debt (Rs Cr)	171
Enterprise value(Rs Cr)	1,894

Shareholding %	Sep-10	Dec-10
Promoters	56.59	57.23
MFs/ Fis/ Banks	9.67	9.77
FII's	13.42	14.19
Public & Others	20.32	18.81

Stock Chart (Relative to Sensex)



Stock Perfm.(%)	1M	6M	1Yr
Absolute	-10.1	-9.6	13.0
Rel. to Sensex	(7.1)	(9.8)	-0.5

Financials (Rs.Cr)	FY08	FY09	FY10
Revenue	1,332	1,501	1,347
y-o-y	18.8%	12.7%	-10.3%
EBITDA	278	308	396
y-o-y	23.6%	10.8%	28.8%
PAT	142	236	235
EPS (Dil.)	7.50	15.26	12.17
y-o-y	-2.6%	103.5%	-20.2%
EBITDA Margin	20.8%	20.5%	29.4%
PAT Margin	10.7%	15.7%	17.4%
D/E(x)	0.8x	0.5x	0.3x
P/E(x)	13.7x	6.7x	8.4x
EV/EBITDA(x)	6.5x	5.9x	4.6x
ROCE	17.2%	16.0%	21.5%
ROE	18.8%	21.1%	18.3%

Financial year ends at March 31

Annual Financials are on consolidated basis

Qtry Fin	03/10	06/10	09/10	12/10
Revenue	339	258	324	337
PAT	56	34	49	44
EPS	1.92	1.89	2.52	2.26

Quarterly Financials are on standalone basis

Graphite India Limited

3QFY11 Results Review

Graphite India reported 3QFY11 results with revenue of Rs 337.5 crore, which reflected a YoY growth of 21%. Electrode sales volume increased 34% YoY and 7% QoQ in 3QFY11. This improvement is attributable to higher industry steel production during the year. The profit margins are however getting tempered due to rising input costs namely non-needle coke. Accordingly, EBITDA margins slid from 33.3% in 3QFY10 to 18.8% in 3QFY11. Operating profit and PAT declined 28.7% and 29.8% YoY to Rs 73.2 crore and Rs 44.2 crore, respectively during this quarter. The company reported diluted EPS of Rs 2.26 against Rs 3.47 in 3QFY10. Revival in electrode prices coupled with stable or reduced input costs would benefit the company.

Key highlights of the quarter

Revenue up 21% YoY to Rs 337.5 crore in 3QFY11

Revenue grew 21% YoY primarily due to 34% YoY growth in volumes. However, electrode sales realisation went down from approximately Rs 51,758 per tonne in 3QFY10 to approximately Rs 44,826 per tonne in 3QFY11. Steel segment witnessed robust revenue growth of 49.9% YoY, while power segment revenue decreased 6.4% YoY to Rs 8.8 crore. For the quarter, graphite electrode and carbon segment constituted 84% of total revenue.

EBIDTA margins squeezed YoY

EBITDA margin plummeted 15.13% to 18.8% YoY for this quarter. During the quarter, margins came down due to lower sales realisation, higher input cost, electricity costs and one-time rise in employee cost. COGS, as percentage of total revenue, increased from 41.8% in 3QFY10 to 51.1% in 3QFY11.

PAT down by 29.8% and NP margins narrowed down YoY

Profit after tax declined 29.8% YoY to Rs 44.2 crore due to 28.7% fall in EBITDA on YoY basis. Decrease in other income also marginally affected the bottom-line.

Quarterly Financial Summary - Standalone

Particulars (Rs in Crore)	3QFY11	3QFY10	2QFY11	YoY Gr %	QoQ Gr %	TTM
Total Income	337.5	278.9	323.9	21.0%	4.2%	1258.1
EBITDA	73.2	102.7	84.5	-28.7%	-13.3%	315.4
EBITDA Margin %	21.7%	36.8%	26.1%			25.1%
EBIT	63.3	93.0	74.6	-31.9%	-15.1%	275.6
EBIT Margin %	18.8%	33.3%	23.0%			21.9%
Net Profit	44.2	63.0	49.2	-29.8%	-10.1%	183.6
Net Profit Margin %	13.1%	22.6%	15.2%			14.6%
EPS	2.26	3.47	2.52	-34.9%	-10.3%	8.51

Source: Company Financials, ICRA Online Research, (TTM – Trailing Twelve Month Period)

Valuations

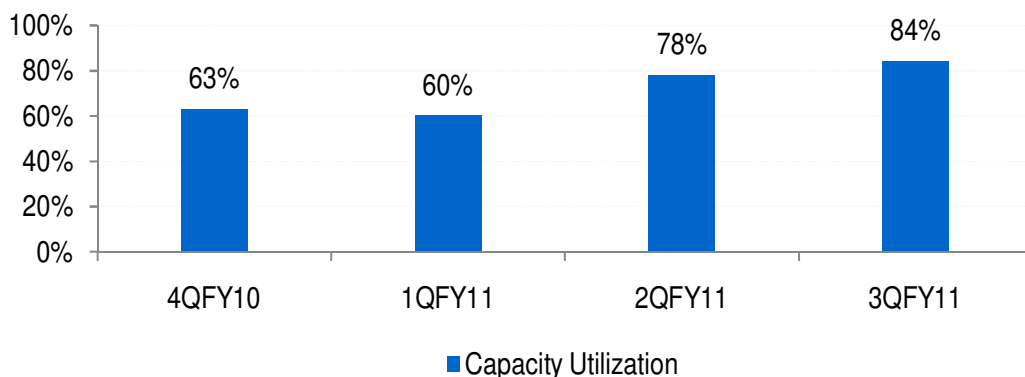
Graphite India is trading at a P/E multiple of 8.4x on its FY10 EPS of Rs. 12.17 and 4.6x EV/EBITDA multiple based on FY10 EBITDA of Rs. 396 crore.

Revival in steel production bodes well for the company

Capacity utilization for graphite electrodes has improved to 84% in 3QFY11 from 60% in 3QFY10 and 78% in 2QFY11. The global steel industry has recovered significantly in the last one year. Global steel production for this quarter was 348.1 million metric tonnes (MT), which reflected a rise of 2.4% YoY. For the CY2010 it is up 15.9% to 1,413.5 million MT from 1,219.6 million MT in CY2009. The improvement in steel production and continuous capacity expansion over the last one year benefited the graphite electrode industry. This is reflected in sales volume growth and higher capacity utilization.

Capacity utilization increased to 84% in 3QFY11. Electrode demand continued to increase due to continuous improvement in steel production.

Capacity Utilization was up at 84% in 3QFY11

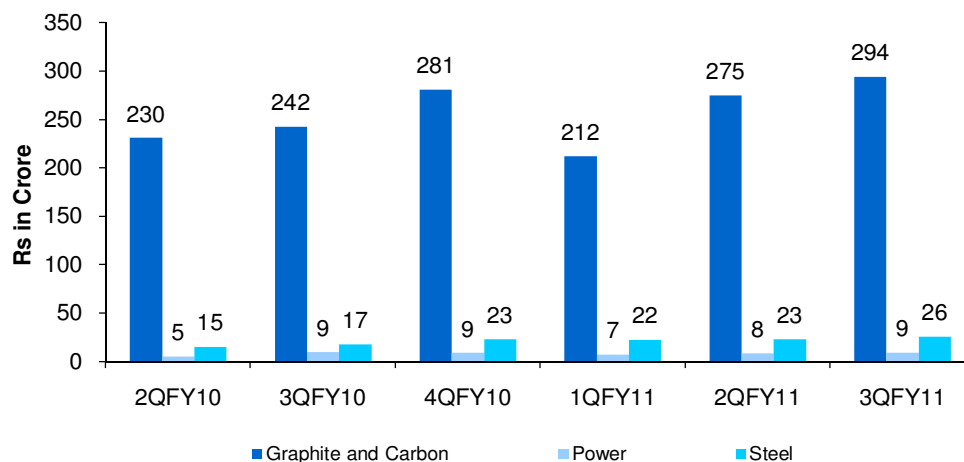


Source: Company Financials, ICRA Online Research

Key Segment Performance

Graphite and Carbon segment constituted around 84% of the segment revenue in 3QFY11 and has registered a growth of 21.2% YoY and 6.9% QoQ. Higher growth was primarily due to higher sales volumes. Sales volume increased around 34% YoY and 7% QoQ. Revenue from steel business increased 49.9% YoY, while from power business it decreased 6.4% YoY during 3QFY11.

Graphite and Carbon segment constituted around 84% of the segment revenue

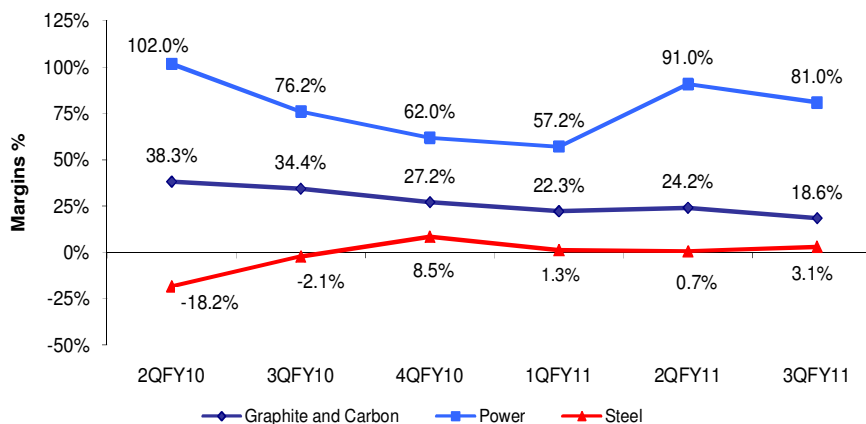


Electrodes volumes were up 34% YoY in 3QFY11. However, electrode sales realization per tonne declined significantly.

Source: Company Financials, ICRA Online Research

EBIT margin for steel segment has improved from negative 2.1% in 3QFY10 to 3.1% in 3QFY11. On the other hand, EBIT margin for graphite and carbon segment declined from 34.4% in 3QFY10 to 18.6% in 3QFY11 due to lower price realizations and higher input cost. However, higher EBIT margin from the power segment acted as a cushion in overall margin. Commencement of 55 MW power plant is likely to boost the company's future bottom-line due to high EBIT margin of the power segment.

Graphite and Carbon segment - EBIT margins decreased YoY



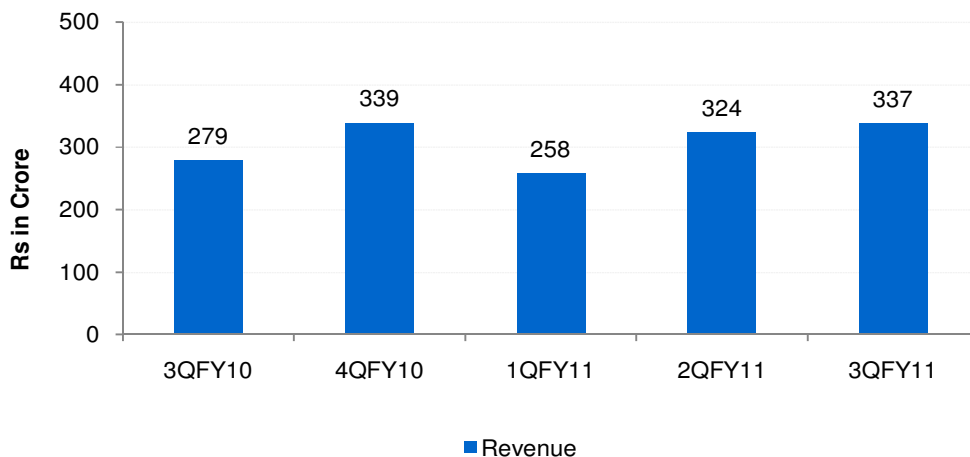
Source: Company Financials, ICRA Online Research

Global price outlook of Electrode

Electrode prices globally declined in the CY 2010 and CY2009 compared to CY2008. SGL Group, one of the leading producers of electrodes with a capacity of 2,50,000 tonnes per annum, started reducing its electrodes prices (both regular and extra size) for all the markets from mid-2009 onwards. SGL Group's electrode prices for Asian market declined 35.4% from mid-2008, when prices were at its highest. However, the declining trend came to an end after SGL announced a price hike of around 8% in February 2011. Similar price hike by Indian electrode manufacturers like Graphite could improve the margin in the fourth quarter provided the company is able to maintain its volume.

Revenue up by 21% in 3QFY11

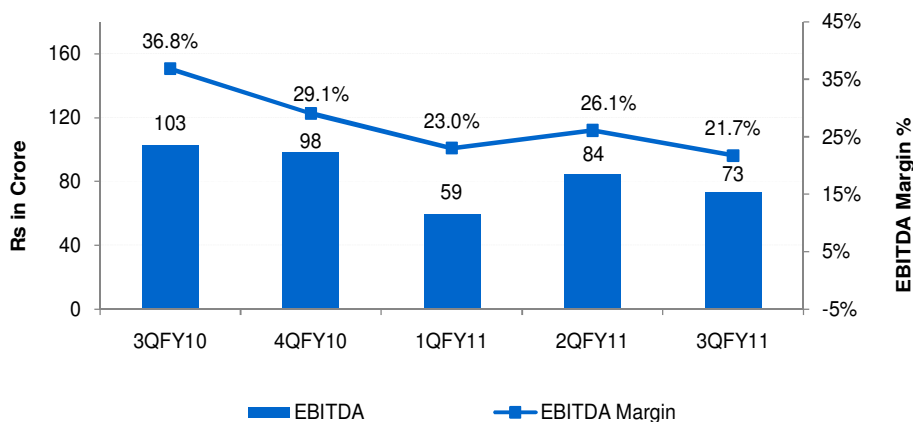
Lower price realization on YoY basis restricted revenue growth to 21% YoY



Source: Company Financials, ICRA Online Research

EBITDA margins went down to 21.7% YoY

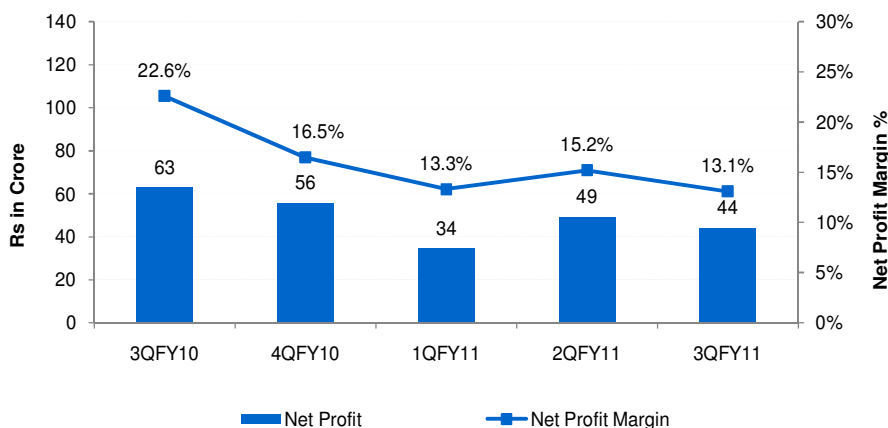
Continued moderation in realizations and rising input costs pulled down EBITDA margins by 15.13% YoY.



Source: Company Financials, ICRA Online Research

PAT down by 29.8% at Rs 44 crore

28.7% fall in EBITDA adversely affected the bottom line.



Source: Company Financials, ICRA Online Research

Summary Financials

Profit & Loss Statement (Standalone)

Particulars (Rs Crore)	3QFY11	3QFY10	2QFY11	YoY Gr%	QoQ Gr%	FY10	TTM
Net Sales	337.5	278.9	323.9	21.0%	4.2%	1131.2	1258.1
Other Op. Revenue	0.0	0.0	0.0			0.0	0.0
Total Income	337.5	278.9	323.9	21.0%	4.2%	1131.2	1258.1
Cost of Good Sold	(172.5)	(116.6)	(159.5)	47.9%	8.1%	(495.5)	(622.8)
Gross Profit	165.0	162.3	164.3	1.6%	0.4%	635.7	635.3
Employee Costs	(24.0)	(18.7)	(19.4)	28.5%	24.0%	(74.3)	(82.5)
Electricity Charges	(36.3)	(17.6)	(31.5)	106.7%	15.2%	(80.2)	(115.1)
Other Expenditure	(31.5)	(23.4)	(29.0)	34.8%	8.6%	(102.6)	(122.3)
EBITDA	73.2	102.7	84.5	-28.7%	-13.3%	378.7	315.4
Depreciation	(9.9)	(9.8)	(9.8)	1.2%	0.3%	(39.5)	(39.8)
EBIT	63.3	93.0	74.6	-31.9%	-15.1%	339.2	275.6
Interest	(0.9)	(1.7)	(0.9)	-48.8%	3.5%	(10.5)	(4.1)
Other Income	3.7	5.9	13.7	-37.1%	-72.8%	30.6	22.5
Exceptional Items	0.0	0.0	-12.7			0.0	(12.7)
PBT	66.2	97.2	74.7	-31.9%	-11.4%	359.3	281.3
Income Tax	(22.0)	(34.2)	(25.5)	-35.7%	-13.9%	(127.1)	(97.7)
Profit after Tax	44.2	63.0	49.2	-29.8%	-10.1%	232.2	183.6
Extra Ordinary Items	0.0	0.0	0.0			0.0	0.0
Others	0.0	0.0	0.0			0.0	0.0
Net Profit	44.2	63.0	49.2	-29.8%	-10.1%	232.2	183.6
Rep. Basic EPS	2.39	3.68	2.74			13.6	10.37
Rep. Diluted EPS	2.26	3.47	2.52			12.03	8.51
Equity Capital	39.1	34.2	39.1			34.3	39.1
Face value	2.0	2.0	2.0			2.0	2.0

Ratios

Particulars (Rs Crore)	3QFY11	3QFY10	2QFY11	YoY (bps)	QoQ (bps)	FY10	TTM
Margins							
Gross Margin (%)	48.9%	58.2%	50.7%	-930	-184	56.2%	50.5%
EBITDA Margin (%)	21.7%	36.8%	26.1%	-1513	-439	33.5%	25.1%
EBIT Margin (%)	18.8%	33.3%	23.0%	-1456	-427	30.0%	21.9%
Net Profit Margin (%)	13.1%	22.6%	15.2%	-948	-209	20.5%	14.6%
Valuation							
EPS	2.26	3.47	2.52			12.03	8.51
BVPS			71.4			69.01	
P/BV (x)			1.4			1.5	
P/E (x)						8.5	12.0
EV/ EBITDA (x)						5.0	6.0
EV/ Sales (x)						1.7	1.5

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