

Graphite India

Performance Highlights

Y/E March (₹ cr)	3QFY2012	2QFY2012	% chg (qoq)	3QFY2011	% chg (yoy)
Net sales	436	462	(5.5)	337	29.2
EBITDA	89	76	17.2	73	21.1
EBITDA (%)	20.3	16.4	395bp	21.7	(137)bp
PAT	56	42	34.1	44	27.1

Source: Company, Angel Research

For 3QFY2012, Graphite India's (GIL) top line came in at ₹436cr, registering 29.2% yoy growth. EBITDA margin contracted by 137bp yoy to 20.3%. EBITDA increased by 21.1% yoy to ₹89cr. PAT increased by 27.1% to ₹56cr on the back of higher revenue. Going ahead, the scenario is positive for the company, as it has started steel production again in June 2011 (post the shutdown) and is showing a strong rising trend. **We maintain our Buy view on the stock.**

Strong sales growth momentum continues: GIL reported strong sales growth in 3QFY2012. The company's revenue increased by 29.2% yoy to ₹436cr. The graphite segment, which contributed around 85.6% to the company's total revenue, registered strong growth of 27.1% yoy to ₹373cr, while the steel segment managed a 15.8% yoy increase to ₹30cr. Sequentially also, the steel segment's sales increased by 6.7% on the back of volume growth. The company's OPM declined by 137bp yoy to 20.3% due to increased raw-material cost, which grew to 54.2% as a percentage of sales vs. 51.1% in 3QFY2011. PAT increased by 27.1% yoy to ₹56cr. Despite a 137bp yoy contraction in OPM, PAT margin only declined by 21bp yoy to 12.9% due to lower tax provision and higher other income. Tax rate declined to 32.1% of PBT in 3QFY2012 vs. 33.2% of PBT in 3QFY2011, while other income increased by 96.8% to ₹7cr in 3QFY2012 vs. ₹4cr in 3QFY2011.

Outlook and valuation: We remain positive on the prospects of GIL, owing to strong demand from steel manufacturers. Realizations are also set to increase, as global players have hiked their prices recently. We expect GIL to post a 19.2% CAGR in revenue over FY2011–13E and PAT to witness a 17.7% CAGR over the same period. At the CMP, the stock is trading at attractive valuations of 0.9x its FY2013E BV, respectively. We have valued the stock at its five-year median of 1.1x one-year forward book value to arrive at a target price of ₹102. **We maintain our Buy recommendation on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net Sales	1,347	1,444	1,721	2,053
% chg	(10.1)	7.2	19.2	19.3
Net Profit	235	189	187	262
% chg	0.3	(19.5)	(1.3)	40.6
EBITDA Margin (%)	29.5	21.4	18.9	22.6
FDEPS (₹)	10.7	9.7	9.6	13.4
P/E (x)	7.8	8.7	8.8	6.2
P/BV (x)	1.1	1.1	1.0	0.9
RoE (%)	19.6	13.5	11.9	15.3
RoACE (%)	20.5	14.4	12.5	16.0
EV/Sales (x)	1.1	1.4	1.2	0.8
EV/EBITDA (x)	3.8	6.7	6.4	3.5

Source: Company, Angel Research

BUY

CMP	₹84
Target Price	₹102

Investment Period	12 Months
-------------------	-----------

Stock Info	
Sector	Capital Goods
Market Cap (₹cr)	1,636
Beta	0.8
52 Week High / Low	101/65
Avg. Daily Volume	33,862
Face Value (₹)	2
BSE Sensex	17,849
Nifty	5,416
Reuters Code	GRPH.BO
Bloomberg Code	GRIL@IN

Shareholding Pattern (%)	
Promoters	62.2
MF / Banks / Indian FIs	10.1
FII / NRIs / OCBs	15.6
Indian Public / Others	12.1

Abs.(%)	3m	1yr	3yr
Sensex	4.3	(1.9)	85.3
Graphite	13.2	(8.3)	207.9

Sharan Lillaney

+91 22 3935 7800 Ext: 6811

Sharanb.lillaney@angelbroking.com

Exhibit 1: 3QFY2012 performance

Y/E March (₹ cr)	3QFY2012	2QFY2012	% chg (qoq)	3QFY2011	% chg (yoy)
Net Sales	436.0	461.6	(5.5)	337.5	29.2
Consumption of RM	236.4	256.0	(7.7)	172.5	37.1
(% of Sales)	54.2	55.5	(125)	51.1	312
Staff Costs	26.3	22.3	18.1	24.0	9.5
(% of Sales)	6.0	4.8	121	7.1	(109)
Other Expenses	84.7	107.7	(21.4)	67.8	24.9
(% of Sales)	19.4	23.3	(390)	20.1	(66)
Total Expenditure	347.4	386.0	(10.0)	264.3	31.5
Operating Profit	88.6	75.6	17.2	73.2	21.1
OPM	20.3	16.4	395bp	21.7	(137)bp
Interest	3.2	2.5	28.4	0.9	264.8
Depreciation	9.9	9.9	0.5	9.9	0.7
Other Income	7.3	1.1	551.8	3.7	96.8
PBT (excl. Extr. Items)	82.8	64.3	28.7	66.2	25.1
Extr. Income/(Expense)	-	-	-	-	-
PBT (incl. Extr. Items)	82.8	64.3	28.7	66.2	25.1
(% of Sales)	19.0	13.9	-	19.6	-
Provision for Taxation	26.6	22.4	18.4	22.0	21.0
(% of PBT)	32.1	34.9	-	33.2	-
Reported PAT	56.2	41.9	34.1	44.2	27.1
PATM	12.9	9.1	381bp	13.1	(21)bp
Equity shares (cr)	19.5	19.5	-	17.1	-
EPS (₹)	2.9	2.1	34.1	2.6	11.2
Adjusted PAT	56.2	41.9	34.1	44.2	27.1

Source: Company, Angel Research

Segment-wise performance

During the quarter, the graphite and carbon segment posted a 27.1% yoy increase in its revenue to ₹373cr. The segment posted EBIT margin of 22.3%, up 377bp yoy and 635bp qoq.

The steel segment's sales increased by 15.8% yoy and 6.7% qoq to ₹30cr. The segment reported profit of ₹3.1cr at the EBIT level in 3QFY2012 compared to profit of ₹3.1cr in 3QFY2011.

The power segment posted an 11.7% yoy decline in revenue to ₹8cr. Generation of power at hydro electrical plants is seasonal in nature. EBIT margin for the segment came in at 73.8%, down 727bp yoy.

During the quarter, the company witnessed increased input costs other than needle coke. Average capacity utilization increased to 103% in 3QFY2012 from 84% in 3QFY2011.

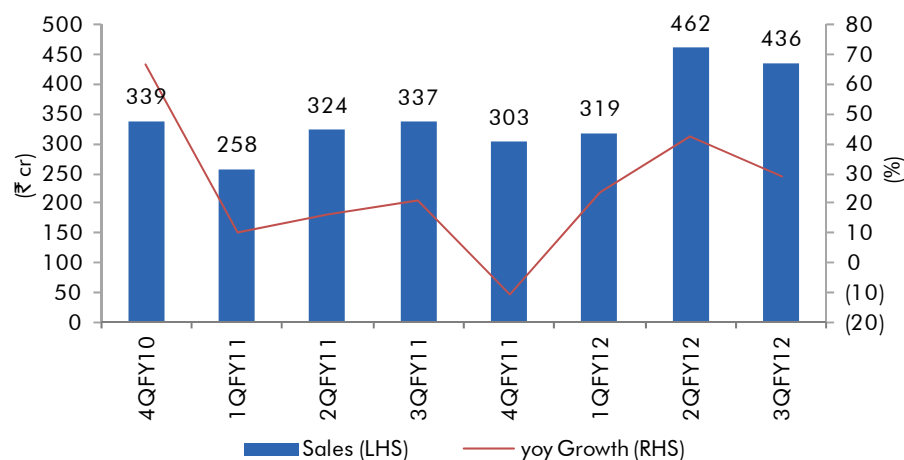
Exhibit 2: Segment-wise performance

Y/E March (₹ cr)	3QFY2012	2QFY2012	3QFY2011	% chg (qoq)	% chg (yoy)
Total Revenue					
A) Graphite & Carbon	373	398	294	(6.3)	27.1
B) Power	8	11	9	(31.0)	(11.7)
C) Steel	30	28	26	6.7	15.8
D) Others	37	38	21	(3.7)	72.2
Total	448	476	349	(5.9)	28.1
Less: Inter-Segmental Rev.	12	14	14	(17.5)	(17.5)
Net Sales	436	462	335	(5.5)	30.0
EBIT Margin (%)					
A) Graphite & Carbon	22.3	16.0	18.6	635bp	377bp
B) Power	73.8	88.1	81.0	(1,433)bp	(727)bp
C) Steel	3.1	4.4	3.1	(129)bp	6bp
D) Others	10.9	23.6	29.1	(1,267)bp	(1,818)bp

Source: Company, Angel Research

Strong revenue growth at 29.2% yoy

GIL has been maintaining a strong growth rate in its sales over the past few quarters. In 3QFY2012, the company's top line increased by 29.2% yoy to ₹436cr. The graphite segment, which contributed around 85.6% to the total revenue, registered strong growth of 27.1% yoy to ₹373cr, while the steel segment managed a 15.8% yoy increase to ₹30cr. Sequentially also, the steel segment's sales increased by 6.7% on the back of volume growth. This performance was primarily due to increased graphite electrode price realizations in rupee terms, coupled with significantly higher volumes. Electrode sales volumes increased by 19% yoy during the quarter. This increase was driven by the domestic as well as exports market. Export sales volumes in particular grew by 28% yoy during the quarter.

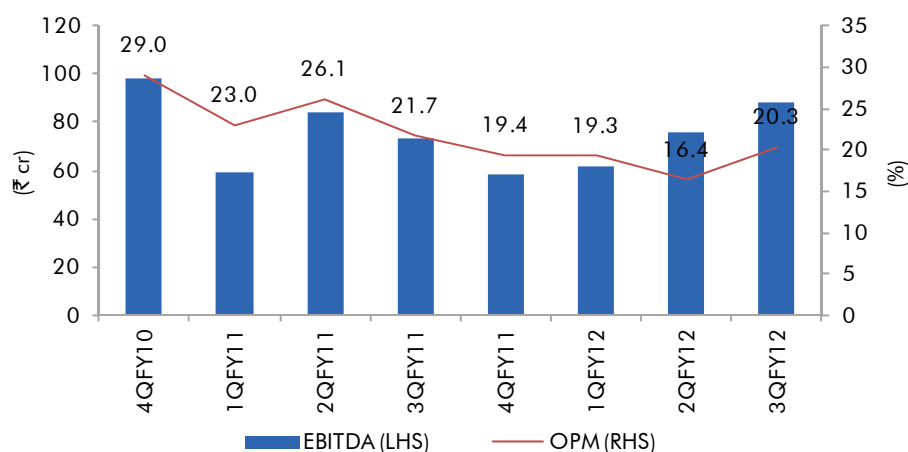
Exhibit 3: Sales trend


Source: Company, Angel Research

EBITDA improves but margin declines

The company's EBITDA increased by 21.1% yoy and 17.2% qoq to ₹89cr on the back of higher revenue during the quarter. OPM declined by 137bp yoy during the quarter to 20.3%. The decline was due to a substantial increase in raw-material costs during the quarter. We expect the company's OPM to increase in the coming quarters, with the steel division contributing to the top line again and currency stabilizing at current levels.

Exhibit 4: OPM trend

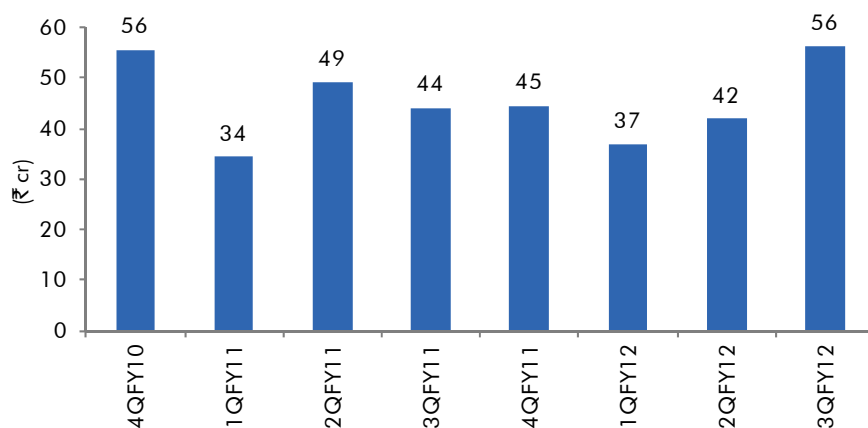


Source: Company, Angel Research

PAT up by 27.1% yoy

PAT increased by 27.1% yoy to ₹56cr. Despite a 137bp yoy contraction in OPM, PAT margin only declined by 21bp yoy to 12.9% due to lower tax provision and higher other income. Tax rate declined to 32.1% of PBT in 3QFY2012 vs. 33.2% of PBT in 3QFY2011, while other income increased by 96.8% to ₹7cr in 3QFY2012 vs. ₹4cr in 3QFY2011.

Exhibit 5: PAT trend



Source: Company, Angel Research

Investment arguments

GIL set to ride on the industry's rebound: The graphite electrodes industry is expected to grow faster, compared to EAF steel production over the next few years, as the de-stocking of graphite electrodes inventory at steel manufacturers' end is expected to reverse. GIL, with capacity expansion from 78,000mt/year to 98,000mt/year, to be completed by FY2012E, is well poised to reap the benefits of this growth. We expect GIL's market share to increase to 9.7% by FY2013E and top line to grow at a 19.2% CAGR over FY2011–13E due to this expansion.

Strong labor cost advantages: GIL has strong labor cost advantages compared to its global peers, as other companies have their plants at locations where labor costs are significantly higher compared to India. SGL Carbon SE, the largest global player, has plants located mainly across Europe and North America. GrafTech Ltd., the world's second largest player, has plants located in France, Spain, South Africa, Brazil and Mexico. In FY2011, GIL's employee cost was ~9% of sales, whereas it was almost 27% (CY2010) for SGL. Historically, GIL has passed on a part of this advantage to gain market share. However, with the rate of market share addition expected to slow down, we expect GIL to retain a larger part of this cost advantage and, thereby, improve its margins over historical average levels.

Strong entry barriers: The global graphite electrodes industry is characterized by a high level of consolidation, with the top six players accounting for over 70% of the world's total installed capacity. The balance capacity is owned by motley of small players. The highly consolidated nature of the industry is due to the barriers for new entrants. For instance, only the top global players have the technology to manufacture high-quality ultra high power (UHP) graphite electrodes. The industry is marked by a relationship and referral-based model. A new entrant has to prove the quality of its products by supplying to a steel manufacturer and then get referral and word-of-mouth publicity for the products from the manufacturer. Another barrier for new as well as some of the existing players is the high cost of setting up a greenfield graphite electrodes manufacturing facility.

Outlook and valuation

Global steel production scaled new highs in 2011 and is expected to grow further in the years to come, which bodes well for graphite electrode manufacturers as well. Global players are now operating at high utilization rates of ~75%. Recently, they have also announced price hikes that would allow GIL to follow suit and, hence, benefit GIL's margins. At the CMP, the stock is trading at attractive valuations of 0.9x FY2013E BV. We have valued the stock at its five-year median of 1.1x one-year forward book value to arrive at a target price of ₹102. **We maintain our Buy recommendation on the stock.**

Profit and loss (consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12E	FY13E
Gross sales	1,558	1,394	1,501	1,814	2,165
Less: Excise duty	60	47	57	93	112
Net Sales	1,498	1,347	1,444	1,721	2,053
Other operating income	-	-	-	-	-
Total operating income	1,498	1,347	1,444	1,721	2,053
% chg	12.6	(10.1)	7.2	19.2	19.3
Total Expenditure	1,135	950	1,136	1,396	1,590
Net Raw Materials	487	480	535	637	760
Other Mfg costs	381	243	358	433	460
Personnel	135	122	131	158	191
Other	132	105	112	168	180
EBITDA	363	397	308	324	463
% chg	30.8	9.3	(22.3)	5.2	42.9
(% of Net Sales)	24.2	29.5	21.4	18.9	22.6
Depreciation & Amortisation	44	50	49	54	64
EBIT	319	347	260	270	399
% chg	34.9	8.7	(25.1)	4.0	47.8
(% of Net Sales)	21.3	25.7	18.0	15.7	19.4
Interest & other Charges	35	14	8	26	42
Other Income	25	32	34	34	34
(% of PBT)	8.2	8.8	12.0	12.4	8.8
Share in profit of Associates	-	-	-	-	-
Recurring PBT	309	365	286	279	392
% chg	38.6	17.9	(21.4)	(2.7)	40.6
Extraordinary Expense/(Inc.)	58	1	13	-	-
PBT (reported)	251	364	274	279	392
Tax	18	129	85	92	129
(% of PBT)	7.3	35.5	30.9	33.0	33.0
PAT (reported)	233	235	189	187	262
Add: Share of earnings of associate	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	(1)	-	-	-	-
PAT after MI (reported)	233	235	189	187	262
ADJ. PAT	234	235	189	187	262
% chg	64.5	0.3	(19.5)	(1.3)	40.6
(% of Net Sales)	15.6	17.4	13.1	10.8	12.8
Basic EPS (₹)	15.1	13.7	9.7	9.6	13.4
Fully Diluted EPS (₹)	11.5	10.7	9.7	9.6	13.4
% chg	43.9	(6.6)	(9.6)	(1.3)	40.6

Balance sheet (consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS					
Equity Share Capital	34	34	39	39	39
Preference Capital	-	-	-	-	-
Reserves & Surplus	1,085	1,249	1,483	1,589	1,772
Shareholders' Funds	1,119	1,283	1,522	1,629	1,811
Minority Interest					
Total Loans	528	324	341	701	701
Deferred Tax Liability (Net)	62	74	62	71	71
Total Liabilities	1,709	1,681	1,924	2,400	2,583
APPLICATION OF FUNDS					
Gross Block	995	1,010	1,047	1,247	1,467
Less: Acc. Depreciation	435	485	534	588	652
Net Block	559	524	513	658	814
Capital Work-in-Progress	14	20	103	232	15
Goodwill	-	-	-	-	-
Investments	101	187	225	225	225
Current Assets	1,336	1,230	1,448	1,709	2,011
Cash	177	80	48	42	24
Loans & Advances	132	119	146	175	208
Inventories	695	729	906	1,079	1,288
Debtors	318	291	339	404	482
Other	14	11	9	9	9
Current liabilities	301	281	364	425	483
Net Current Assets	1,035	949	1,084	1,284	1,528
Mis. Exp. not written off	-	-	-	-	-
Total Assets	1,709	1,681	1,924	2,400	2,583

Cash flow statement (consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12E	FY13E
Profit before tax	251	364	274	279	392
Depreciation	44	50	49	54	64
(Inc.)/ Dec. in Working Capital	(114)	(9)	(170)	(209)	(262)
Less: Other income					
Direct taxes paid	18	129	85	92	129
Cash Flow from Operations	163	276	68	32	65
(Inc.)/ Dec. in Fixed Assets	(165)	(21)	(119)	(330)	(2)
(Inc.)/ Dec. in Investments	5	(86)	(38)	-	-
(Inc.)/ Dec. in loans and advances	-	-	-	-	-
Other income	-	-	-	-	-
Cash Flow from Investing	(160)	(108)	(157)	(330)	(2)
Issue of Equity	4	3	129	-	-
Inc./ (Dec.) in loans	(91)	(204)	17	360	-
Dividend Paid (Incl. Tax)	60	70	80	80	80
Interest paid					
Others	254	7	(8)	11	
Cash Flow from Financing	108	(265)	58	291	(80)
Inc./ (Dec.) in Cash	111	(97)	(32)	(6)	(18)
Opening Cash balances	66	177	80	48	42
Closing Cash balances	177	80	48	42	24

Key ratios (consolidated)

Y/E March	FY09	FY10	FY11	FY12E	FY13E
Valuation Ratio (x)					
P/E (on FDEPS)	7.3	7.8	8.7	8.8	6.2
P/E (on basic, reported EPS)	5.5	6.1	8.7	8.8	6.2
P/CEPS	5.2	5.0	6.9	6.8	5.0
P/BV	1.3	1.1	1.1	1.0	0.9
Dividend yield (%)	3.6	4.2	4.2	4.2	4.2
Market cap. / Sales	1.0	1.1	1.1	1.0	0.8
EV/Sales	1.0	1.1	1.4	1.2	0.8
EV/EBITDA	4.1	3.8	6.7	6.4	3.5
EV / Total Assets	0.9	0.9	1.1	0.9	0.6
Per Share Data (₹)					
EPS (Basic)	15.1	13.7	9.7	9.6	13.4
EPS (fully diluted)	11.5	10.7	9.7	9.6	13.4
Cash EPS	16.2	16.6	12.2	12.3	16.7
DPS	3.0	3.5	3.5	3.5	3.5
Book Value	55.1	58.5	77.9	83.3	92.7
DuPont Analysis (%)					
EBIT margin	21.3	25.7	18.0	15.7	19.4
Tax retention ratio	92.7	64.5	69.1	67.0	67.0
Asset turnover (x)	1.0	1.0	0.9	0.8	0.9
ROCE (Post Tax)	20.7	15.8	10.9	8.5	11.5
Cost of Debt (Post Tax)	5.7	2.2	1.6	3.4	4.0
Leverage (x)	0.3	0.1	0.0	0.2	0.2
Operating ROE	25.3	17.5	11.2	9.3	13.3
Returns (%)					
ROCE (Pre-tax)	20.2	20.5	14.4	12.5	16.0
ROCE (Post-tax)	1,876.3	1,320.3	995.0	836.5	1,073.1
ROIC	1,935.6	1,548.7	1,081.7	840.9	1,134.0
Angel ROIC	22.5	24.9	16.8	14.2	17.2
ROE	25.0	19.6	13.5	11.9	15.3
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.6	1.3	1.4	1.5	1.5
Asset Turnover (Net Block)	2.7	2.5	2.8	2.9	2.8
Asset Turnover (Total Assets)	1.0	0.8	0.8	0.8	0.8
Operating Income / Invested Capital	1.1	1.0	0.9	0.9	0.9
Inventory / Sales (days)	150	193	207	211	210
Receivables (days)	89	83	80	79	79
Payables (days)	77	79	71	72	75
Working capital cycle (ex-cash) (days)	194	234	241	242	244
Solvency ratios (x)					
Gross debt to equity	0.5	0.3	0.2	0.4	0.4
Net debt to equity	0.2	0.0	-	0.3	0.2
Net debt to EBITDA	0.7	0.1	-	1.3	1.0
Interest Coverage (EBIT / Interest)	9.1	24.0	33.5	10.4	9.5

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Graphite India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
---------------------------	------------------------------------	---	--------------------