January 30, 2024

Graphite India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term-Fund Based	600.00	600.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Long Term / Short Term-Fund Based/Non Fund Based-Others	400.00	400.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Long Term / Short Term-Non Fund Based-Others	400.00	400.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Commercial Paper^	300.00	300.00	[ICRA]A1+; reaffirmed
Total	**1700.00**	**1700.00**	

**Instrument details are provided in Annexure-I; ^ Not Yet Placed*

Rationale

The ratings reaffirmation considers Graphite India Limited's (GIL) established position in the global graphite electrode (GE) industry, geographically diversified customer base and its superior technical capabilities in manufacturing GEs of various grades. In addition, economies of scale arising out of GIL's position as one of the largest manufacturers of GE on a global scale continues to favourably support the ratings. In FY2024, GIL's operating profitability has been adversely impacted because of a fall in realisation of GE globally. Moreover, GIL has taken a hit on the profits on account of Net realisation value (NRV) impact on inventory valuation, resulting in operating losses during H1FY2024. ICRA notes that despite an improvement in profits expected in H2FY2024, overall profitability is expected to remain under pressure in FY2024. However, a conservative capital structure and strong liquidity position of over ~Rs. 3,179 crores as on September 30, 2023 provides comfort. Also, a healthy non-operating income arising from large cash and investment balances will continue to support the overall cash flows of the entity. ICRA also notes that GIL has earned an exceptional profit of ~Rs. 954 crore owing to sale of land in Q2 FY2024. With the rundown of the high-cost inventory by FY2024, the profitability is expected to improve from the next fiscal. Also, with closure of German operations in FY2023, the losses from overseas operations are also expected to subside, going forward. Moreover, the long-term demand prospects of GE remain favourable, given the expected increase in the share of electric arc furnace (EAF) in global steel production in the medium-to-long term.

The ratings, however, also factor in the company's exposure to the cyclicality in the steel business and to the risks arising from volatility in the costs of input materials, including power. While GE is used as a consumable in steel production through the EAF route, the primary raw materials used in GE production are crude oil derivatives. Therefore, GIL, along with other GE manufacturers, is exposed to the cyclicality of steel and crude prices. Additionally, GIL's low product diversification is a risk, exposing the company's cash flows to the supply-demand situation of the global GE industry and high working capital intensity of operations. ICRA notes that inventory levels are high on account of lower sales due to subdued demand in the industry, resulting in higher working capital requirements, which are likely to rationalise by end FY2024.

The Stable outlook on [ICRA]AA+ rating reflects ICRA's opinion that GIL's cash flows are expected to remain comfortable relative to its debt service obligations and will continue to benefit as a leading manufacturer of GE in the domestic as well as export markets, amid favourable long term demand outlook.

Key rating drivers and their description

Credit strengths

Strong liquidity position and conservative capital structure – GIL has a highly conservative capital structure, as indicated by a consolidated gearing of 0.1 times as on March 31, 2023. Additionally, the consolidated entity has a large cash and liquid investment balance of over ~Rs. 3,179 crore as on September 30, 2023, generating substantial non-operating income, which provides strong financial flexibility to the company, even in case of lower profits.

Established player in the global GE industry with superior technical capabilities – GIL is the among the largest non-Chinese GE manufacturers globally with an installed capacity of around 80,000 mtpa (reduced from ~98,000 MTPA in FY2023 due to shutdown of German operations). GIL manufactures full range of graphite electrodes, but stays focused on the higher margin, large diameter, ultra-high power (UHP) electrodes.

Geographically diversified customer base – GIL has a geographically diversified customer base with significant presence in domestic as well as export markets. In India, GIL is among one of the largest GE producers. Its exports destinations are also diversified across various countries in the Middle East, Europe, the US and South East Asia.

Favourable long-term demand outlook – GE is used as a consumable in manufacturing of steel via the EAF route. With more thrust on reducing the carbon footprint globally, steel manufactured via the less polluting EAF route is expected to increase in the medium-to-long term, favourably supporting the demand for GE. Thus, the medium-to-long-term demand outlook for GE remains favourable.

Credit challenges

Adverse impact on profitability in the current year, however, large non-operating income will support cash flow – In FY2024, GIL's operating profitability has been adversely impacted because of a fall in realisation of GE globally. GIL has taken inventory losses in H1 FY2024, resulting in operating losses for the same period. However, with slight improvement expected in H2 FY2024 and better performance in other divisions, such as carbon steel and IGE, the company expects to report modest operating profits for the full fiscal. Also, a healthy non-operating income on large investment balances will continue to support the overall cash flows of the entity. ICRA also notes that GIL has earned an exceptional profit of ~Rs. 954 crore via sale of land in Q2 FY2024.

Exposed to volatility in global steel industry – GIL remains exposed to the volatility in the global steel industry, particularly to the health of steel producers, which manufacture through the EAF route. Moreover, the key raw material used for producing UHP grade electrode is a crude oil derivative, thus exposing the company to fluctuations in crude oil prices.

Highly working capital intensive nature of operations – GIL's business is highly working capital intensive because of the long processing period for manufacturing GEs, as indicated by NWC/OI of ~68% in FY2023. In the last two years, inventory levels remained highly elevated with inventory days of 321 in FY2023 owing to increasing prices and lower sales volumes. However, GIL has undertaken devaluation of inventory levels in H1 FY2024 and further rationalisation of inventory is expected by FY2024 end, supporting the working capital requirements to an extent.

Low product diversification as sale of graphite electrodes remains the principal revenue earner – GIL has a low product diversification as over 90% of the company's revenue and operating profits are generated from the sale of GE. The GE industry has witnessed significant volatility in the past and such volatility is likely to persist, thus impacting the cash flows of the company.

Liquidity position: Strong

GIL's liquidity is strong with healthy consolidated cash and investment surplus of ~Rs. 3,179 crore as on September 30, 2023. ICRA notes that GIL has earned ~Rs. 954 crore exceptional profit via sale of land in the current year, further supporting the liquidity position. Going forward, cash accruals from business operations, income from investments, moderate capex plans, and no long-term debt commitments support its liquidity. GIL will be able to comfortably meet its commitments through internal accruals and still be left with significant cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the company is able to significantly diversify its cash flows along with a significant improvement in operating profits and cash flows. Specific trigger could be RoCE above 25% on a sustained basis.

Negative factors – The company's ratings could be downgraded in case of a prolonged downturn in GE prices, leading to a sustained weak contribution margin. Further, weakening of the liquidity position due to large outflow of cash in the form of dividends or any large capex could also be a trigger for ratings downgrade.

Environmental and social risks

Environmental considerations: GIL manufactures carbon, graphite and other products and thus remains exposed to several environmental risks, especially related to carbon emissions. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs in the medium term. This in turn leads to a greater focus on reducing the carbon footprint through various technological interventions like replacing fossil fuel with gas as well as using renewable energy resources as part of its ongoing efforts to reduce greenhouse gas emission. GIL has also undertaken various energy efficiency initiatives to reduce specific energy consumption in the graphitisation process. The company also focuses on sustainable operations through waste reutilisation, with 50% reduction in water usage achieved in the Durgapur plant through recycling of water.

Social considerations: Social risks manifest from health and safety aspects of employees involved in the manufacturing activities. Casualties/ accidents at the operating units due to gaps in safety practices could lead to production outages and invite penal actions from regulatory bodies. The sector is exposed to risks related to labour and protests/social issues by local communities, which might impact expansion/modernisation plans. Internal safety audits in the plants are conducted at regular frequency to mitigate the same. In addition, the company continuously imparts training across all levels for skill development of the concerned employees. As a part of its CSR activities, the company has initiated projects aimed at promoting education, enhancing vocational skills, improving livelihood, undertaking healthcare initiatives, ensuring rural development etc.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GIL. As on March 31, 2023, the company had two subsidiaries, and five step-down subsidiaries, which are all enlisted in Annexure-2.

About the company

Graphite India Limited (GIL) is a Kolkata-based company from the K.K. Bangur Group, which is engaged in the production of graphite electrodes, other miscellaneous graphite and carbon products and related processing with a total capacity of ~80,000 MTPA. At present, the company has two operating plants at Durgapur (West Bengal) and Nashik (Maharashtra). Its 18,000-MTPA capacity in Germany has been shut down since FY2023. In addition, the company manufactures glass reinforced plastic (GRP) pipes and high-speed steel and alloy steel. The company's graphite and carbon segment continue to be the main source of revenue and profit, accounting for 85-90% of the total revenues.

Key financial indicators (audited)

GIL Consolidated	FY2022	FY2023	H1 FY2024
Operating income	2,988.0	3,180.3	1,540.0
PAT	520.6	252.1	772.0
OPBDIT/OI	14.9%	9.9%	-7.9%
PAT/OI	17.4%	7.9%	50.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.3
Total debt/OPBDIT (times)	1.0	1.3	-1.4
Interest coverage (times)	97.7	23.9	-12.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Jan 30, 2024	Jan 11, 2023	Jan 4, 2022	Nov 15, 2021	Sep 07, 2020
1	**Fund Based**	Long term and short term	600.00	--	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+
2	**Fund Based/Non Fund Based-Others**	Long term and short term	400.00	--	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+
3	**Non Fund Based-Others**	Long term and short term	400.00	--	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-
4	**Commercial Paper**	Short term	300.00	--	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term-Fund Based	Simple
Long Term/Short Term-Fund Based/Non Fund Based-Others	Simple
Long Term/Short Term-Non Fund Based-Others	Very Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term / Short Term-Fund Based	NA	NA	NA	600.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Long Term / Short Term-Fund Based/Non Fund Based-Others	NA	NA	NA	400.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Long Term / Short Term-Non Fund Based-Others	NA	NA	NA	400.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Commercial Paper^	NA	NA	NA	300.00	[ICRA]A1+

Source: Company; ^ Not Yet Placed

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis

Company Name	GIL Ownership	Consolidation Approach
Graphite India Limited	100.00% (rated entity)	Full Consolidation
Carbon Finance Limited	100% (Subsidiary)	Full Consolidation
Graphite International B.V.	100% (Subsidiary)	Full Consolidation
Bavaria Electrodes GmbH	100% (Step down Subsidiary)	Full Consolidation
Bavaria Carbon Holdings GmbH	100% (Step down Subsidiary)	Full Consolidation
Bavaria Carbon Specialities GmbH	100% (Step down Subsidiary)	Full Consolidation
Graphite Cova GmbH	100% (Step down Subsidiary)	Full Consolidation
General Graphene Corporation	100% (Step down Subsidiary)	Full Consolidation

Source: GIL annual report FY2023

Note: ICRA has taken a consolidated view of the parent (GIL), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

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For more information, visit www.icra.in

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