ICRA

January 11, 2023 (Revised)

Graphite India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	600	600	[ICRA]AA+(Stable)/[ICRA]A1+ reaffirmed
Non-fund-based facilities	400	400	[ICRA]AA+(Stable)/[ICRA]A1+ reaffirmed
Fund based/Non fund based	400	400	[ICRA]AA+(Stable)/[ICRA]A1+ reaffirmed
Commercial Paper Programme	300	300	[ICRA]A1+ reaffirmed
Total	**1,700**	**1,700**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the strong liquidity position and comfortable debt protection metrics of Graphite India Limited (GIL) despite an expected decline in the operating profits in the current year. In FY2023, the financial performance of GIL is likely to be impacted due to lower demand of graphite electrodes (GE) from steel mills using electric arc furnace (EAF) route, resulting in lower realisation, which is further exacerbated by higher cost of production. ICRA notes that GIL had shut down its German operations in Q2 FY2023 owing to unfavourable costs. Further, the high-cost inventory is likely to result in tepid financial performance in H2 FY2023. However, the company's overall financial profile continues to remain strong because of its highly conservative capital structure and strong liquidity position with a consolidated net cash and liquid investment balance of over Rs. 2,500 crore as on September 30, 2022 that provides a high degree of financial flexibility to the company, even in case of lower profits. Moreover, the long-term demand prospects of GE remain favourable, given the expected increase in the share of EAF in global steel production in the medium-to-long term. The reaffirmation of the ratings continues to factor in GIL's established position in the global 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 and its competitive cost structure on a global scale continue to favourably impact the ratings.

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.

The Stable outlook indicates that GIL will continue to benefit from its established position as a leading manufacturer of GE in the domestic as well as export markets.

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, 2022. Additionally, the consolidated entity has a large cash and liquid investment balance of over ~Rs. 2,500 crore as on September 30, 2022, 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 third largest non-Chinese GE manufacturer globally with an installed capacity of around 98,000 mtpa. 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 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

Subdued profitability in the current year, however, large non-operating income will support cash flow – In the current year, operating profits are likely to be subdued due to lower sales volumes on account of weak demand expected in the near term. Weak market demand has led to a moderation in realisations, while the cost of production remains high. This would result in a significant decline in the operating profit in H2 FY2023. However, non-operating income arising from its large cash and investment balance is expected to support the overall cash flows.

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 FY2022. In the last two years, inventory levels are highly elevated with inventory days of 272 in FY2022 and 328 in H1 FY2023 owing to increasing prices and lower sales volumes.

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 near past and such volatility is likely to persist, albeit at a reduced level.

Liquidity position: Strong

GIL's liquidity is strong with healthy consolidated cash and investment surplus of over Rs. 2,500 crore as on September 30, 2022. Further, steady cash accruals from business operations, income from investments, modest 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 meaningfully diversify its cash flows along with a significant improvement in operating profits and cash flows. Specific trigger could be RoCE > 25% on a sustained basis.

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

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, 2022, 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 manufactures and sells graphite electrodes. At present, the company has two operating plants at Durgapur (West Bengal) and Nashik (Maharashtra). GIL is the leading graphite electrode manufacturer in the domestic market, and along with its German subsidiary, Cova, as on date, is the fourth largest non-Chinese electrode manufacturer globally with a combined manufacturing capacity of 98,000 tonnes per annum (tpa). However, the German operations had shut down in Q2FY2023.

Key financial indicators (audited)

GIL Consolidated	FY2021	FY2022	H1 FY2023
Operating income	1933.0	2988.0	1685.0
PAT	-22.0	520.6	116.0
OPBDIT/OI	-7.1%	14.9%	14.4%
PAT/OI	-1.1%	17.4%	6.9%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	0.3
Total debt/OPBDIT (times)	-1.6	1.0	0.9
Interest coverage (times)	-22.6	97.7	40.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
					Jan 11, 2023	Jan 4, 2022	Nov 15, 2021	Sep 07, 2020	Mar 30, 2020	Apr 30, 2019
1	Fund-based facilities	LT/ST	600.0	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+	[ICRA]AA+ (Negative) /[ICRA]A1+	[ICRA]AA+ (Stable) /[ICRA]A1+
2	Non-fund-based facilities	LT/ST	400.0	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	Fund based/Non fund based	LT/ST	400.0	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	[ICRA]AA+ (Stable)/ [ICRA]A1+				

4	Commercial Paper Programme	ST	300.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+ withdrawn
5	Non-Convertible Debenture	LT							[ICRA]AA+(Stable) withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities	Simple
Non-fund-based facilities	Very Simple
Fund based/Non fund based	Simple
Commercial Paper Programme	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	Fund based facilities	-	-	-	600.0	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Non-fund-based facilities	-	-	-	400.0	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Fund based/Non fund based	-	-	-	400.0	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Commercial Paper Programme	Not yet placed			300.0	[ICRA]A1+

Source: Company

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% (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	51.81% (Step down subsidiary)	Full Consolidation

Source: GIL annual report FY2022

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

Corrigendum:

Document dated January 11, 2023, has been corrected with revisions as detailed below:

- In Pg 3, analytical approach table, rating methodology for entities in ferrous metal industry has been removed.

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