

November 15, 2021 ^{Revised}

Graphite India Limited: Ratings reaffirmed, outlook revised to Stable; rating assigned to the CP programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	600	600	[ICRA]AA+/[ICRA]A1+ reaffirmed; Outlook revised to Stable from Negative
Non-fund-based facilities	400	400	[ICRA]AA+/[ICRA]A1+ reaffirmed; Outlook revised to Stable from Negative
Commercial Paper Programme	0	300	[ICRA]A1+ assigned
Total	1,000	1,300	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook factors in the significant improvement in the financial performance of Graphite India Limited (GIL) in H1 FY2022, driven by an increase in the graphite electrodes (GE) prices globally, which is expected to remain firm in H2 FY2022. Going forward, 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 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. 2,600 crore as on September 30, 2021 that provides a high degree of financial flexibility to the company, even in a scenario of lower GE prices. 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 (along with its German subsidiary, Cova) 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 cyclicity in the steel business and to the risks arising from the unavailability of key raw materials and volatility in the costs of input materials. While GE is used as a consumable in steel production through the electric arc furnace (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 cyclicity 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.

Key rating drivers and their description

Credit strengths

Material improvement in financial performance expected in FY2022 – The financial performance of GIL has witnessed a sharp improvement in H1 FY2022, which is further expected to improve in H2 FY2022, aided by favourable GE prices. The GE prices have increased in the past few months, driven by a demand revival in the end-user industries and are expected to remain firm in the near term. The operating profitability (OPM) and debt-coverage indicators improved, as reflected by an OPM of ~19.2% and an interest coverage of 250 times in H1 FY2022, against an operating loss of ~7.1% in FY2021.

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.

Healthy financial profile along with strong liquidity position – GIL has a highly conservative capital structure as indicated by a consolidated gearing of 0.05 times as on March 31, 2021. The consolidated entity had a large cash and liquid investment balance of over ~Rs. 2,600 crore as on September 30, 2021, which provides strong financial flexibility to the company.

Established player in the global GE industry with superior technical capabilities and competitive cost structure – GIL, along with its subsidiary Cova, is the third largest non-Chinese GE manufacturer globally and accounts for around 14% of the GE market with an installed capacity of around 98,000 mtpa. GIL has the technical capability to manufacture GE of large diameters. ICRA estimates that GIL's manufacturing lines, particularly in Durgapur, are among the low-cost GE manufacturing lines, globally. The superior cost structure provides resilience to the company against volatility in GE prices globally.

Geographically diversified customer base – GIL has a geographically diversified customer base and exports GE to the Middle East, Europe, the US and South East Asia.

Credit challenges

Exposed to volatility in global steel industry – GIL remains exposed to the volatility in the global steel industry, particularly to the health of the steel producers, manufacturing through the EAF route.

Highly working capital-intensive nature of operations – GIL's business is highly working capital intensive because of the long processing period for manufacturing GEs.

Global shortage of key raw materials, calcined needle coke – GIL is exposed to the risks arising from the global shortage of the key raw material, calcined needle coke (CNC), which is required to manufacture ultra-high power (UHP) grade GE. While global demand-supply of CNC is adequate at present, any material increase in the capacity utilisation of global GE producers, would lead to tightness.

Low product diversification as sale of graphite electrodes remains the principal revenue earner – GIL has a low product diversification as over 95% of the company's revenue and entire 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. 2,600 crore as on September 30, 2021. Further, healthy cash accruals from business operations, no major capex plans, and no long-term debt commitments support liquidity. GIL will be able to comfortably meet its commitments through internal accruals and still 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 from the volatile GE industry along with stabilisation of operating profits and cash flows at a strong level. Specific trigger could be RoCE > 25% on a sustained basis.

Negative factors – The company's ratings can 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 margins could also be a trigger for ratings downgrade

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GIL. As on March 31, 2021, GIL had five subsidiaries and one associate company.

About the company

Graphite India Limited (GIL) is a Kolkata-based company from the K.K. Bangur Group, which is involved in manufacturing and selling of 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).

On a standalone basis, GIL report a net profit of Rs. 199 crore on an operating income of Rs. 1,838.6 crore in FY2021 and a PAT of Rs. 297 crore on an OI of Rs. 1,197 crore in H1 FY2022.

Key financial indicators (audited)

GIL Consolidated	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	3090.7	1933.0	1302.0
PAT (Rs. crore)	51.9	-22.0	289.0
OPBDIT/OI (%)	-2.7%	-7.1%	19.2%
PAT/OI (%)	1.7%	-1.1%	22.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	
Total Debt/OPBDIT (times)	-5.1	-1.6	0.6
Interest Coverage (times)	-4.6	-22.6	250.0

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 (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in Nov 15, 2021	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
							Mar 30, 2020	Apr 30, 2019	
1	Fund-based facilities	Long-term and short term	600.0	258.0	[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	Long-term and short term	400.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	
3	Commercial Paper Programme	Short term	300.0	-	[ICRA]A1+			[ICRA]A1+ withdrawn	
4	Non-Convertible Debenture	Long term						[ICRA]AA+(Stable) withdrawn	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities	Simple
Non-fund-based facilities	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 analyzing 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, is available on ICRA's website: [Click Here](#).

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Fund-based facilities	-	-	-	600.0	[ICRA]AA+(Stable)/[ICRA]A1+
-	Non-fund-based facilities	-	-	-	400.0	[ICRA]AA+(Stable)/[ICRA]A1+
-	Commercial Paper	Not yet placed			300.0	[ICRA]A1+

Source: Company

Annexure-2: 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 (India)	100%	Full Consolidation
Graphite International B.V. (Netherlands)	100%	Full Consolidation
Bavaria Electrodes GmbH (Germany)	100%	Full Consolidation
Bavaria Carbon Holdings GmbH (Germany)	100%	Full Consolidation
Bavaria Carbon Specialities GmbH (Germany)	100%	Full Consolidation
General Graphene Corporation (US)	39.43%	Equity Method

Source: GIL annual report FY2021

Note: ICRA has considered the consolidated profile of GIL while carrying out credit analysis.

Corrigendum:

Document dated November 15, 2021 has been corrected with revisions as detailed below:

- In Annexure 2 in Page 4, table heading has been changed to “GIL Ownership” from “LTHL Ownership”.
- Note below Annexure 2 in Page 4 has been revised as “*ICRA has considered the consolidated profile of GIL while carrying out credit analysis*” from “*ICRA has taken a consolidated view of the parent (GIL), its subsidiaries and associates while assigning the ratings*”.

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