Graphite India Limited

April 30, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	450	600	[ICRA]AA+ (Stable)/A1+; Reaffirmed
Non-fund-based facilities	270	400	[ICRA]AA+ (Stable)/A1+; Reaffirmed
Non-convertible debenture (NCD)	100	-	[ICRA]AA+(Stable); Withdrawn
Commercial Paper/ Short-term debt	70	-	[ICRA]A1+; Withdrawn
Total	**890**	**1,000**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers the continued strong improvement in GIL's business returns and cash flows in 9M FY2019 (after FY2018) because of a sharp increase in global graphite electrode (GE) prices. ICRA notes that the increase in GE prices was a result of healthy demand of GE required for steel production through the electric arc furnace (EAF) route, against limited incremental supplies. The global GE industry had undertaken consolidation during FY2012-FY2017 with the merger of major players, as well as capacity cutbacks of ~0.2 MMT, which resulted in tight supply situation in the market. While the supply scenario has improved a bit in FY2019 because of an increasing supply of GE from China, the overall supply-demand situation remains tight. ICRA also takes cognisance of the shortage of calcined needle coke (CNC), the key raw material required to manufacture ultra-high power (UHP) grade GE in the global market, which would mitigate the risk of a sudden increase in GE supplies, extending the current dynamics of the market in the near term.

The ratings continue to factor in GIL's established position in the global GE industry, geographically diversified customer base and its superior technical capabilities. 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 company's overall financial profile continues to remain strong because of its highly conservative capital structure and strong liquidity profile.

The ratings, however, also factor in the company's exposure to the cyclicality in the steel business and to the risks arising from the volatility in the costs of input materials. 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 the 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. While reaffirming the ratings, ICRA has taken note of the shutdown of GIL's Bangalore plant. The shutdown in ICRA's opinion is unlikely to have any material impact on the performance of the company since GIL has already increased production by way of debottlenecking in Durgapur and Nashik, which would compensate for the loss of production from Bangalore plant.

The long-term rating of [ICRA]AA+ (Stable) assigned to GIL's non-convertible debenture programme and the short-term rating of [ICRA]A1+ assigned to its commercial paper programme have been withdrawn as per the request of the company as there is no amount outstanding against the rated instruments.

Outlook: Stable

ICRA believes that GIL would continue to benefit from its position as one of the leading suppliers of GE in the global market. The outlook may be revised to Positive if the company is able to materially and profitably diversify its product portfolio on a sustained basis and / or the current demand supply dynamics of the global GE industry persists over a long-time period. The outlook may be revised to Negative if there is any significant reversal of the market scenario on a sustained basis, leading to a sharp fall in GE prices, thus impacting its cashflows.

Key rating drivers

Credit strengths

Established player in the global graphite electrode (GE) industry – GIL, along with its subsidiary Cova, is the fourth largest non-Chinese graphite electrode (GE) manufacturer globally and accounts for around 13% of the GE market with an installed capacity of around 98,000 mtpa.

Comfortable capital structure and liquidity profile – GIL has a comfortable capital structure as indicated by a standalone gearing of 0.06 times as on December 31, 2018. The company had a large cash and liquid investment balance of ~Rs. 2,342 crore on the said date, which provides strong financial flexibility to the company.

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.

Superior technical capabilities and competitive cost structure – GIL has the technical capability to manufacture GE of large diameters. ICRA estimates that GIL's manufacturing lines, particularly in Durgapur is among the low-cost GE manufacturing lines, globally. The superior cost structure provides resilience to the company against volatility in GE prices globally.

Favourable demand supply dynamics in the global graphite electrode market – GIL benefits from the healthy demand for GE, globally. Moreover, capacity cuts undertaken by leading players in the last five years or so, provides a favourable demand supply balance for GE manufacturers at present.

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 electric arc furnace (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 material, calcined needle coke– GIL is exposed to the global shortage of the key raw material, Calcined Needle Coke (CNC), to manufacture ultra-high power (UHP) grade GE. Present CNC production globally is commensurate to the GE industry, which is running at around 85% capacity utilisation level.

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

GIL's liquidity profile is strong because of its healthy cash balance and strong accruals from business.

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, 2018, the company had two subsidiaries that are 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. The company currently has two 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, is the fourth largest non-Chinese electrode manufacturer globally with a combined manufacturing capacity of 98,000 tonnes per annum (tpa).

GIL made a standalone net profit of Rs. 913.6 crore on an operating income of Rs. 2,958.2 crore in FY2018. The company registered a consolidated profit after tax of Rs. 1,032.0 crore on the back of an operating income of Rs. 3,265.5 crore in FY2018.

In 9M FY2019, GIL (standalone) registered a PAT of Rs. 2,379.0 crore on an OI of Rs. 5,347.0 crore.

Key Financial Indicators (Audited, Standalone)

	FY 2017	FY 2018	9M FY 2019 (Provisional)
Operating Income (Rs. crore)	1,305.8	2,958.2	5,347.0
PAT (Rs. crore)	112.3	913.6	2379.0
OPBDIT/ OI (%)	6.0%	45.7%	66.1%
RoCE (%)	6.0%	57.4%	
Total Debt/ TNW (times)	0.1	0.1	0.1
Total Debt/ OPBDIT (times)	1.6	0.1	0.1
Interest coverage (times)	12.1	218.9	505.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Apr-19	Date & Rating in FY2018 Mar-18	Date & Rating in FY2017 Mar-17	Date & Rating in FY2016 Feb-16
1	Non-convertible debenture (NCD)	Long Term	-	-	[ICRA]AA+ (Stable) Withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund based facilities	Long Term/ Short Term	600	-	[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable) /A1+	[ICRA]AA+ (Stable) /A1+
3	Non-fund-based facilities	Long Term/ Short Term	400	-	[ICRA]AA+ (Stable) /A1+	[ICRA]AA+ (Stable) /A1+	[ICRA]AA+ (Stable) /A1+	[ICRA]AA+ (Stable) /A1+
4	Commercial Paper/ Short term debt	Short Term	-	-	[ICRA]A1+ Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	NA	NA	NA	600	[ICRA]AA+ (Stable)/A1+
NA	Non-fund-based facilities	NA	NA	NA	400	[ICRA]AA+ (Stable)/A1+

Source: Graphite India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Graphite International B.V.	100.00%	Full Consolidation
Carbon Finance Limited	100.00%	Full Consolidation

Source: Graphite India Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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