September 07, 2020

Graphite India Limited: Ratings reaffirmed at [ICRA]AA+ (Negative)/A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	600	600	[ICRA]AA+(Negative)/A1+ reaffirmed
Non-fund-based facilities	400	400	[ICRA]AA+(Negative)/A1+ reaffirmed
Total	**1,000**	**1,000**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings considers Graphite India Limited (GIL's) established position in the global Graphite Electrode (GE) industry, the long term demand prospects of GE, given the criticality of its usage in manufacturing steel through electric arc furnaces (EAF) and the company's strong liquidity position with a consolidated net cash and liquid investment balance of ~Rs 2,290 crore as on June 30, 2020 that provides a high degree of financial flexibility to the company. While reaffirming the ratings ICRA has factored in operating losses reported by the company in FY2020 as well as Q1FY2021 on the back of a continuous correction in graphite electrode (GE) prices globally, along with a high consumption cost of a major raw material calcined needle coke (CNC). Moreover, prevailing muted demand conditions for use of GE in manufacturing steel through EAFs, post outbreak of Covid-19, coupled with a high inventory of GE both at the customer as well as the manufacturer's end, has resulted in low capacity utilisation for the company in this period. Nevertheless, ICRA notes that some stability in GE prices have been witnessed in the recent months, which along with lowering of prices of CNC in the market is likely to result in an improvement in the financial performance of the company for the balance part of FY2021. The long-term rating is also tempered by the volatility in GIL's cash flows from operations, which is materially high, and is primarily a result of the company's exposure of business largely in a single commodity. ICRA takes cognisance of GIL's acquisition of a 46% stake in an US based early stage start up, General Graphene Corporation. The investment may help the company in the long run to diversify its cash flows into a different business segment. However, given the nascent stage of operations of the acquired entity, coupled with the limited usage of Graphene as on date at an industrial scale, meaningful diversification of cash flows, in ICRA's opinion is still a few years away.

The ratings continue to factor in GIL's 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 company's overall financial profile continues remains strong because of its highly conservative capital structure and large consolidated cash and investment portfolio. 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 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 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.

Key rating drivers and their description

Credit strengths

Established player in the global GE industry – GIL, along with its subsidiary Cova, is the third largest non-Chinese 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 consolidated gearing of 0.09 times as on March 31, 2020. The consolidated entity had a large cash and liquid investment balance of ~Rs. 2,598 crore on June 30, 2020, 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, are among the low-cost GE manufacturing lines, globally. The superior cost structure provides resilience to the company against volatility in GE prices globally.

Credit challenges

Operating losses in FY2020 and Q1 FY2021 on the back of a downturn in global GE demand and consequent prices – GIL reported consolidated operating losses of ~Rs 82 crore and ~Rs 131 crore in FY2020 and Q1 FY2021 respectively as a result of a devaluation of its high cost inventory. Globally GE prices witnessed a continuous correction in FY2020, and the overall situation is further exacerbated in FY2021 by the muted demand conditions post outbreak of Covid-19.

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.

Exposed to volatility in global steel industry – GIL remains exposed to the volatility in 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 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 at present global demand-supply of CNC is adequate, any material increase in capacity utilisation of global GE producers, would lead to tightness.

Liquidity position: Strong

GIL's liquidity is strong with a healthy consolidated cash and liquid investment balances of over Rs. 2,500 crore. Overall, ICRA expects GIL to be able to comfortably meet its banking commitments through internal accruals and yet be left with cash surpluses.

Rating sensitivities

Positive triggers – Given the negative outlook an upgrade in the long-term rating is unlikely in the near term. The outlook may be revised to Stable if a change in demand conditions results in a healthy improvement in capacity utilisation and contribution margin.

Negative triggers – The company's ratings can be downgraded if the present demand supply conditions continue to constrain profits and cash flows over the next few months. The ratings would also come under pressure if there is a large outflow of cash from the company in the form of dividends or large capex.

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, 2020, the company had two subsidiaries that are enlisted in Annexure 2

About the company

Graphite India Limited (GIL) is a Kolkata-based company run by 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. Along with its German subsidiary, Cova, it 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. 31.3 crore on an operating income of Rs. 2,875.4 crore in FY2020. The company registered a consolidated profit after tax of Rs. 51.9 crore on an operating income of Rs 3,090.7 crore in FY2020.

In Q1 FY2021, GIL (consolidated) registered a net loss of Rs. 78 crore on an OI of Rs. 409 crore.

Key financial indicators (Standalone, audited)

	FY 2017	FY 2018	FY 2019	FY2020
Operating Income (Rs. crore)	1,305.8	2,958.2	6,737.3	2,875.4
PAT (Rs. crore)	112.3	913.6	2,805.8	31.3
OPBDIT/ OI (%)	6.0%	45.7%	62.4%	-3.3%
RoCE (%)	6.0%	57.4%	108.1%	0.4%
Total Debt/ TNW (times)	0.1	0.1	0.1	0.1
Total Debt/ OPBDIT (times)	1.6	0.1	0.1	- 4.4
Interest Coverage (times)	12.1	218.9	386.2	- 5.5
DSCR	24.0	158.0	264.4	58.5%

Key financial indicators (Consolidated, audited)

	FY2017	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	1464.0	3265.5	7852.2	3090.7
PAT (Rs. crore)	70.5	1032.0	3398.6	51.9
OPBDIT/ OI (%)	2.6%	44.3%	63.9%	-2.7%
RoCE (%)	3.7%	57.1%	115.9%	0.8%
Total Debt/ TNW (times)	0.1	0.1	0.1	0.1
Total Debt/ OPBDIT (times)	6.9	0.2	0.1	-5.1
Interest coverage (times)	4.8	178.9	431.8	-4.6
NWC/ OI (%)	55%	33%	27%	60%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 07-Sep-20	Date & Rating 30-Mar-20	Date & Rating in FY2020 30-Apr-19	Date & Rating in FY2018 30-Mar-18	Date & Rating in FY2017 17-Mar-17
1	Fund based facilities	Long Term/Short Term	600	-	[ICRA]AA+ (Negative)/A1+	[ICRA]AA+ (Negative)/A1+	[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable) /A1+
2	Non-fund-based facilities	Long Term/Short Term	400	-	[ICRA]AA+ (Negative) /A1+	[ICRA]AA+ (Negative) /A1+	[ICRA]AA+ (Stable) /A1+	[ICRA]AA+ (Stable) /A1+	[ICRA]AA+ (Stable) /A1+

Amount in Rs. Crore

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+ (Negative)/A1+
NA	Non-fund-based facilities	NA	NA	NA	400	[ICRA]AA+ (Negative)/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:

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