March 17, 2017

Graphite India Limited

Instrument*	Rated Amount (in Rs crore)	Rating Action
Fund-based Limits	450	[ICRA]AA+ (Stable)/A1+ reaffirmed
Non-fund Based Limits	270	[ICRA]AA+ (Stable)/A1+ reaffirmed
Non-convertible Debenture	100	[ICRA]AA+ (Stable) reaffirmed
Commercial Paper/ Short-term debt	70	[ICRA]A1+ reaffirmed
Total	**890**	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating of the Rs 100 crore[1] proposed Non Convertible Debenture (NCD), Rs 450 crore fund based bank facilities and Rs. 270 crore non-fund based bank facilities of Graphite India Ltd (GIL)[2] at [ICRA]AA+ (pronounced ICRA double A plus). The outlook on the long term rating is stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs. 70 crore Commercial Paper/Short Term Debt programme of GIL. The ratings for the entire fund based and non fund based bank lines are interchangeable between the long term and the short term ratings and hence an [ICRA]A1+ rating has also been assigned to the same.

Rationale

The reaffirmation of the ratings takes into account 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. While GIL’s operating profitability has declined in the current year, as a result of a fall in realization on graphite electrodes (GE) globally, the company’s overall financial profile continues to remain comfortable as a result 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 also 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. Moreover, GIL’s primary raw material is calcined needle coke (CNC), the availability of which had been a matter of concern in the past. Although ICRA notes that supply of CNC remains comfortable at present, given the lower capacity utilisations of the GE manufacturers globally, an increase in the off-take from various manufacturers could lead to tightness in the demand-supply situation of CNC, given the small number of manufacturers of the same worldwide. Also with an increase in the company’s receivable position, as a result of the deteriorating financial profile of some of its major customers, has further impacted GIL’s working capital intensity, which historically has always been on the higher side, given the extended processing time. Nonetheless, ICRA expects GIL’s cash flows to remain strong relative to its debt service obligation.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications*

Key rating drivers
Credit Strengths

- Established player in the global graphite electrode (GE) industry
- Comfortable capital structure and liquidity profile
- Geographically diversified customer base
- Superior technical capabilities and competitive cost structure

Credit Weaknesses

- Weakening of business return indicators
- Prolonged softness in global GE industry
- High working capital intensive nature of business

Description of key rating drivers:
GIL is amongst the established GE manufacturers globally, with a worldwide customer base, large scale of operations with low cost of production. However, an adverse global GE price regime in recent years, which in turn is a result of an unfavourable demand supply dynamics, resulted in a secular decline in its business returns. Capacity expansions by various players over the past several years have contributed to the global supply/demand imbalance in electrodes, notwithstanding some recent capacity curtailments, and thus creating an adverse operating environment for global steel producers. With some increase in steel production globally, particularly through the EAF route in the Middle East and North African (MENA) region, demand for GE as well as prices have now improved from the lows witnessed in the past few months. The impact of falling realisations for graphite electrode has been offset to an extent by the decline in CNC prices. Benefit of such low cost raw material was partially visible in the 3rd quarter results of the company. ICRA also notes that over the years the company has developed the capability to manufacture high diameter GEs, sought after by large EAF operators. Notwithstanding the risk of depressed operating profits and low interest obligations, given GIL's comfortable capital structure, ICRA expects the debt coverage indicators for the company to remain strong. Additionally, it continues to derive strong financial flexibility from its large portfolio of liquid investments, unutilised bank lines and absence of any long-term loans as on date.

Analytical approach: Not Applicable

Links to applicable criteria:
Corporate Credit Rating –A Note on Methodology

About the company:
GIL is a Kolkata-based company belonging to the K.K. Bangur Group and is involved in manufacturing and selling graphite electrodes. The company has three plants at Durgapur, Bangalore and Nasik. It is the leader in the domestic market and, along with its subsidiary Cova in Germany, is one of the largest electrode manufacturers globally with a combined manufacturing capacity of 98,000 tpa.
The company has reported a total comprehensive income of Rs. 49.62 crore (provisional) in the first nine months of FY2017 (9m FY2017) on an operating income of Rs. 994.29 crore (provisional) against a total comprehensive income of Rs. 75.18 crore on an operating income of Rs. 1053.96 crore (provisional) in 9m FY2016.

GIL had earned a standalone net profit of Rs. 82.38 crore on an operating income of Rs. 1,346.93 crore in FY2016. The company had registered a consolidated profit after tax of Rs. 61.47 crore on the back of an operating income of Rs. 1,561.35 crore in FY2016.
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating history for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				March 2017	**February 2016**	**February 2015**	**March 2014**
1	Non-convertible debenture (NCD)	Long Term	100	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA]AA+ (Stable)
2	Long term fund based facilities	Long Term	450	[ICRA]AA+ (Stable)/ A1+	[ICRA]AA+ (Stable)/ A1+	[ICRA]AA+ (Stable)/ A1+	[ICRA]AA+ (Stable)/ A1+
3	Long term non fund based facilities	Long Term	270	[ICRA]AA+ (Stable)/ A1+	[ICRA]AA+ (Stable)/ A1+	[ICRA]AA+ (Stable)/ A1+	[ICRA]AA+ (Stable)/ A1+
4	Commercial Paper/ Short term debt	Short Term	70	[ICRA]A1+	[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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non-convertible debenture (NCD)	-			100	[ICRA]AA+ (Stable)
Long term fund based facilities	-	-	-	450	[ICRA]AA+ (Stable)/A1+
Long term non-fund based facilities	-	-	-	270	[ICRA]AA + (Stable)/A1+
Commercial Paper/ Short term debt	-	-	-	70	[ICRA]A1+

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

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