# Graphite India Limited

**March 30, 2018**

## Summary of rated instruments

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

## 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 the strong improvement in GIL's business returns and cash flows in the current financial year as a result of a sharp increase in global graphite electrode (GE) prices. ICRA notes that the increase in GE prices is a result of healthy demand of GE required for steel production through the electric arc furnace (EAF) route, as against stagnant supplies. The global GE industry has undertaken consolidation in the last few years with the merger of major players, as well as capacity cutbacks of ~0.2 MMT, which has resulted in the tight supply situation in the market with demand increasing. 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 new GE supplies or restart of the mothballed GE production capacities, thereby 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 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 EAF route, the primary raw materials used in GE production are crude oil derivatives. Therefore, GIL, along with other

[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*

GE manufacturers, is exposed to the cyclicality of the steel and crude prices. Additionally, GIL's low product diversity is a risk exposing the company's cash flows to the health of global GE industry.

## Outlook: Stable

ICRA believes 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 current demand supply dynamics of the global GE industry seems to persist over a long time frame. The outlook may be revised to 'Negative' if there is any significant reversal of the market scenario leading to a sharp fall in GE prices on a sustained basis.

## Key rating drivers

## Credit strengths

**Established player in the global graphite electrode (GE) industry** – GIL, along with its subsidiary Cova, as on date, 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 tpa..

**Comfortable capital structure and liquidity profile** – GIL has a comfortable capital structure as indicated by a gearing of 0.1 time as on 31st December 2017. The company had a large cash and liquid investment balance of ~Rs 998 crore on the said date, which provides a 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, USA and the 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 and Bangalore are amongst the low cost GE manufacturing lines globally. The superior cost structure provides resilience to the company against the 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 5 year or so, provides a favourable demand supply balance for GE manufacturers at present

## Credit challenges

**Exposure to the volatility in the global steel industry** – GIL remains exposed to the volatility in the global steel industry particularly to the health of the steel manufacturers manufacturing through the electric arc furnace (EAF) route

**Highly working capital intensive nature of operations** – GIL's business is highly working capital intensive nature as a result of the large processing period for manufacturing GEs.

**Shortage of key raw material calcined needle coke globally** – 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 running at around 85% capacity utilization level

**Low product diversification as sale of graphite electrodes remain the principle revenue earner** – GIL has a low product diversification and over 80% of the company's revenue is generated from the sale of GE.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

**Links to applicable criteria:**

Corporate Credit Rating Methodology

## 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 graphite electrodes. The company has three plants at Durgapur (West Bengal), Bangalore (Karnataka) 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).

GIL had earned a standalone net profit of Rs. 112.3 crore on an operating income of Rs. 1,305.8 crore in FY2017. The company had registered a consolidated profit after tax of Rs. 70.5 crore on the back of an operating income of Rs. 1,467.8 crore in FY2017.

During 9M FY2018, GIL (standalone) registered a PAT of Rs. 696.3 crore on an OI of Rs. 1,771.2 crore.

## Key Financial Indicators (Audited)

| | FY 2016 | FY 2017 | 9m FY 2018 (Provisional) |
|---|---|---|---|
| Operating Income (Rs. crore) | 1,346.7 | 1,305.8 | 1,771.2 |
| PAT (Rs. crore) | 104.6 | 112.3 | 696.3 |
| OPBDIT/ OI (%) | 11.2% | 6.0% | 38.60% |
| RoCE (%) | 7.6% | 6.0% | |
| | | | |
| Total Debt/ TNW (times) | 0.1 | 0.1 | 0.1 |
| Total Debt/ OPBDIT (times) | 1.2 | 1.6 | 0.3 |
| Interest coverage (times) | 19.2 | 12.1 | 163.2 |
| NWC/ OI (%) | 63.4% | 54.0% | |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | Instrument | Current Rating (FY2018) Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date & Rating Mar2018 | Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Mar-17 | Date & Rating in FY2016 Feb-16 | Date & Rating in FY2015 Feb-15 |
|---|---|---|---|---|---|---|---|---|
| 1 | Non-convertible debenture (NCD) | Long Term | 100 | 0 | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) |
| 2 | Fund based facilities | Long Term/Short Term | 450 | 0 | [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 | 270 | 0 | [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 | 0 | [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: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Non-convertible debenture (NCD) | Not Placed | NA | NA | 100 | [ICRA]AA+ (Stable) |
| NA | Fund based facilities | NA | NA | NA | 450 | [ICRA]AA+ (Stable)/A1+ |
| NA | Non fund based facilities | NA | NA | NA | 270 | [ICRA]AA+ (Stable)/A1+ |
| NA | Commercial Paper/ Short term debt | NA | NA | NA | 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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