Graphite India Limited

Instrument	Amount in Rs crore	Rating action
Fund Based Limits	450	[ICRA]AA+ (stable)/ [ICRA]A1+ reaffirmed
Non-Fund Based Limits	270	[ICRA]AA+ (stable)/[ICRA]A1+ reaffirmed
Non Convertible Debenture	100	[ICRA]AA+ (stable) reaffirmed
Commercial Paper/ Short term debt	70	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long term rating of the Rs 100 crore* 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)† 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.

The ratings continue to reflect GIL's established position in the global graphite electrode (GE) industry, a geographically diversified customer base, superior technical capabilities which have helped the company in penetrating the high diameter GE market, which are increasingly being demanded by large electric arc furnace (EAF) operators. The ratings also factor in the comfortable financial risk profile characterised by low gearing, strong coverage indicators and the financial flexibility emanating from a large liquid investment portfolio and access to undrawn lines of credit. In addition economies of scale arising out of GIL's position as one of the largest manufacturer of GE (along with its German subsidiary, Cova) and its competitive cost structure on a global scale continue to favourably impact the ratings. Although challenging operating environment has led to a correction in the GE prices internationally, thus resulting in a decline in operating profitability in 2014-15 (FY15) and April-December 2015 (9mFY16), contribution margin from GE sales have benefitted from falling calcined needle coke (CNC) prices in the current financial year, the full benefit of which is yet to accrue on account of a large inventory of relatively higher cost raw material at the beginning of the year. However, operating profits would remain exposed to further slide in international prices and any decline in GE demand volumes. With the current downturn in the global steel business, GE demand outlook remains soft. The risks arising out of the same are, however, mitigated to an extent by the company's successful entry into new international markets. Notwithstanding the risk of a decline in operating profits, low interest obligation, given the comfortable capital structure, along with limited principal repayment obligation, ICRA expects the debt coverage indicators for the company to remain strong.

The ratings, however, also factor in the moderation in GIL's return on capital employed (RoCE) due to falling capacity utilization levels, its exposure to the cyclicality in the steel business and also to the risks arising from the volatility in 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 steel and crude prices. Moreover, GIL's primary raw material is 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 utilizations 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 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, GIL's working capital intensity, which has been on the higher side given the extended processing time, has increased further. Nonetheless, ICRA expects GIL's cash flows to remain strong relative to its debt service obligation. Moreover, with the softening of input raw material prices, working capital requirement is expected to ease somewhat going forward.

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* *100 lakh = 1 crore = 10 million*

† *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Company Profile

GIL is a Kolkata based company belonging to the K.K. Bangur group and is primarily engaged in the manufacture and sale of graphite electrodes. The company has three plants at Durgapur, Bangalore and Nasik. GIL is the market 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, post capacity expansion at Durgapur.

Recent Results

As per provisional results, GIL reported a profit after tax (PAT) of Rs 63.77 crore on an operating income of Rs 997.40 crore during 9mFY16 as against a PAT of Rs 67.98 crore on an operating income of Rs 1081.57 crore during 9mFY15. GIL had reported a PAT of Rs 82.19 crore on an operating income of Rs 1497.22 crore in FY15.

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