March 30, 2020

Graphite India Limited: [ICRA]AA+/A1+ ratings reaffirmed, Outlook revised to Negative

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook considers the sharp correction in graphite electrode (GE) prices globally and the risk of further slippages on the back of weak global macroeconomic sentiment, given the evolving situation on the impact of Covid-19, that may in turn impact steel production and consequently demand and/or pricing of GE. During 9M FY2020, the overall situation was further impacted by GIL[1]'s elevated cost of production due to its large inventory of calcined needle coke (CNC) accumulated at a high cost, which resulted in the company reporting a large loss in Q3 FY2020. In addition, the company also wrote off receivables to the tune of ~ Rs. 39 crore in this period. ICRA, however, notes that some stability in GE prices have been witnessed in the recent months. This, coupled with a devaluation of inventory and lowering of prices of CNC in the market, ICRA expects some improvement in operating profits in Q4 FY2020. Nonetheless, for the full year FY2020, the company is likely to report marginal profits, that too primarily on the back of returns from its large cash and investment portfolio.

The ratings continue to factor in GIL's established position in the global GE industry, a 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 large consolidated cash and investment portfolio, which is estimated to be ~ Rs. 2,523 crore as of end December 2019.

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.

[1] Graphite India Limited

Key rating drivers and their description

Credit strengths

Established player in the global GE industry – GIL, along with its subsidiary Cova, is the fourth 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 standalone gearing of 0.08 times as on March 31, 2019. The standalone company had a large cash and liquid investment balance of ~Rs. 2,516 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, are 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 GE market – GIL benefits from the healthy demand for GE, globally. Moreover, capacity cuts undertaken by leading players in the last five years 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 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 balanced, any material increase in capacity utilisation of global GE producers, which is estimated to be ~85%, would lead to tightness.

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: Strong

GIL's liquidity is strong with a healthy 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, a rating upgrade in the near term is unlikely. ICRA could change the outlook to Stable if the company is able to register an EBITDA of ~$650 per MT, with a capacity utilisation of ~80%, while maintaining its large cash and liquid investment balance at around the current levels.

Negative triggers – The company's ratings can be downgraded if there is weakening in the demand for graphite electrodes, leading to a capacity utilisation under 60% and consequent depressed EBITDA levels. Any further large inventory devaluation could also be a trigger for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Pharmaceutical Industry 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, 2019, 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. 2,805.8 crore on an operating income of Rs. 6,737.3 crore in FY2019. The company registered a consolidated profit after tax of Rs. 3,398.6 crore on an operating income of Rs. 7,852.2 crore in FY2019.

In 9M FY2020, GIL (standalone) registered a PAT of Rs. 6 crore on an OI of Rs. 2,327.0 crore.

Key financial indicators (audited)

	FY 2017	FY 2018	FY 2019	9M FY2020 (Provisional)
Operating Income (Rs. crore)	1,305.8	2,958.2	6,737.3	2,327.0
PAT (Rs. crore)	112.3	913.6	2,805.8	6.0
OPBDIT/ OI (%)	6.0%	45.7%	62.4%	-5.0%
RoCE (%)	6.0%	57.4%	108.1%	
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	386.2	- 8.9
DSCR	24.0	158.0	264.4	

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 30-Mar-20	Chronology of Rating History for the past 3 years: 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+ (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+ (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

Analyst Contacts

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Soumyajyoti Basu
+91 33 7150 1109
soumyajyoti.basu@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999