Graphite India Limited

(NSE: GRAPHITE, BSE: 509488)

Q1 FY2015 Earnings Presentation

August 12, 2014







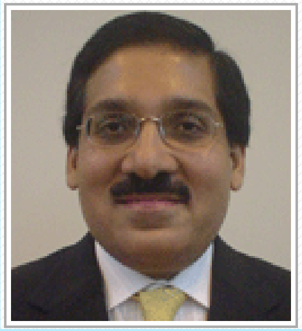

Financial Performance

Standalone Performance – Q1 FY2015 vs. Q1 FY2014

- Gross Sales of Rs. 385.6 Crore; Sales Volumes grew by 12%
- Operating Profit of Rs. 51.5 Crore; Operating margin of 13.9%
- Net Profit of Rs. 27.5 Crore, Net Profit margin of 7.4%
- Net Cash of Rs. 114 Crore (Q4 FY2014: Net Cash of Rs. 32 Crore)

Management Commentary

Commenting on the results and performance, **Mr. K. K. Bangur, Chairman** of **Graphite India** said:



"In context of the difficult and volatile business environment, we are pleased to announce that our financial results have been satisfactory. We have performed well in our core domestic and international markets as demonstrated by growth in sales volumes. However, excess capacities globally continue to impact electrode pricing and operating margins in the near term. Looking forward, the Indian steel industry is expected to benefit from the improving investment climate and business sentiment across the country. Overall, the global steel industry is perceived to have bottomed out and we are cautiously watching industry developments.

Having said this, we remain focused on technological advancements, product quality and enhancing our market share globally. Optimizing cost and improving operational efficiencies remains our highest priority. We are confident that Graphite India is well positioned to take advantage of revival of the global steel industry in the coming quarters"





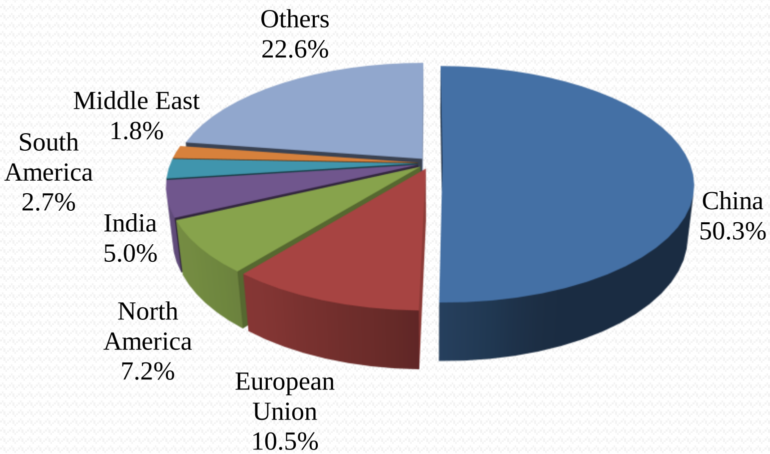



Economic Environment

Industry Highlights

- During the quarter, global crude steel production was 415 million MT, an increase of 3.5% compared to the same period last year. Major steel producing economies except South America continue to show positive growth during this period
- The overall steel sector remained under pressure due to lower price realizations and subdued demand growth. Recovery in global steel demand continues but at a relatively slow growth rate. The dual pressures of excess capacity and higher raw material costs continue to place pressure on margins
- Growth in the steel industry during the quarter varied significantly across regions. North American steel production grew by 2.2% y-o-y (Q1 CY2014: 0.8% y-o-y) and Europe by 1.7% y-o-y (Q1 CY2014: 6.7% y-o-y)
- Asia produced 281 million MT of crude steel, an increase of 4.7% year on year (Q1 CY2014: 2.6% y-o-y), primarily driven by production in China
- Steel production in India grew moderately to 21 million MT in Q2 CY2014, an increase of 1.1% y-o-y (Q1 CY2014 1.6% y-o-y). The newly elected government in India is expected to lead to an overall improved business sentiment
- The global average steel capacity utilization has dropped to 78.5% in Q2 CY2014 from 79.6% in Q2 CY2013. However, it increased sequentially from 77.8% in Q1 CY2014

Regional Production: Q1 CY2015



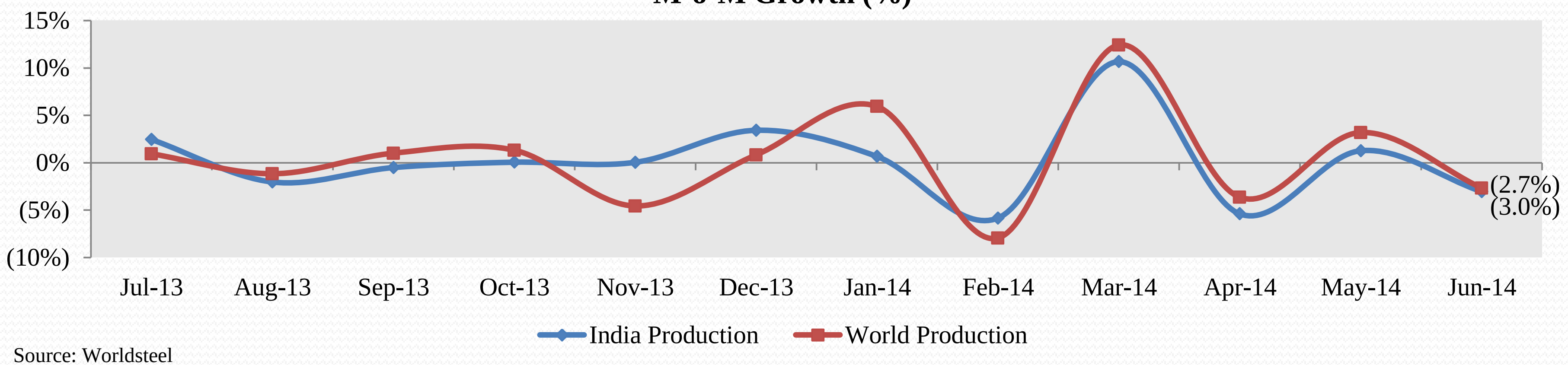
Source: Worldsteel and industry research

Economic Environment

Industry Highlights

Crude Steel Production	Three Months Ended					Six Months Ended		
(million MT)	**Jun-14**	**Jun-13**	***Y-o-Y Change (%)***	**Mar-14**	***Q-o-Q Change (%)***	**Jun-14**	**Jun-13**	***Y-o-Y Change (%)***
Asia	281	268	*4.7%*	272	*3.0%*	555	540	*2.9%*
India	21	20	*1.1%*	21	*(1.1%)*	41	41	*1.4%*
China	209	197	*5.7%*	201	*3.7%*	412	400	*3.0%*
South America	11	12	*(5.2%)*	11	*1.5%*	22	23	*(2.6%)*
North America	30	29	*2.2%*	30	*(0.4%)*	60	59	*1.7%*
European Union	43	43	*1.7%*	44	*(1.1%)*	87	84	*3.8%*
Middle East	7	6	*11.8%*	7	*10.3%*	14	13	*9.3%*
Others	42	42	*(0.3%)*	41	*3.7%*	83	83	*(0.5%)*
Total	**415**	**400**	***3.5%***	**405**	***2.5%***	**821**	**801**	***2.5%***

M-o-M Growth (%)



Source: Worldsteel

Financial Performance

Standalone Performance

(Rs. Crore)	Q1 FY2015	Q1 FY2014	*y-o-y Growth (%)*	Q4 FY2014	*q-o-q Growth (%)*
Gross Sales	385.6	412.8	*(6.6)%*	497.5	*(22.5)%*
Net Sales (including Other Operating Income)	370.2	403.8	*(8.3)%*	489.0	*(24.3)%*
Operating Profit	51.5	74.5	*(30.9)%*	84.0	*(38.7)%*
Margin (%)	*13.9%*	*18.5%*		*17.2%*	
Net Profit	27.5	39.3	*(30.1)%*	44.9	*(38.8)%*
Margin (%)	*7.4%*	*9.7%*		*9.2%*	
Basic EPS (Rs)	1.41	2.01	*(29.9)%*	2.30	*(38.7)%*

Notes:

1. Gross Sales includes excise duty
2. Operating Profit defined as earnings before depreciation, interest, exceptional items and taxes; includes Other Income
3. All margins calculated as a percentage of Net Sales (including Other Operating Income)








Financial Performance

Standalone Performance Discussion and Analysis

- **Revenue:** Q1 FY2015 Gross Sales decreased by (6.6)% y-o-y to Rs. 385.6 Crores, although the sales volumes grew by 12% during the same period. The increase in the sales volume was primarily driven by strong demand in domestic markets although export volumes also grew during the same period

  Despite strong sales volumes growth, electrode prices remained under pressure in global markets. Export realization during the quarter was significantly lower despite the benefit of rupee depreciation

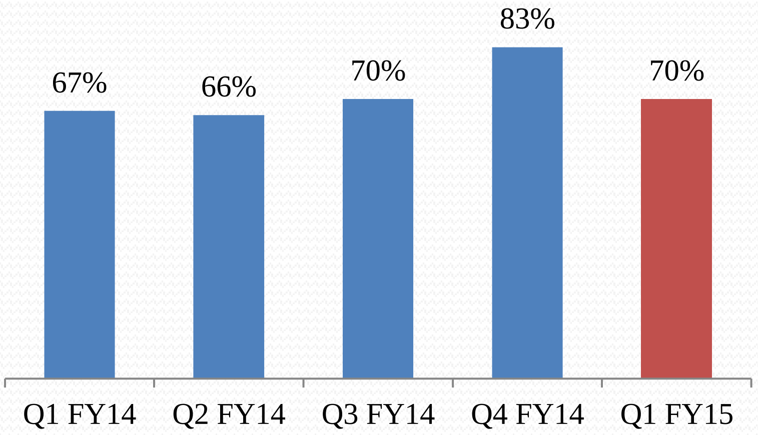
- **Operating Profit:** Q1 FY2015 Operating Profit decreased by (30.9)% to Rs. 51.5 Crore as compared to the same period last year. This was primarily due to the lower price realizations. Electrode production volumes increased by 5% y-o-y. Other Income increased from Rs. 8.7 Crore in Q1 FY2014 to Rs. 13.8 Crore in Q1 FY2015

- **Net Profit:** Q1 FY2015 Net Profit decreased by (30.1)% to Rs. 27.5 Crore as compared to the same period last year. Interest expense decreased from Rs. 4.4 Crore in Q1 FY2014 to Rs. 3.6 Crore in Q1 FY2015. This is primarily due to better working capital management. Interest coverage of 11.2x in Q1 FY2015 compared to 13.1x in Q1 FY2014

  The Company has revised the useful lives of fixed assets in keeping with the provisions of Schedule II to the Companies Act, 2013. As a result, depreciation for Q1 FY2015 is lower and the profit before tax is higher by Rs. 2.79 Crore

- **Operations:** Capacity utilization of 70% was achieved in Q1 FY2015 as compared to 67% in Q1 FY2014

GIL Capacity Utilization (standalone)



Segment Performance

Standalone Performance

(Rs. Crore)	Q1 FY2015	Q1 FY2014	*y-o-y Growth (%)*	Q4 FY2014	*q-o-q Growth (%)*
Segment Revenue	**370.2**	**403.8**	***(8.3)%***	**489.0**	***(24.3)%***
Graphite and Carbon	337.2	371.7	*(9.3)%*	439.1	*(23.2)%*
Steel	21.4	19.1	*12.1%*	16.5	*29.6%*
Unallocated	11.8	13.0	*(9.4)%*	33.4	*(64.7)%*
Less: Inter Segment Sales	(0.2)	(0.0)		(0.0)	

Segment Results	**41.1**	**80.6**	***(48.9)%***	**73.9**	***(44.3)%***
Profit before tax and interest					
Graphite and Carbon	33.4	77.8	*(57.0)%*	66.3	*(49.6)%*
Steel	5.3	3.6	*45.3%*	8.0	*(33.9)%*
Unallocated	2.5	(0.8)		(0.4)	

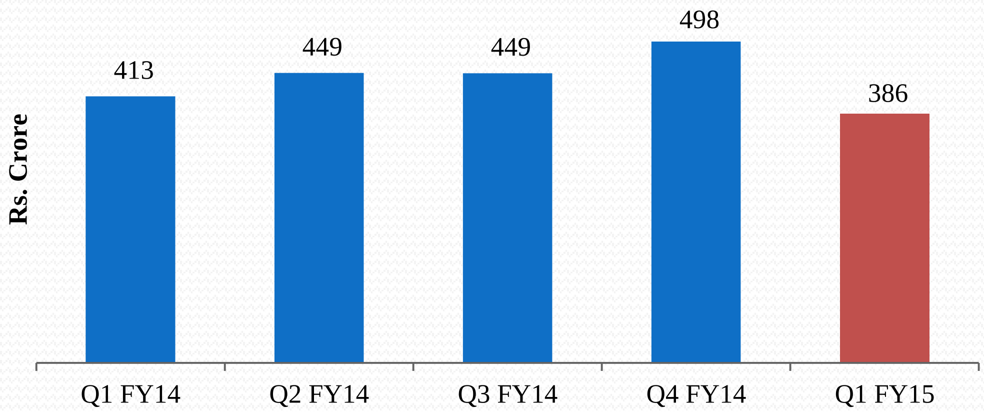







Quarterly Financial Trends – Standalone

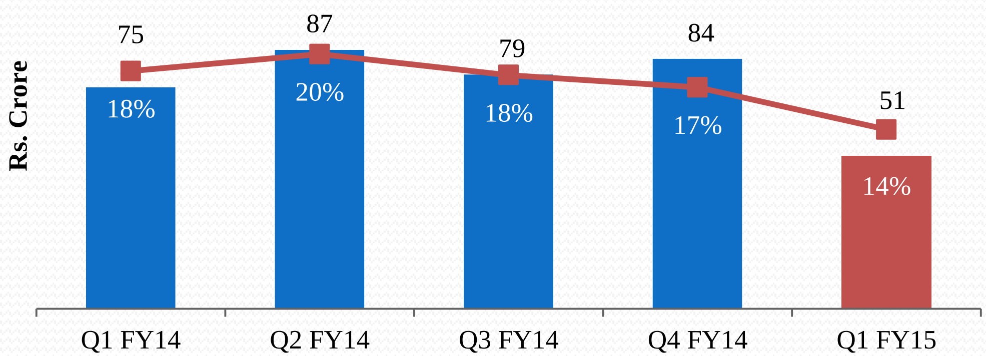
Gross Sales



Historical Trends

- Q1 FY2015 sales moderated due to the lower price realizations and lower sales volumes on q-o-q basis
- Significantly higher electrode sales volumes in Q4 FY2014 offset to a certain extent by lower price realizations
- Relatively higher electrode sales volumes offset by lower price realizations in Q3 FY2014
- Higher electrode sales volume and better price realizations in rupee terms in Q2 FY2014
- Lower sales volumes impacted Q1 FY2014 Gross sales

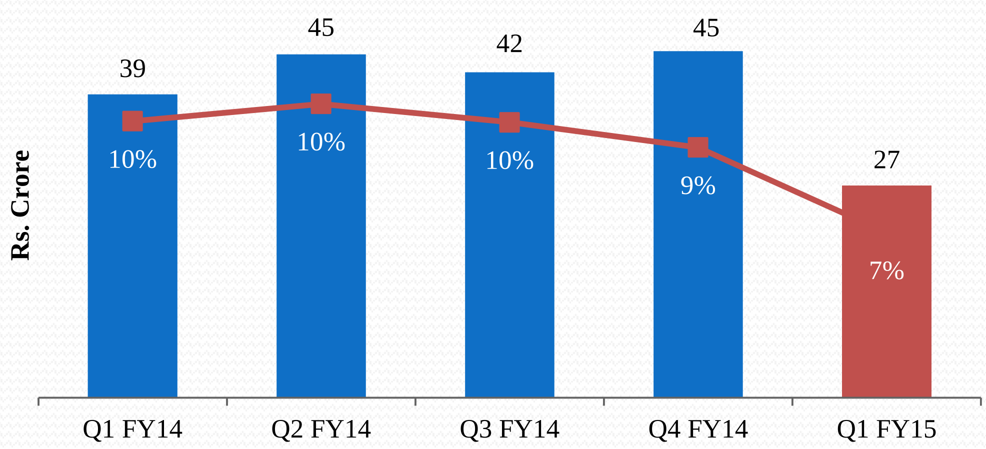
Operating Profit and Margins



- Margins in Q1 FY2015 were effected due to lower sales volume and price realizations. There has been increase in input costs/overheads other than needle coke
- Despite higher volumes in Q4 FY2014 margins declined compared with Q3 FY2014 due to lower price realization and higher costs
- Q3 FY2014 margins impacted due to lower realizations and an increase in other operating expenses
- Q2 FY2014 operating margins expanded by 131 bps due to better power generation at hydel plant coupled with favorable forex movement during the quarter
- Better operating efficiencies from expanded capacity at Durgapur coupled with improved export realizations due to Rupee depreciation benefitted Q1 FY2014 margins

Quarterly Financial Trends – Standalone

Net Profit and Margins



(Rs. Crore)	Standalone 30.6.2014	Standalone 31.3.2014
Secured Debt	201	235
Unsecured Debt	110	106
Total Debt	**311**	**341**
Less: Cash & Cash Equivalents	425	373
Net Debt / (Net Cash)	**(114)**	**(32)**
Net Worth	1,748	1,736

Note:
1 All numbers shown are for the standalone business

Historical Trends

- Decline in Q1 FY2015 Net Profit margins due to lower operating margins. This has been offset to some extent due to lower interest costs and a lower effective tax rate
- Q4 FY2014 Net Profit margins declined by 51 bps compared with Q3 FY2014 due to lower operating margins
- Q3 FY2014 Net Profit was lower than Q2 FY2014 despite having benefited from lower interest costs and a lower effective tax rate
- Q2 FY2014 Net Profit margins increased by 36 bps due to higher operating margins
- Better margins in Q1 FY2014 due to higher operating margins and lower interest expense

Capital Structure

- Outstanding shares as of June 30, 2014 are 195,375,594
- Significant financial flexibility available for future organic / inorganic growth








Performance Outlook

Steel Industry

- Overall steel demand in the developed economies is expected to grow above 2% in 2014 and 2015. The developing and emerging economies are likely to grow relatively faster.
- Overcapacity and margin pressures have negatively affected the near term outlook of the global steel sector. China's steel demand is expected to decelerate further, which will impact the industry's recovery momentum.
- The World Bank has projected India's steel production growth at over 6% in 2014 as global demand recovers and domestic investment increases.
- The World Steel Association has forecasted steel demand in India to grow by 3.3% to 76.2 million MT in 2014.

Graphite India

- Given the cost advantage of manufacturing in India, Graphite India is expecting to gain market share in the near term and benefit from a gradual turnaround in global steel demand
  - Electrode prices are expected to remain under pressure. The Company is expected to benefit from the lower cost needle coke in the near term.
  - Graphite India continues to proactively manage its production schedules to optimize its production costs across facilities.
  - The Company continues to target a consolidated capacity utilization in the region of 70% for FY2015.

Source: Worldsteel and industry research








Graphite India: At a Glance

Company Background

Graphite India is the largest Indian producer of graphite electrodes and one of the largest globally, by total capacity. Its manufacturing capacity of 98,000 tonnes per annum is spread over four plants at Durgapur (54,000 MT post expansion), Bangalore (13,000 MT), Nashik (13,000 MT) and Nurnberg in Germany (18,000 MT). The Company has over 40 years of technical expertise in the industry. Exports account for approximately 60% of total revenues. Graphite India manufactures the full range of graphite electrodes but stays focused on the higher margin, large diameter, ultra-high power ("UHP") electrodes.

Graphite India is well poised in the global graphite electrode industry through its quality, scale of operations and low cost production base. The Company's competitive edge was particularly evident during the last decade, when low prices for graphite electrodes resulted in many of the leading players generating losses, but Graphite India however remained consistently profitable and declared dividends. Graphite India currently has a conservative leverage profile, with significant financial capacity for organic or inorganic expansion.

The Company's strategy is to become further vertically integrated, continue its penetration of new markets and clients as well as pursue value enhancing inorganic growth opportunities. Graphite India also manufactures Calcined Petroleum Coke ("CPC") for use in electrode manufacturing. It is enhancing its presence in value added graphite products for the auto, aerospace, chemical, pharmaceutical, metallurgical and machine tool industries.

The Company is further targeting focused reductions in its manufacturing costs. The Company has successfully expanded capacity by 20,000 MT per annum at its Durgapur (West Bengal) plant.

The Company also has facilities designed for the manufacture of impervious graphite equipment and glass reinforced plastic pipes and tanks. It has an installed capacity of 33 MW of power generation through hydel and multi-fuel routes.

Industry

Graphite electrodes are used in electric arc furnace ("EAF") based steel mills and is a consumable item for the steel industry. The graphite electrode industry is highly consolidated with the top five major global players accounting for almost 75% of the high end UHP electrode capacity. Majority of this capacity however, is currently located in high cost regions like US, Europe and Japan. The manufacturing process, for the high end UHP electrodes is technology intensive and is a significant barrier for the entry of new players.

The EAF method of manufacturing steel is becoming increasingly attractive due to its low capital costs, lower breakeven tonnage, and flexibility in locating plants closer to consumption points and significantly lower pollution levels than in the blast furnace steel plants. EAF production in 2013 was 453 million MT, which was approximately 30% of the total steel production.








Statutory Financials

Unaudited Standalone Results for the quarter ended 30th June 2014
(All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

PART I (₹ in Lakhs)

Particulars	Quarter ended			Year ended
	30th June 2014 (Unaudited)	31st March 2014 (Unaudited)	30th June 2013 (Unaudited)	31st March 2014 (Audited)
Income from Operations				
Gross Sales / Income from Operations	38,561	49,753	41,277	180,780
Less: Excise Duty on Sales	1,858	2,228	1,794	7,681
Net Sales / Income from Operations	36,703	47,525	39,483	173,099
Other Operating Income	314	1,370	898	3,709
Total Income from operations (net)	**37,017**	**48,895**	**40,381**	**176,808**
Expenses				
Cost of materials consumed	19,067	21,280	21,049	79,811
Purchases of stock-in-trade	-	-	-	-
Changes in inventories of finished goods, work-in-progress and stock-in-trade	(2,895)	1,228	(3,859)	(2,069)
Employee benefits expense	3,504	3,725	3,091	13,473
Consumption of stores and spare parts	3,133	3,633	2,836	12,617
Power and fuel	6,573	6,301	6,593	24,429
Depreciation and amortisation expense (Refer Note 1)	916	1,343	1,312	5,360
Other expenses	3,874	5,913	4,088	20,120
Total Expenses	**34,172**	**43,423**	**35,110**	**153,741**
Profit from operations before other income, finance costs and exceptional items	**2,845**	**5,472**	**5,271**	**23,067**








Statutory Financials

Unaudited Standalone Results for the quarter ended 30th June 2014
(All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

Other Income	1,387	1,589	870	4,021
Profit from ordinary activities before finance costs and exceptional items	**4,232**	**7,061**	**6,141**	**27,088**
Finance Costs	358	392	435	1,696
Profit from ordinary activities after finance costs but before exceptional items	**3,874**	**6,669**	**5,706**	**25,392**
Exceptional Items	-	-	-	-
Profit from ordinary activities before tax	**3,874**	**6,669**	**5,706**	**25,392**
Tax expense	1,125	2,175	1,775	8,300
Net Profit from ordinary activities after tax	**2,749**	**4,494**	**3,931**	**17,092**
Extraordinary Items	-	-	-	-
Net Profit for the period	**2,749**	**4,494**	**3,931**	**17,092**
Paid-up equity share capital	3,908	3,908	3,908	3,908
(Face Value ₹ 2/- each)				
Reserves excluding Revaluation Reserve as per balance sheet of previous accounting year				**169,683**
Earnings Per Share (EPS) (before and after extraordinary items) -Face Value ₹ 2/- each (not annualised)				
Basic EPS (₹)	1.41	2.30	2.01	8.75
Diluted EPS (₹)	1.41	2.30	2.01	8.75








Statutory Financials

Unaudited Standalone Results for the quarter ended 30th June 2014
(All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

PART II

Particulars	Quarter ended			Year ended
	30th June 2014	31st March 2014	30th June 2013	31st March 2014
PARTICULARS OF SHAREHOLDING				
Public Shareholding				
- Number of shares	68,262,202	68,476,252	71,842,906	68,476,252
- Percentage of shareholding	34.94	35.05	36.77	35.05
Promoters and Promoter Group Shareholding				
a) Pledged/Encumbered				
- Number of shares	-	-	-	-
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	-	-	-	-
- Percentage of shares (as a % of the total share capital of the company)	-	-	-	-
b) Non-encumbered				
- Number of shares	127,113,392	126,899,342	123,532,688	126,899,342
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	100.00	100.00	100.00	100.00
- Percentage of shares (as a % of the total share capital of the company)	65.06	64.95	63.23	64.95

Particulars	Quarter ended 30th June 2014
INVESTOR COMPLAINTS	
Pending at the beginning of the quarter	**Nil**
Received during the quarter	6
Disposed of / attended to during the quarter	6
Remaining unresolved at the end of the quarter	**Nil**








Statutory Financials

Unaudited Standalone Results for the quarter ended 30th June 2014
(All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

Segment-wise Revenue, Results and Capital employed in terms of Clause 41 of the Listing Agreement

	Particulars	Quarter ended			Year ended
		30th June 2014 (Unaudited)	31st March 2014 (Unaudited)	30th June 2013 (Unaudited)	31st March 2014 (Audited)
1	**SEGMENT REVENUE -**				
	Graphite and Carbon	33,717	43,910	37,172	163,644
	Steel	2,138	1,650	1,908	6,862
	Unallocated	1,179	3,337	1,302	6,325
	Total	**37,034**	**48,897**	**40,382**	**176,831**
	Less: Inter Segment Revenue	17	2	1	23
	Sales/Income from Operations-Net	**37,017**	**48,895**	**40,381**	**176,808**
2	**SEGMENT RESULTS -**				
	Profit/ (Loss) before tax and interest				
	Graphite and Carbon	3,340	6,631	7,775	29,402
	Steel	526	796	362	1,200
	Unallocated	248	(40)	(80)	(217)
	Total	**4,114**	**7,387**	**8,057**	**30,385**
	Less:				
	Interest	358	392	435	1,696
	(Including other finance costs)				
	Other un-allocable expenditure/(income)(net)	(118)	326	1,916	3,297
	Total Profit Before Tax	**3,874**	**6,669**	**5,706**	**25,392**
3	**CAPITAL EMPLOYED -**				
	(Segment Assets - Segment Liabilities)				
	Graphite and Carbon	158,175	163,790	183,058	163,790
	Steel	20,505	20,439	19,698	20,439
	Unallocated	3,984	4,461	4,444	4,461
	Total	**182,664**	**188,690**	**207,200**	**188,690**








Statutory Financials

Unaudited Standalone Results for the quarter ended 30th June 2014
(All amounts are in Lakhs of Indian Rupees, unless otherwise stated)

Notes :

1. Effective 1st April,2014, the Company has revised the useful lives of fixed assets in keeping with the provisions of Schedule II to the Companies Act,2013. As a result, depreciation for the quarter ended 30th June,2014 is lower and the profit before tax is higher by Rs.279 Lakhs.

2. The figures for the quarter ended 31st March, 2014 are the balancing figures between the audited figures in respect of the full financial year ended 31st March,2014 and the unaudited year-to-date figures up to the third quarter ended 31st December, 2013.

3. Figures for the previous periods have been regrouped / rearranged wherever necessary to conform to current period's classification.

4. The above results have been reviewed by the Audit Committee and approved by the Board at its meeting held on 12th August, 2014. The Auditors of the Company have carried out a Limited Review of the above financial results for the quarter ended 30th June, 2014 in terms of Clause 41 of the Listing Agreement with Stock Exchanges.

By Order of the Board
For Graphite India Limited

Place : Kolkata
Date : 12th August, 2014

K.K.Bangur
Chairman








Forward Looking Statements

This presentation contains statements that contain "forward looking statements" including, but without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to Graphite India Limited's ("Graphite India" or the "Company") future business developments and economic performance.

While these forward looking statements indicate our assessment and future expectations concerning the development of our business, a number of risks, uncertainties and other unknown factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that could affect our business and financial performance.

Graphite India undertakes no obligation to publicly revise any forward looking statements to reflect future / likely events or circumstances.

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