

## DIRECTORS' REPORT

The Directors have pleasure in presenting their Forty Sixth Annual Report together with the audited statement of accounts of the Company for the year ended 31st March, 2021.

### Financial Results

Rs. in Crore

| Particulars   | 2020-21                | 2019-20     | 2020-21                             | 2019-20     |
|---|------------------------|-------------|-------------------------------------|-------------|
|   | Graphite India Limited |             | Graphite India Limited Consolidated |             |
| Revenue from Operations (Gross)   | 1839                   | 2875        | 1958                                | 3094        |
| <b>Profit for the year after charging all Expenses but before providing Finance Costs, Depreciation, Tax and other Comprehensive Income</b> | <b>322</b>             | <b>61</b>   | <b>111</b>                          | <b>95</b>   |
| Finance Costs   | 6                      | 17          | 6                                   | 18          |
| <b>Profit before Depreciation and Tax</b>   | <b>316</b>             | <b>45</b>   | <b>105</b>                          | <b>77</b>   |
| Depreciation and Amortisation Expense   | 45                     | 44          | 52                                  | 51          |
| <b>Profit before Share of Profit/(Loss) of Associate and Tax</b>  | <b>271</b>             | <b>1</b>    | <b>53</b>                           | <b>26</b>   |
| <b>Share of Profit/(Loss) of Associate</b>  | <b>-</b>               | <b>-</b>    | <b>(10)</b>                         | <b>(7)</b>  |
| <b>Profit before Tax</b>  | <b>271</b>             | <b>1</b>    | <b>43</b>                           | <b>19</b>   |
| Tax Expense for the Current Year  |                        |             |                                     |             |
| Current Tax   | 64                     | 2           | 62                                  | 6           |
| Deferred Tax  | 8                      | (32)        | 13                                  | (32)        |
| <b>Profit for the Year</b>  | <b>199</b>             | <b>31</b>   | <b>(32)</b>                         | <b>45</b>   |
| Other Comprehensive Income (net of tax)   | (2)                    | (3)         | 19                                  | 30          |
| <b>Total Comprehensive Income for the year</b>  | <b>197</b>             | <b>28</b>   | <b>13</b>                           | <b>75</b>   |
| <b>Statement of Retained Earnings</b>   |                        |             |                                     |             |
| <b>Retained Earnings at the beginning of the year</b>   | <b>2228</b>            | <b>3071</b> | <b>2945</b>                         | <b>3776</b> |
| Add Profit for the year   | 199                    | 31          | (32)                                | 45          |
| Add Comprehensive Income  | (2)                    | (3)         | (2)                                 | (3)         |
| Less Final Dividend on Equity Shares  | -                      | 684         | -                                   | 684         |
| Less Dividend Distribution Tax on above   | -                      | 140         | -                                   | 141         |
| Less Interim Dividend on Equity Shares  | -                      | 39          | -                                   | 39          |
| Less Dividend Distribution Tax on above   | -                      | 8           | -                                   | 8           |
| Less transfer to Reserve Fund   | -                      | -           | 5                                   | 1           |
| <b>Retained Earnings at the end of the year</b>   | <b>2425</b>            | <b>2228</b> | <b>2906</b>                         | <b>2945</b> |

### REVIEW OF THE ECONOMY

FY 2021 was an unprecedented year with outbreak of the Covid-19 pandemic around the world and had brought economies across the globe to a complete standstill for most part of the year 2020. In almost all the countries, manufacturing and other business activities were halted especially during first half of the year due to various lockdown measures implemented in part or full. Worldwide governments' immediate focus was to ensure the well-being of the people and to invest in medical infrastructure. In addition, various central banks and governments together ensured sufficient liquidity in the system to manage the crisis. The US Federal Reserve eased the monetary policy and maintained an accommodative stance by lowering interest rates to 0.25% from 1.25% at the

beginning of March, 2020, which has been effectively zero since then, to allow businesses to stay afloat. The central governments too provided economic relief packages to support households, employers, financial markets and state and local governments. During the year, the health crisis quickly morphed into an economic crisis and added further stress to the already weak global demand and trading activities and as a result global economic growth declined substantially for the third consecutive year by (3.3)%.

In the United States, economy contracted by (3.5)% from 2.3% in 2019 due to the outbreak and impact of covid which added pressure to already simmering US-China trade war, slowing investment and exports. The U.S. was one of the worst hit countries in terms of number of covid cases and mortality. The

European economy too contracted by (6.6)% due to impact of covid halting of business activities and falling demand from Asia. The much-awaited Brexit happened in December, 2020 and as a result of which imports and exports for both UK and Europe fell by at least 30%. It is likely to continue for most of 2021 as both economies recover from pandemic related shocks and uncertainties in trade and tariff rules. In Asia, all the key economies registered a decline in its GDP growth except China which registered an increase of 2.3%. China was successful in implementing strict containment measures at the start of the year and its central bank provided liquidity to ensure quicker recovery. Rest of the Asian countries continues to face the pandemic challenges and recovery of the economic activity varies depending upon the severity of the impact of the pandemic in the different countries.

During the third quarter of the year, as the covid related lockdowns started to ease in many countries, the economic activity started to pick-up and recovery in demand was swift due to excess liquidity in the market and higher government spending. The auto and steel sectors saw a pick-up in demand in the third and fourth quarter.

The start of 2021 witnessed a sharp recovery in demand and industrial output due to the widespread optimism surrounding the development of vaccines to curb the rate of infection. Base metal prices were up by 30% between August, 2020 and February, 2021 and steel prices also started to rise in key regions such as China, US and Europe. However, the positive momentum at the start of 2021 was again impacted as economies started to face second and third wave of the pandemic majorly in the Asian countries. Countries around the world are taking all necessary measures to contain the pandemic such as focusing on revamping the healthcare services, implementing micro-lockdowns, organizing mass vaccination drives to slow down the impact of the virus.

India's GDP growth also contracted to (8.0)% in 2020 from 4.2% in 2019 as the country went into strict nationwide lockdown in the second quarter of the year due to the rising number of Covid-19 cases. The economic activity remained subdued due to complete halt in manufacturing activities, fall in consumer demand, plunging auto sales, and halt in construction and real estate sectors. According to the data released by the Ministry of Statistics & Programme Implementation (MOSPI), the Index of Industrial Production, the IIP index declined to (8.6)% compared to (0.8)% in 2019-20. The subdued economic performance resulted in higher unutilized production capacity, lower corporate profits and rising unemployment.

In response to the decelerating economic growth, RBI had taken swift action by providing liquidity in the market in excess of Rs 3.7 lakh crore, providing loan moratorium, and lowering interest rates to help businesses tackle the impact of the pandemic and maintaining an accommodative stance. The government also announced an economic relief package of Rs 1.7 lakh crore for food and direct cash transfers and has also made relaxation in filing of ITR and GST returns. These

measures along with lowering of corporate tax announced in 2019, supported the economy and businesses during much of 2020 despite the challenging macro-economic indicators.

The Indian economy started showing signs of steady recovery from October, 2020 as lockdown began easing in several states and economic activities started to pick-up. This resulted in rebound of economic activities due to pent-up demand, excess liquidity and increase in consumer spending. The manufacturing sector witnessed a sequential spike in demand with revival of demand in auto, steel and construction sectors.

The Indian steel industry, which is the second largest steel manufacturer in the world, also witnessed an increase in demand due to increased construction activities and infrastructure spending initiatives undertaken by the government. This pandemic had impacted all industries and sectors, disrupting demand and supply balance, however, as the lockdowns eased, the consumer spending increased due to renewed confidence and optimism on the back of declining covid cases and availability of vaccines. Currently, India is battling the second wave of corona virus which has turned out to be more severe, virulent and has caught the administration off guard. But despite that the businesses and consumers seemed to have well prepared to handle the situation on the economic front. Several states have imposed micro-lockdowns, but the key manufacturing industries continue to remain operational and push economic activity.

**GRAPHITE INDIA**

The Company's performance for FY 2020-21 was positive compared to FY 2019-20. Although, revenue from operations decreased by 36% to Rs. 1,839 crore for FY 2020-21 as against Rs. 2,875 crore in the previous year, however, PBT increased to Rs. 271 crore as against Rs. 1 crore of previous year which also includes investment income of Rs. 107 crore as against Rs. 45 crore in the last year. The performance of the Company was comparatively better due to higher volume despite continuing trend of lower realizations and lower impact of high cost inventory as compared to last year. The global demand for graphite electrodes continued to be weak till second / third quarter of financial year owing to – (1) continued adverse impact of Covid-19; (2) consumption of electrode inventory built-up by the steel industry during FY 2018-19 when electrode was in short supply; and (3) re-emergence of supply from China due to incremental electrode capacity coming much ahead of expected increase in steel production through EAF route. However, since then demand for Graphite electrodes has revived due to overall recovery of the steel industry. Strong recovery in the major consuming industries such as construction and automobile and recent thrust of all steel consuming nations on infrastructure are expected to augur well for the electrode industry. However, resurgence of Covid-19 variant is quite virulent and is a major concern of all.

The Company's Graphite and Carbon Segment continues to be the main source of revenue and profit for the Company, accounting for about 93% of the total revenue.

**OVERSEAS SUBSIDIARIES**

The performance of the German subsidiaries continued to be dismal during the year due to economic slowdown in the region, lower steel production and consumption of carry forward electrode inventory that was built-up during FY 2018-19 which clearly impacted the demand and prices of electrodes.

**DIVIDEND**

Dividend @ Rs. 5/- per share on 19,53,75,594 equity shares of Rs. 2/- each for the financial year ended 31st March 2021 has been recommended by the Board of Directors. .

**MANAGEMENT DISCUSSION AND ANALYSIS**

*(i) Industry’s structure and developments*

**A. Graphite and Carbon Segment**

**Graphite Electrodes**

Graphite Electrode is used in electric arc furnace based steel mills for conducting current to melt scrap iron and steel and is a consumable for the steel industry. The principal manufacturers are based in USA, Europe, Middle East, India, China, South East Asia and Japan.

Graphite Electrode demand is primarily linked with the global production of steel in electric arc furnaces which is one of the two basic methods for steel production i.e. – [1] Bessemer Oxygen Furnace (BOF); and [2] Electric Arc Furnace (EAF). According to World Steel Association (WSA), the EAF steel industry has grown at 6.4% compound annual rate since 2015. The fundamental reason behind this recovery has been China beginning to restructure its steel industry, encouraging consolidation and shutting down archaic capacities. China has also begun to comply with environmental regulations to improve air quality impacted by CO<sub>2</sub> emissions associated with the burning of coal in BOF steelmaking. In addition, trade restrictions in developed economies such as North America and Western Europe for protecting their domestic steel industries against imports from BOF steel producing countries, which have resulted in a significant decrease in Chinese steel exports. According to China, Customs and Baiinfo, Chinese steel exports declined from 112 million MT in 2015 to 54 million MT in 2020. This resulted in increased steel production outside of China, benefiting EAF steel production. China’s share in EAF production which was only 6% of global steel making till 2014 through EAF had increased to 10.4% upto 2019 and is estimated to be higher going forward.

According to the WSA, since 2000, EAF steelmaking grew at an annual pace of approximately 3%, compared with 1% for steelmaking overall, excluding China. As a result of the increasing global availability of steel scrap and the more resilient, high-variable cost and environmentally friendly EAF model, EAF steel producers are expected to continue to grow at a faster rate than BOF producers globally. Additionally, EAF steel producers are able to use increasingly higher quality of steel scrap and sponge iron, their two primary raw materials, to produce larger volumes.

**Calcined Petroleum Coke and Paste**

Graphite India’s Coke plant in Barauni, Bihar, is engaged in the manufacturing of Calcined Petroleum Coke (CPC), Carbon Paste and Electrically Calcined Anthracite Paste and is one of the several backward integration initiatives of the Company. Two grades of CPC - aluminium and graphite – are produced. CPC is primarily used in the manufacture of anodes for use in aluminium smelters, manufacture of graphite electrodes and also used as carburiser in steel. The division also manufactures four grades of Paste, i.e. Electrode Paste based on either CPC or Electrically Calcined Anthracite Coal (ECAC) and Tamping Paste based on either CPC or ECAC. Electrode Paste is used in Ferro Alloy Smelters and Tamping Paste is used as a lining material in submerged arc furnaces.

This division’s performance has been satisfactory this year because of improved market condition in its user industries namely steel, aluminium and graphite electrodes.

**Impervious Graphite Equipment**

IGE Division is in the business of design, manufacture and supply of Impervious Graphite Heat and Mass Transfer Equipment and Turnkey systems. It has an integrated facility under one roof for process/product design, manufacturing, inspection and for providing supervision during erection and commissioning activities.

Impregnated graphite is an ideal material of construction for corrosive applications in sectors like Chloro-Alkali, Crop protection agrochemicals, Chlorinated Organic, speciality & fine Chemicals, Phosphoric Acid, Fertilizers, Rayon, Steel Pickling, Metal Processing, Polymers, Drug Intermediates, Batteries & Gelatine etc.

Over the years, the Company has built the product line into a reliable brand with a reputation for prompt service, good quality and consistent performance by investing in strengthening its core competencies. Division has the capability to meet any country specific design and has obtained many certifications relevant to the product profile. Domestic chemical, specialty chemical, drugs and pharma industries have picked up. Order booking both in domestic and export market has been good.

**B. Other Segments**

**Glass Reinforced Plastic Pipes (GRP)**

GRP Division is engaged in manufacturing of large diameter Glass Fibre Reinforced Plastic Pipes suitable for municipal application, seawater, effluent, irrigation, penstock as well as Pipe-liners for rehabilitation of old pipes/ducts by trenchless technology in metro cites. Product is manufactured by the Continuously Advancing Mandrel Filament Winding Process with computerized advanced technology comparable to other plants worldwide. The plant operations are dependent upon tenders floated by government / semi-government authorities which have been absent during the year

**Steel Segment**

Powmex Steels Division (PSD) is engaged in the business of

manufacturing high speed steel and alloy steel having its plant at Titilagarh in the State of Orissa. PSD is the single largest manufacturer of High Speed Steel (HSS) in the country. HSS is used in the manufacture of cutting tools such as drills, taps, milling cutters, reamers, hobs and broaches. HSS cutting tools are essentially used in – (a) automotive; (b) machine tools; (c) aviation; and (d) retail market. The industry is characterized by a single good quality manufacturer of HSS i.e. PSD which faces competition from small domestic producers and cheap imports from overseas manufacturers.

In the budget for the year 2021-22, the Government of India issued a notification, temporarily suspending Anti-dumping Duty till September, 2021 on imports of HSS products from certain countries who were indulging in unfair competition by dumping these products into India. The Company has represented to the Government for re-imposition of this duty, as HSS is not required for infrastructure projects. The Company is hopeful that this notification would soon be repealed and the buoyancy experienced in plant capacity utilisation in the last few months will get revived.

**18 MW Hydel Power Facility**

The Company has an installed capacity of 18 MW of power generation through Hydel route. Renewal of Wheeling & Banking Agreement to be effective from August 2020 is pending with Government authorities.

**(ii) Opportunities and threats**

During fiscal year 2020-21, India continued to maintain its position as the second largest steel producer in the world with crude steel production of 102.5 million tonnes (MT), but registering a decline of 6.1% over 2019-20 mainly attributable to lower demand and closure of factories during the first half of 2020 due to the covid pandemic related production curbs. The production of finished steel also declined by 7.8% to 94.66 MT. India contributes 6% of total world crude steel production. The country exported 10.79 MT of finished steel, up by 29.1% and imported 4.75 MT, down by 29.1% and became net exporter for the fiscal year 2020-21. Per capita finished steel consumption in India was 74.7 Kg for 2019-20 as compared to 75.7 Kg in 2018-19.

The onset of pandemic in early 2020, saw the global steel industry coming to a grinding halt. Infrastructure, real estate and automobile, the biggest consumer of steel had cut their demand as manufacturing was stopped due to lockdown measures put in place to contain the spread of virus. Indian steel industry too was impacted by the pandemic related business disruptions. The steel industry was already under pressure due to cheaper imports from China and weak demand due to slowdown in key sectors. The steel demand was on a declining trend for most part of 2020, however, it gradually started picking up in October with the easing of lockdowns and manufacturing sector started to pick up pace. The auto industry in India saw a sharp rebound in sales from October with onset of festive season in India and pent-up demand which augured well for both auto and steel industry.

The real estate and infrastructure industry too contributed to a sharp rise in demand for the steel partly due to government initiatives towards infrastructure spending as well as excess liquidity driven by lower interest rates. The rising demand lead to investments in the domestic market from SAIL, TATA Steel and other major players. Furthermore, the government of India introduced new vehicle scrapping policy which is expected to significantly reduce its import dependency on China to bridge the gap between demand and supply and in turn will help the domestic steel market.

The key steel consuming sectors such as auto, capital goods, infrastructure which contributes 10%, 11% and 9% of the domestic steel demand, is expected to grow significantly in the range of 11%-15% in the next 5 years. The government of India is also aiming to increase the per capita consumption of steel to 160 Kg by 2030 from existing 75 Kg which is likely to keep the demand steady. The immediate challenge for the industry comes from the ongoing raging second wave and expected third wave in 2021 which can contribute to demand pressure and increase in inventory, steel prices, rising input cost which can hurt margins and a slowdown in implementation of various policies of the government.

China crude steel production increased by 5.2% to 1,053 MT and its share of global crude steel production increased to 56.5% in 2020 as compared to 53.3% in 2019. China was amongst the very few countries in the world to have registered growth in steel output as it was able to contain the spread of covid and restart the economic activities earlier than other countries. As a result, the infrastructure spending increased in the country aided by various stimulus packages by the government of China which increased the demand of steel. China's auto sector, the largest in the world, saw a decline of 2% in sales for the year, however, with sales picking up from December 2020, the demand has been steady which has contributed to the demand for steel.

EAF steelmaking which uses graphite electrodes as an essential consumable is expected to grow significantly in coming years due to recent policy changes in China to move towards EAF steel production from the existing BOF technology to curb emissions. BOF steel production still contributes majorly to the China's steel production capacity, however, as per the latest five-year plan of the Chinese government, policy changes have been introduced to focus on reducing emissions. This has led to introduction of new technologies in existing plants and shift towards EAF from BOF. Between 2015 and 2020, China closed about 200 million tonnes of capacity and upgraded 600 million tonnes of capacity to control emissions. As a result, the demand for graphite electrodes is increasing on an annual basis.

The Company is closely monitoring the recent developments and the impact of second wave of the Coronavirus on the industry and business. Opportunities in the near term include - (a) the pick-up in sales in auto industry, the sustainability of which needs to be watched closely post second wave; (b) introduction of new vehicle scrapping policy by the Indian

government to offset the demand from China; (c) The recent government initiatives towards infrastructure spending, 100% FDI in steel industry and existing National Steel Policy, which aspires to achieve 300MT of domestic capacity by 2030 is expected to increase investments and production to sustain the demand and supply of steel; and (d) lower exports from China to the world, especially to the regions such as Europe and North America which has higher EAF capacities, due to restrictive trade policies, will lead to an increased demand in the domestic steel industries and subsequently leading to a higher demand for graphite electrodes.

The threats in the near terms include - (a) fall in demand due to ongoing second wave which has been more severe as compared to the situation in 2020 and expected third wave in future; (b) underutilization of capacity due to volatility in domestic labour markets in terms of availability of manpower and increasing input cost; (c) implication of price fluctuations as steel supply increases from China which is cheaper compared to other global steel manufacturers; and (d) sustainability and pace of recovery of economic activities and economies around the world.

Graphite India is well positioned with its strong balance sheet and longstanding customer relationship. The Company remains fully confident of not only navigating successfully through these unprecedented times but also emerging stronger.

**(iii) Segment-wise Performance**

**Revenue of the Company**

The revenue from operations amounted to Rs. 1,839 crore as against Rs. 2,875 crore in the previous year.

Aggregate Export Revenue of all divisions together was Rs. 733 crore as against Rs. 1,345 crore in the previous year.

**Graphite and Carbon Segment**

The performance of the segment was satisfactory in FY 2020-21 as compared to FY 2019-20 considering impact of Covid-19 on global recovery and weak economic conditions during major part of the year.

Production of Graphite Electrodes and Other Miscellaneous Carbon and Graphite Products during the year under review was 66,871 Mt against 63,088 Mt in the previous year.

Production of Calcined Petroleum Coke during the year was 32,679 MT as against 27,315 MT in the previous year.

Production of Carbon Paste during the year was 3,210 MT against 4,453 MT in the previous year.

Production of Impervious Graphite Equipment (IGE) and spares during the year was 1,776 MT as against 1,749 MT in the previous year.

The segment revenue decreased to Rs. 1,719 crore from Rs. 2,780 crore in the previous year with decline in domestic and export sales on value terms. Segment recorded profit of Rs. 176 crore in FY 2020-21 from loss of Rs. 77 crore in FY 2019-20.

**Other Segments**

GRP division produced 1,623 MT pipes as against 1,513 MT in the previous year.

Production of HSS and Alloy Steels was 1,829 MT during the year as against 1,327 MT in the previous year.

Power generated from captive Hydel Power Plant of 18 MW capacity amounted to 54.28 million units during the year as against 49.69 million units in the previous year. Unit sold 39.97 million unit during the year as against 25.20 million unit in 2019-20.

**(iv) Outlook**

Crude steel production across the globe started to decline at the start of 2020 due to the Covid-19 induced lockdowns resulting in closure of manufacturing facilities. The steel production remained impacted during the first half of the year and started gradual increase in production from May, 2020 onwards with the opening up of the economies. As per WSA, global crude steel production reached 1,864 MT for the CY 2020, marginally down by 0.9% compared to CY 2019. However, global crude steel production excluding China declined significantly by 8.2% in CY 2020.

In China, the government is focusing on reducing carbon emissions in the next 5 years and hence the share of EAF mills is likely to increase. The steel industry is also expected to witness an increase in mergers and acquisitions of state owned mills as well as introduction of new scrappage policies which is likely to increase EAF steel capacity. As a result of these factors, it is expected that total UHP graphite electrode demand in China will continue to increase going forward.

The graphite electrode industry has historically followed the growth of the EAF steel industry and, to a lesser extent, the steel industry as a whole, which has been highly cyclical and affected significantly by general economic conditions. Historically, EAF steel production has grown faster than the overall steel output due to its greater resilience, overall variable cost structure, lower capital intensity and more environmentally friendly nature. The Company remains confident in the long-term growth propensity of EAF steel production. Global warming and other environmental concerns are critical issues facing the society and companies globally, and the EAF steelmakers are among the largest recycling industry in the world. EAF steel making produces 75% less carbon emissions than traditional BOF steel making.

The recovery of economic activity around the globe from the pandemic slowly started picking up in October, 2020 and has seen a sharp rebound in demand and supply since then. World crude steel production was 486.9 MT between January-March 2021, up by 10% compared to the same period in 2020. Crude steel production increased in all the regions collectively except North America. Asia and Oceania produced 356.9 MT of crude steel and showed double digit growth of 13.2% year on year for the first three months of 2021. The European Union too witnessed a growth of 3.1% in crude steel production to 37.8 MT. China produced 271 MT of crude steel in first quarter of

2021, a sharp increase of 15.6% compared to same period in 2020. India is estimated to have produced 29.6 MT of crude steel in first quarter of 2021, an increase of 10.4% compared to same period in 2020.

The second wave of the virus since the start of March and April 2021 has slowed the demand due to implementation of micro-lockdowns in various regions, however, the recovery in manufacturing sector is expected to be robust compared to other sectors in 2021 as supply chain activities continue to function inspite of the pandemic protocols.

Despite the near-term challenges, the Indian economy is expected to remain resilient, and growth is expected to be in line with global expectations. India is also expected to gain significant market share in exports of manufactured goods due to US-China trade concerns. This will provide a significant boost to the manufacturing sector in terms of production and investments. As such, India has already witnessed a slew of investments by major steel players to ramp up steel production since the start of 2021. With recovery in key sectors such as infrastructure, construction, automobile and mining, the demand for steel in India is expected to grow by 19.8% in 2021. The Indian government's recent vehicle scrappage policies and doubling of ship breaking capacity combined with global price increase of steel is expected to reduce imports. Furthermore, it is expected that EAF production of steel will rise in India, where the consumption of graphite electrodes will also rise which in turn would increase demand for graphite electrodes.

#### **(v) Risks and Concerns**

The cyclical nature of steel demand, production through the EAF route and volatility in the cost of input materials has always been key risk and concern for the Company.

Graphite India sells its products to the steel manufacturers using the EAF route. The steel industry historically has been highly cyclical and is affected significantly by macroeconomic conditions. Major customers for the steel industry include companies in the automotive, construction, appliance, machinery, equipment and transportation industries. In the recent past, these industries were negatively impacted by the general economic downturn and the deterioration in the financial markets, including restricted liquidity and credit availability. Customers, including major steel producers, have in the past experienced and may again experience downturns or financial distress that could adversely impact the Company.

Global graphite electrode excess capacity has adversely impacted graphite electrode prices in the past. The pricing had started going down steeply after a sharp upswing seen in 2017, 2018 and partly in 2019, thus, adversely impacting sales, margins and profitability till later part of 2020 but the outlook for 2021 has somewhat improved due to increase in the demand for electrodes with increase in capacity utilisation of steel industry. Therefore the performance of the Company is sensitive to economic conditions and a downturn in economic conditions may adversely affect business.

Petroleum needle coke is the primary raw material used in the production of graphite electrodes. Supply of petroleum needle coke had been limited since the second half of 2017 as the demand had outpaced supply. This was also partly due to the increasing demand of needle coke in the production of lithium-ion batteries used in electric vehicles. The price of needle coke had softened to some extent due to general slowdown in demand from the end user industries. But price and availability may again tighten with increase in demand by electrode industry and the lithium ion battery industry. Therefore the performance of the Company is also dependent on the price and timely availability of petroleum needle coke. Similarly the availability and price of other materials and energy cost may impact the operations and margins of the Company.

Exports to specific regions may be severely impacted by trade barriers in the form of crippling import duties, anti-dumping duties, countervailing duties or sanctions as the case may be and our export volumes to specific markets could get majorly affected by such protectionist / restrictive impositions.

The Company has an optimum exposure to exports, imports and is a net foreign exchange earner. Volatility in foreign currency market directly impacts the Company's prospects. Inherent natural hedge of various balancing exposures may mitigate the risk to an extent.

The evolution of the COVID-19 pandemic remains uncertain. The recovery of the global economy could be weaker than expected after the spread of the virus slows down for a number of other reasons. These include lingering uncertainty about contagion, loss of business and consumer confidence, establishment closures and structural shifts in corporate and household behavior, resulting in supply chain disruptions and weakness in aggregate demand.

While the outbreak of Covid-19 had begun to subside in certain areas of the world, the infection rates in some areas have experienced resurgence in the spread of Covid-19 including India and the infection rates in other areas continue to escalate. As a result, we are unable to predict the ultimate impact of the Covid-19 pandemic at this time. The pandemic has adversely affected, and may further adversely affect, business, results of operations, financial position and cash flows. Such effects may be material and the potential impacts include, but are not limited to - 1) adverse impacts on countries of customers, and resultant impacts on demand for our products; 2) disruptions at production facilities, including reductions in operating hours, labour shortages and changes in operating procedures, including additional cleaning and disinfecting procedures; 3) disruptions in supply chain due to transportation delays, travel restrictions, raw material cost increases and shortages, and closures of businesses or facilities; and 4) reductions in operating effectiveness due to workforce disruptions from Covid-19 restrictions and social distancing resulting from, among other things,

the unavailability of key personnel necessary to conduct business activities. This situation continues to change rapidly and additional impacts may arise that cannot be currently predicted.

The repercussions of reduced investment and bankruptcies may run more extensively through the economies. Depending on the duration, global business confidence could be severely affected, leading to weaker investment and growth than projected in the baseline. Related to the uncertainty around Covid-19, an extended risk-off episode in financial markets and tightening of financial conditions could cause deeper and longer-lasting downturns in a number of countries.

**(vi) Internal control systems and their adequacy**

The Company has proper and adequate systems of internal controls. Internal audit is conducted by outside auditing firms. The Internal audit reports are reviewed by the top management and the Audit Committee and timely remedial measures are ensured. IT Security Policy is in place to ensure that the risks associated with information gathering, processing and preservation are assessed and adequately managed. The purpose and objective of the policy is to address the risks by defining, developing and implementing adequate controls through proper categorization. An internal committee reviews the adherence and suggests if any changes are required. Independent systems audit is performed by TUV Nord, India. Third party product inspections are performed by SGS.

**(vii) Discussion on financial performance with respect to operational performance**

Revenue from Operations recorded Rs. 1,839 crore as against Rs. 2,875 crore in the previous year.

Profit after tax was Rs. 199 crore as against Rs. 31 crore in the previous year. Profit before tax was higher at Rs. 271 crore as compared to Rs. 1 crore in the previous year.

Borrowing at Rs. 223 crore was lower than Rs. 416 crore in the previous year and the Finance Cost decreased to Rs. 6 crore from Rs. 17 crore in the previous year.

Capital expenditure during the year amounted to Rs. 80 crore as against Rs. 32 crore in the previous year.

The Company is a net foreign exchange earner.

ICRA has reaffirmed the long term rating at [ICRA] 'AA+' (pronounced ICRA double A plus) with negative outlook. The short-term debt programme rating has been reaffirmed at [ICRA] 'A1+' (pronounced ICRA A one plus). This rating indicates highest-credit-quality. The retention of these ratings reflects comfortable financial risk profile characterized by low gearing, strong coverage indicators and the financial flexibility emanating from large liquid investment portfolio.

Details of contingent liabilities are given in **Note 34** to the Financial Statements.

**(viii) Material developments in Human Resources /**

**Industrial Relations front, including number of people employed**

The HRD policies and practices focus on contemporary and pragmatic people centric initiatives, aligning those with business vision and objectives, which primarily help in creating robust organisational structure and aims at optimum utilisation of human resources.

The Company continually imparts training across all levels as per annual training calendar and also imparts specialized training, wherever necessary, for upgrading the skill of the concerned employees. The Company also deposes employees to attend various programs/industrial exhibitions on the subject matter relevant to their work areas. It also ensures that workmen are multi-skilled in the different areas of operations through a system of job rotation.

The Company considers that improving employee engagement, which is not an isolated HR process, significantly improves the company's performance across a number of key areas, such as profitability, productivity, business growth, customer satisfaction, innovation, health and safety, sickness and absence, employee turnover and wellbeing. Towards this end, organization's engagement efforts have been aligned with overall business strategy. Important issues relating to the plant and actions required to address the same are regularly discussed. The Company involves its teams at various locations in planning ahead, assessing opportunities and discussing ideas for business improvement. Leadership development at middle and senior level is being ensured to prepare future leaders in the organization and ensures smooth and seamless succession.

The Company undertook various workshops in the areas of physical fitness, mental health and well-being of its employees including awareness programs on Covid-19.

The total number of permanent employees in the Company is 1,748 as on 31st March, 2021.

The employee relations continue to be cordial and harmonious at all the locations of the Company.

**(ix) Occupational Health and Safety**

Internal Safety Audits are conducted at regular frequency in the plants. Audit observations relating to unsafe acts, practices, conditions are discussed in "Corrective and Preventive Action" meetings. Protection and safety of our personnel and assets are our top priority. We believe in in-depth investigation of unfortunate accidents, if any, so that root causes are identified and corrective and preventive measures are undertaken. Consultation and participation of workers and statutory bodies are encouraged.

Health, Safety, Environment & Quality policies are in place and are audited by external agencies. Safety Audit once in two years, as specified, is carried out by External Safety Auditors. Every year health check-up of all employees is being carried out by competent medical professionals.

**(x) COVID-19: Measures Undertaken**

After the pandemic struck and lockdown was imposed towards end March 2020, the company started implementing changes to protect its employees through appropriate health and safety protocols, which included canceling travel and eliminating in-person meetings, working from home wherever possible and establishing safety protocols at its sites. The safety procedures included temperature measurements, personal protective equipment, mandatory use of masks/gloves, social distancing, frequent cleaning and disinfecting and implementation of daily check sheets to ensure team members are highly focused on the new procedures. The above measures still continue to be implemented.

Further the company also contributed in aggregate Rs. 3.20 crore to PM CARES Fund and CM Relief Funds of West Bengal, Maharashtra, Odisha and Bihar towards Covid-19 relief. The Company through an implementing agency engaged in grocery / safety-kit distribution (value Rs. 19.98 lakh) and conducted COVID awareness programs (value Rs. 2.68 lakh) to help the poor and needy.

**(xi) Significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with explanations are as under:**

| Sl. No. | Particulars   | 2020-21 | 2019-20 | Improvement / (deterioration) |
|---------|---|---------|---------|-------------------------------|
| 1       | Debtors Turnover - (Debtors / Revenue from Operations) - (Days) | 72      | 51      | (41)%                         |
| 2       | Interest Coverage Ratio - (Finance cost / PBIDT)%               | 54.43   | 3.65    | 1387%                         |
| 3       | Debt Equity Ratio - (Debt/Total Equity) -Times                  | 0.06    | 0.11    | 45%                           |
| 4       | Operating Profit Margin - (PBDIT / Total Revenue)%              | 15.05   | 2.06    | 629%                          |
| 5       | Net Profit Margin - (PAT / Total Revenue)%                      | 9.33    | 1.03    | 802%                          |
| 6       | Return on Net worth - (PAT / Net worth)%                        | 4.99    | 0.82    | 506%                          |

**Explanations :-**

The Company had recorded better performance during FY 2020-21 in terms of profitability despite lower turnover. The major reasons are higher volume and lower impact of high cost inventory as compared to last year. The performance has led to improvement in all profitability linked ratios.

**Transaction of the Company with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the listed entity is given below :-**

**Emerald Company Private Limited (ECPL)** (An entity of the promoter Group holding 61.33% of the share capital).

|               | 2020-21<br>(Rs. Cr.) | 2019-20<br>(Rs. Cr.) |
|---------------|----------------------|----------------------|
| Dividend Paid | -                    | 442.44               |

**Research and Development**

The Company's R&D efforts are primarily focussed towards

developing import substitutes for Aeronautical, Aerospace, Railway and other industrial applications.

Continual process development activities are ongoing for producing superior version of carbon brake pads for aircrafts and helicopters.

Space application components processed at state-of-art facilities were successfully tested by Space Research agencies.

**Subsidiary Companies**

Carbon Finance Limited is a wholly owned Indian subsidiary. Graphite International B.V. in The Netherlands is a wholly owned overseas subsidiary Company which is the holding company of four subsidiaries in Germany (viz) Graphite Cova GmbH, Bavaria Electrodes GmbH, Bavaria Carbon Specialities GmbH, Bavaria Carbon Holdings GmbH.

The overseas subsidiaries recorded a turnover of Euro 29.85 Mn as compared to Euro 51.06 Mn in the previous year. The subsidiaries have not performed well due to adverse demand conditions and consequent decrease in prices resulting in loss of Euro 29.71 Mn as against profit of Euro 0.50 Mn in the previous year.

The Company, by way of Royalty, earned Rs. 2.68 crore during the year, as against Rs. 4.66 crore in the previous year, from overseas subsidiary.

Statement containing salient features of the financial statements of subsidiaries is enclosed - **Annexure 1**.

The Consolidated Financial Statements of the Company along with those of its subsidiaries prepared as per IndAS 110 forms a part of this Annual Report.

**Associate Company**

General Graphene Corporation, USA is an associate company. As on 31st March 2021, investment of USD 13.98 million (39.43% of capital) has been made in the company. The investments in General Graphene is accounted for using the equity method as per IndAS 28.

No Company has ceased to be a subsidiary of the Company during the year.

**Information pursuant to Section 134 of the Companies Act, 2013**

- Pursuant to Section 92(3) read with Section 134(3)(a) of the Act, the Annual Return as on 31st March 2021 is available on the Company's website on <http://ir.graphiteindia.com/>
- Four meetings of the Board of Directors of the Company were held during the year on 9th June 2020, 12th August 2020, 13th November 2020 and 11th February 2021.
- All the Independent Directors of the company have furnished declarations that they satisfy the requirement of Section 149 (6) of the Companies Act, 2013.
- Relevant extracts of the Company's policy on directors

- appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided in section 178(3) of Companies Act, 2013 is enclosed - **Annexure 2**.
- e. There is no qualification, reservation or adverse remark or disclaimer made by the statutory auditor in his audit report and by Company Secretary in practice in the secretarial audit report and hence no explanations or comments by the Board are required.
- f. Particulars of loans, guarantees or investments under Section 186 of Companies Act, 2013 is enclosed - **Annexure 3**.
- g. Particulars of contracts or arrangements with related parties referred to in Section 188(1) of Companies Act, 2013 is enclosed - **Annexure 4**.
- h. Details of conservation of energy, technology absorption, foreign exchange earnings and outgo as prescribed vide Rule 8(3) of Companies (Accounts) Rules 2014 is enclosed - **Annexure 5**.
- i. Risk management policy has been developed and implemented. The Board is kept informed of the risk mitigation measures being taken through half yearly risk mitigation reports / Operations Report. There are no current risks which threaten the existence of the Company.
- j. Corporate Social Responsibility (CSR)  
As part of its CSR activities, the Company has initiated projects aimed at promoting education, employment enhancing vocational skills, livelihood enhancement projects, healthcare initiatives, rural development projects etc. as detailed in the CSR annual report for the year ended 31st March, 2021 which forms part of this report - **Annexure 6**. The CSR policy has been displayed on Company website [www.graphiteindia.com](http://www.graphiteindia.com) and can be viewed on <http://ir.graphiteindia.com/>
- k. Formal annual evaluation has been made by the Board of its own performance and that of its Committees and individual directors on the basis of a set of criterias framed and approved by the Nomination and Remuneration Committee / Board.
- l. The Company has adopted a Vigil Mechanism which has been posted on the Company's website and can be viewed on <http://ir.graphiteindia.com/>
- m. The Company does not accept deposits from public.
- n. There were no significant and/or material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future.
- Disclosures pursuant to Section 197(12) of Companies Act, 2013 read with Rule 5(1), Rule 5(2) and Rule 5(3) of Companies (Appointment & Remuneration of Managerial

Personnel) Rules 2014 are contained in **Annexures 7 and 8**.

- o. Dividend Distribution Policy is enclosed - **Annexure 9**. The same can also be viewed on <http://ir.graphiteindia.com/>

#### DIRECTORS

Mr. J. D. Curravala, who retires by rotation in this Annual General Meeting (AGM) is not available for re-appointment. The vacancy so caused is not proposed to be filled up.

Mr. A. V. Lodha retires by rotation in this AGM and being eligible offers himself for re-appointment.

#### Recognition/Award and Certificates

The Company has received several awards over the years from CAPEXIL and EEPC for export performance. Presently it has acquired certification with the standards ISO:9001 & 14001.

The Company continues to enjoy the status of a Four Star Export House.

#### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 134(5) of the Companies Act, 2013, the Directors state that-

- (a) In the preparation of the annual accounts, the applicable accounting standards had been followed;
- (b) The directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period;
- (c) The directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) The directors have prepared the annual accounts on a going concern basis;
- (e) The directors, have laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively; and
- (f) The directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

#### Corporate Governance Report

A Report on Corporate Governance along with a Certificate of Compliance from the Auditors forms part of this Report - **Annexure 10**

**Business Responsibility Report (BRR) forms part of our Annual Report. Annexure 11**

**Auditors**

S. R. Batliboi & Co. LLP, Chartered Accountants, was S. R. Batliboi & Co. LLP, Chartered Accountants, was appointed as Auditors of the Company, for a period of five (5) years at the 42nd AGM held on 4th August, 2017. They have confirmed that they are not disqualified from continuing as Auditors of the Company.

**Cost Auditors**

The Company had appointed following Cost Auditors for FY 2020-21 who will conduct cost audit in respect of accounts and records made and maintained by the Company as required u/s 148(1) of Companies Act, 2013 as detailed below -

|                            |   |
|----------------------------|---|
| Shome & Banerjee           | Electrode plant at Durgapur and Power generation facilities at Chunchanakatte & Mandya. |
| Deodhar-Joshi & Associates | Electrode, IGE and GRP plants at Nashik   |
| B G Chowdhury & Co.        | Coke division at Barauni  |
| N Radhakrishnan & Co.      | Powmex Steels division at Titilagarh  |

Consolidated Cost Audit Report for FY 2019-20 was filed with the Ministry of Corporate Affairs, Government of India, on 9th September 2020. The above Cost auditors have been appointed to conduct cost audit for the same divisions as mentioned above for FY 2021-22.

**Secretarial Audit/Compliance Report**

Secretarial Audit Report and Secretarial Compliance Report for FY 2020-21 received from M/s. Baja Todi & Associates, Practicing Company Secretaries are annexed herewith - **Annexure 12 and 13.**

**Secretarial Standards**

The Company is in compliance of all applicable Secretarial Standards as specified by the Institute of Company Secretaries of India.

**Prevention of Sexual Harassment of Women at Workplace**

The Company has complied with the provisions relating to the constitution of Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act 2013.

**Acknowledgement**

Your directors place on record their appreciation of the assistance and support extended by all government authorities, financial institutions, banks, consultants, solicitors and shareholders of the Company. The directors express their appreciation of the dedicated and sincere services rendered by employees of the Company.

On behalf of the Board

K. K. Bangur  
Chairman

June 28, 2021

