

On right track but fairly valued, downgrade to Hold

We downgrade our rating on IFGL Refractories to Hold and revise our TP to Rs320 (vs. Rs300 earlier). The stock has outperformed its MNC peers in the last 6M/1Y in line with our view and its high valuation gap (v/s MNC's) has narrowed materially but we see limited scope for further re-rating. Q1 performance was solid (EBITDA up 19% YoY) with all units except Hofmann doing well but the increase in the depreciation charge (due to goodwill creation post-merger) suppressed PAT. We continue to like IFGL's operationally sound high-quality global assets and expect strong earnings growth driven by i) increased share of higher-margin subs and ii) recovery in steel production in key markets of US/Europe/India (aided by regulatory support & demand revival). Strong free cash flow visibility and a solid balance sheet are added positives.

- **Satisfactory performance from all operations except Hofmann:** Majority of IFGL's units reported satisfactory performance with Kandla unit delivering EBITDA of Rs78mn (up 87% YoY) with strong margins of 33.5% and EIC (US) reporting EBITDA of ~US\$0.7mn with margins of 15.5%. Hofmann Ceramics' performance was weak due to stiff competition while Monocon's performance improved QoQ.
- **Consolidated EBITDA marginally below estimates, higher depreciation suppresses PAT:** Consolidated EBITDA rose 18.6% YoY to Rs246mn, but was ~5% below our estimates. Gross margins were under pressure due to higher RM costs and declined 450bps QoQ to 49% and EBITDA margins stood at 12.5%. PAT was suppressed by additional depreciation charge of ~Rs67mn on account of amortisation of ~Rs2.7bn goodwill created on account of the merger. PAT increased ~25% YoY to Rs112mn on restated financials. FY17 financials were restated to account for Ind-AS and the merger and there was reduction in PAT, sharp increase in networth and goodwill and a drop in return ratios on account of the same.
- **Earnings revised downwards to account for higher depreciation, cash flow impact neutral:** We lower our EBITDA estimates to account for headwinds at Hoffmann operations and revise our PAT estimates downwards to account for goodwill amortisation; however we note that cash flow impact remains neutral. Our FY18E/19E EBITDA/PAT estimates are revised downwards by 3.2%/5.0% and 30.5%/26.9% respectively.
- **Valuation and risks:** We expect EBITDA/PAT CAGR of 13.4%/18.0% during FY17-19E, led by volume growth and increased contributions from higher-margin operations of Kandla/US. The stock has seen significant re-rating in the last 12 months in line with our view and its large discount to the MNCs has narrowed significantly. At CMP of Rs295, trades at FY19E valuations of 17.3x P/E, 7.8x EV/EBITDA and 5 year FCF yield of 7.4% and further re-rating scope is limited in our view. We downgrade to Hold with a revised TP of Rs320 based on 14x FY19E P/E applied to EPS adjusted for goodwill write-off. We have ascribed 30% discount (vs earlier 35%) to IFGL compared to its MNC peer and industry leader Vesuvius. Key upside risk is higher volumes while downside risk is higher raw material costs.

Y/E Mar-Cons (Rs mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17*	QoQ (%)	Q1FY18E	Var. (%)
Net sales	1978	1806	9.5	2084	(5.1)	1964	0.7
Raw materials	1008	892	13.0	968	4.1	923	9.2
Employee costs	326	310	5.2	323	0.8	320	1.8
EBITDA	246	208	18.6	283	(12.9)	259	(4.8)
EBITDA margin (%)	12.5	11.5		13.6		13.2	
Depreciation	107	106	0.5	55	96.1	45	137.6
Interest	11	11	(0.9)	14	(25.7)	10	7.0
PBT	136	107	27.2	221	(38.7)	212	(35.9)
Tax	23	17	41.0	60	(60.7)	53	(55.8)
PAT	112	90	24.6	137	(17.9)	159	(29.3)

Source: Company, Centrum Research Estimates, *restated merged financials are not reported separately for Q4FY17

Y/E Mar(Rs mn)*	Rev	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	7,868	1.2	922	11.7	531	6.7	15.3	15.8	11.9	9.5	6.2
FY16	7,170	(8.9)	760	10.6	418	5.8	12.1	11.4	9.8	9.1	5.2
FY17P	7,656	6.8	948	12.4	442	5.8	12.3	8.3	6.3	11.5	5.5
FY18E	8,077	5.5	1,040	12.9	472	5.8	13.1	6.7	6.4	22.5	9.6
FY19E	9,111	12.8	1,220	13.4	615	6.7	17.1	8.3	7.9	17.3	7.8

Source: Company, Centrum Research Estimates, *Financials from FY17 includes impact of Ind-As and Merger

Target Price	Rs320	Key Data	
CMP*	Rs295.4	Bloomberg Code	IFGL IN
Upside	8.3%	Curr Shares O/S (mn)	34.6
Previous Target	Rs300	Diluted Shares O/S(mn)	34.6
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	10.2/159.9
Price Performance (%)*		52 Wk H / L (Rs)	342.5/116
		5 Year H / L (Rs)	342.5/23.5
IFGL IN	23.5	49.8	111.9
NIFTY	3.0	12.0	12.8
		Daily Vol. (3M NSE Avg.)	35580

*as on 11 September 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Jun-17	Mar-17	Dec-16	Sept-16
Promoter	71.3	71.3	71.3	71.3
FII's	0.1	0.1	0.0	0.0
Dom. Inst.	5.0	4.3	3.1	2.1
Public & Others	23.6	24.3	25.6	26.6

Source: BSE, *as on 11 September 2017

Subsidiary-wise quarterly key financials

(Rs mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Standalone merged					
Revenue	106	80	32.0	105	0.8
EBITDA	17	13	27.1	19	(10.5)
Margin %	16.0	16.6		18.0	
IFGL Exports					
Revenue	231	160	44.4	245	(5.5)
EBITDA	78	42	86.5	65	19.4
Margin %	33.5	26.0		26.6	
EI Ceramics (\$ mn)					
Revenue	4.53	4.74	(4.4)	4.67	(3.0)
EBITDA	0.70	0.78	(10.3)	0.69	1.4
Margin %	15.5	16.5		14.8	
Monocon (GBP mn)					
Revenue	6.14	5.47	12.2	6.41	(4.2)
EBITDA	0.43	0.34	27.7	0.27	59.3
Margin %	7.0	6.2		4.2	
Hoffmann (Euro mn)					
Revenue	2.68	2.59	3.4	2.84	(5.6)
EBITDA	0.01	0.27	(96.4)	0.46	(97.8)
Margin %	0.4	10.6		16.2	

Source: Company, Centrum Research

Earnings Revision (Cons)

Particulars* (Rs mn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	8,077	8,262	(2.2)	9,111	9,354	(2.6)
EBITDA	1,040	1,075	(3.2)	1,220	1,285	(5.0)
EBITDA Margin (%)	12.9	13.0		13.4	13.7	
PAT	472	680	(30.5)	615	841	(26.9)

Source: Centrum Research Estimates, *Merger factored in estimates

Abhisar Jain, CFA, abhisar.jain@centrum.co.in, 91 22 4215 9928

Exhibit 1: Sensitivity Analysis (FY18E)

1% change	% Chg in EBITDA	% Chg in PAT
Realizations	1.7	1.6
Volumes	1.3	1.1

Source: Company, Centrum Research Estimates

Exhibit 2: 1 year EV/EBITDA chart

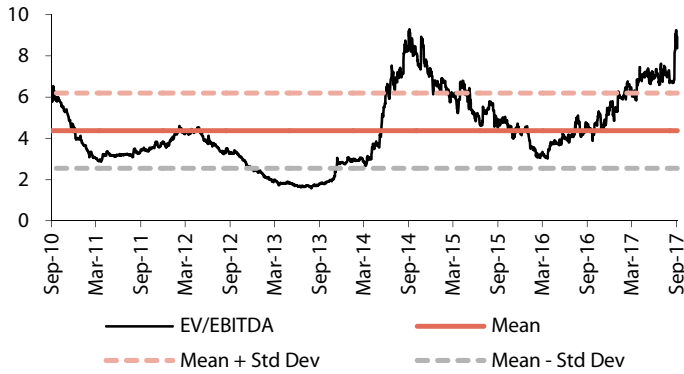
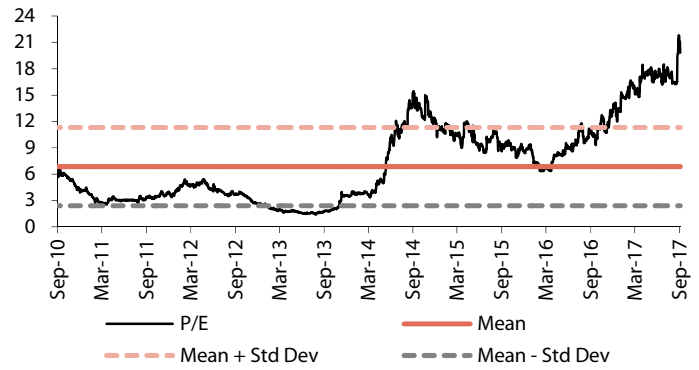


Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Valuation – Peer comparison

Company	Mkt. Cap (US\$ mn)	CAGR CY16-CY18E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E
IFGL Refractories*#	160	9.1	13.4	18.0	12.4	12.9	13.4	11.5	22.5	17.3	5.5	9.6	7.8	8.3	6.7	8.3	1.4	0.9	1.2
Vesuvius India*	447	16.0	13.9	15.9	19.0	18.6	18.4	23.4	26.9	23.0	12.9	15.9	12.7	16.8	17.2	17.5	0.8	0.7	0.8
Orient Refractories*#	291	14.5	15.4	17.1	19.5	19.7	19.8	18.6	24.1	20.2	12.5	16.1	12.9	28.8	26.6	26.7	1.7	1.3	1.5
Global Peers																			
RHI AG	1,502	2.6	8.2	17.6	11.4	12.0	12.7	11.4	14.4	12.4	6.3	7.5	7.3	14.3	15.8	16.7	3.6	2.5	2.7
Vesuvius PLC	2,062	8.4	17.2	20.8	11.8	13.0	13.8	14.3	15.8	13.8	8.3	9.0	8.7	8.4	9.1	9.9	4.3	3.1	3.2
Cie de St-Gobain	32,144	4.1	8.6	17.6	10.2	10.6	11.1	16.8	16.2	13.9	6.9	7.4	7.2	6.8	8.3	9.3	3.1	2.7	2.9

Source: Bloomberg consensus estimates,*Centrum Research Estimates, #CY16=FY17 for Orient, IFGL

Exhibit 5: Quarterly Financials (cons)

Y/E Mar (Rs mn)	Q2FY16	Q3FY16	Q4FY16	Q1FY17*	Q2FY17	Q3FY17	Q4FY17	Q1FY18*
Net sales	1849	1709	1765	1806	1932	1830	2084	1978
Accretion to Stocks in trade & work in progress	5	83	28	(42)	(60)	(49)	1	11
Cost of Raw Materials consumed	804	615	662	735	880	713	767	962
Purchase of traded goods	152	168	184	199	68	205	200	34
Staff Cost	303	286	323	310	311	309	323	326
Other Operational expenses	447	365	387	397	441	441	510	398
Operating Profit (Core EBITDA)	139	191	181	208	292	211	283	246
Depreciation	40	40	36	106	39	41	55	107
EBIT	99	151	145	101	253	171	228	139
Interest	13	11	11	11	10	10	14	11
Other Revenue/Income	17	9	14	16	9	3	7	7
Profit Before Tax	102	149	148	107	253	163	221	136
Tax	34	42	32	17	54	36	60	23
Profit After Tax	68	107	116	90	199	127	162	112
Minority Interest	9	5	10	0	21	20	25	0
Profit after minority interest	59	102	106	90	178	106	137	112
Growth (YoY %)								
Revenue	(6.8)	(10.9)	(8.4)	(2.2)	4.5	7.1	18.1	9.5
EBITDA	(41.3)	(15.0)	11.1	(17.1)	110.2	10.7	56.2	18.6
PAT	(57.5)	(17.7)	26.8	(40.8)	201.9	4.3	28.9	24.6
Margin (%)								
EBITDA	7.5	11.2	10.3	11.5	15.1	11.6	13.6	12.5
EBIT	5.3	8.8	8.2	5.6	13.1	9.3	11.0	7.0
PAT	3.2	6.0	6.0	5.0	9.2	5.8	6.6	5.7
Segment Revenue (Net Sales/ Income from ops)								
India	963	824	731	823	1012	930	1038	1036
Asia (excl. India)	110	124	26	25	142	19	24	22
Europe	560	615	607	550	635	484	560	542
Americas	408	334	402	455	453	397	461	418
Segment EBIT								
India	124	76	67	52	91	102	162	78
Asia (excl. India)	6	13	14	15	17	21	23	11
Europe	(41)	70	52	12	82	21	(9)	17
Americas	28	14	35	39	74	30	60	41

Source: Company, Centrum Research, * as per merged financials and accounting for Ind-AS

Financials (Cons)*

Exhibit 6: Income Statement

Y/E Mar(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Revenues	7,868	7,170	7,656	8,077	9,111
Materials cost	4,061	3,652	3,620	4,045	4,528
% of revenues	51.6	50.9	47.3	50.1	49.7
Employee cost	1,179	1,196	1,254	1,354	1,463
% of revenues	15.0	16.7	16.4	16.8	16.1
Others	1,706	1,562	1,834	1,638	1,900
% of revenues	21.7	21.8	24.0	20.3	20.9
EBITDA	922	760	948	1,040	1,220
EBITDA margin (%)	11.7	10.6	12.4	12.9	13.4
Depreciation & Amortisation	143	156	442	450	465
EBIT	779	604	507	590	755
Interest expenses	59	48	45	21	9
PBT from operations	720	557	461	568	746
Other income	67	51	27	30	33
Exceptional items	-	-	-	-	-
PBT	787	608	488	598	778
Taxes	254	157	46	126	163
Effective tax rate (%)	32.3	25.8	9.5	21.0	21.0
PAT	533	451	442	472	615
Minority/Associates	2	32	0	-	-
Adjusted PAT	531	418	442	472	615

Source: Company data, Centrum Research Estimates

Exhibit 7: Key Ratios

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
Growth Ratio (%)					
Revenue	1.2	(8.9)	6.8	5.5	12.8
EBITDA	(15.9)	(17.5)	24.7	9.7	17.3
Adjusted PAT	(17.0)	(21.2)	5.6	6.9	30.2
Margin Ratios (%)					
EBITDA	11.7	10.6	12.4	12.9	13.4
PBT from operations	9.2	7.8	6.0	7.0	8.2
Adjusted PAT	6.7	5.8	5.8	5.8	6.7
Return Ratios (%)					
ROE	15.8	11.4	8.3	6.7	8.3
ROCE	11.9	9.8	6.3	6.4	7.9
ROIC	12.2	10.4	6.5	7.0	9.0
Turnover Ratios (days)					
Gross block turnover ratio (x)	1.9	1.7	1.3	1.1	1.2
Debtors	84	92	109	95	95
Inventory	46	39	45	42	42
Creditors	46	50	57	50	50
Cash conversion cycle	84	81	97	87	87
Solvency Ratio (x)					
Net debt-equity	0.2	0.0	0.0	(0.1)	(0.1)
Debt-equity	0.3	0.2	0.1	0.0	0.0
Interest coverage ratio	0.1	0.1	0.1	0.0	0.0
Gross debt/EBITDA	1.3	1.1	0.9	0.3	0.1
Current Ratio	3.0	3.2	3.2	3.4	3.5
Per share Ratios (Rs)					
Adjusted EPS	15.3	12.1	12.3	13.1	17.1
BVPS	99.6	111.7	189.9	200.0	213.0
CEPS	19.5	16.6	24.5	25.6	30.0
DPS	2.0	2.0	2.0	2.6	3.4
Dividend payout %	13.0	16.5	16.3	20.0	20.0
Valuation (x)*					
P/E (adjusted)	9.5	9.1	11.5	22.5	17.3
P/BV	1.5	1.0	0.7	1.5	1.4
EV/EBITDA	6.2	5.2	5.5	9.6	7.8
Dividend yield %	1.4	1.8	1.4	0.9	1.2
5 Yr Avg AOCF/EV yield %	6.2	11.9	8.2	6.3	7.4

Source: Company data, Centrum Research Estimates

*Note – Financials from FY17 account for Ind-AS & merger

Exhibit 8: Balance Sheet

Y/E Mar(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	346	346	360	360	360
Reserves & surplus	3,102	3,521	6,484	6,846	7,317
Shareholders' fund	3,448	3,867	6,845	7,206	7,677
Total Debt (incl. pref shares if its thr)	1,162	835	807	357	157
Def tax liab. (net)	108	112	63	63	63
Minority interest	96	129	0	0	0
Total Liabilities	4,814	4,942	7,714	7,626	7,897
Gross Block	4,064	4,353	7,009	7,259	7,459
Less: Acc. Depreciation	1,584	1,778	2,219	2,670	3,135
Net Block	2,480	2,575	4,789	4,589	4,324
Capital WIP	41	20	16	16	16
Net Fixed Assets	2,521	2,595	4,805	4,605	4,340
Investments	5	85	115	115	115
Inventories	1,002	772	936	929	1,048
Sundry debtors	1,803	1,803	2,283	2,102	2,371
Cash	479	557	560	901	1,185
Loans & Advances	104	136	237	155	175
Other assets	39	33	36	36	36
Total Current Asset	3,427	3,301	4,053	4,123	4,815
Trade payables	1,000	990	1,192	1,106	1,248
Other current Liab.	30	27	61	22	25
Provisions	108	22	6	89	100
Net Current Assets	2,288	2,262	2,794	2,906	3,442
Total Assets	4,814	4,942	7,714	7,626	7,897

Source: Company data, Centrum Research Estimates

Exhibit 9: Cash Flow

Y/E Mar(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Operating profit bef working capital changes	1022	820	1071	1040	1220
Changes in working capital	(119)	180	(600)	228	(252)
Cash flow from operations	635	830	275	1143	805
Adj. OCF (OCF - Interest)	577	783	230	1121	795
Net Capex	198	167	130	250	200
Adj. FCF	379	615	100	871	595
Cash flow from investments	(165)	(222)	(2)	(220)	(167)
Cash flow from financing	(275)	(549)	(41)	(582)	(353)
Net change in cash	176	70	140	340	284

Source: Company data, Centrum Research Estimates

Appendix A

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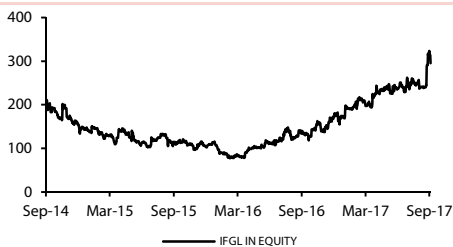
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IFGL Refractories price chart



Source: Bloomberg, Centrum Research

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Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Kavita Ravichandran
 (022) 4215 9842; Email ID: Compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address	Corporate Office & Correspondence Address
Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000