

## Continues to excel, retain Buy

We maintain Buy on Orient Refractories (ORL), with a revised TP of Rs185 as ORL has remained ahead of competition in maintaining strong growth with superlative margins (well above the industry average). Q2 performance was solid with revenue growth above expectations and margins surprising positively. ORL's growth story remains on track with increasing penetration in both domestic & export markets and margins kicker through operating leverage benefits. We remain structurally positive on ORL and believe that the tremendous scope for brownfield expansion, as well as low capital and operational costs, MNC parentage and strong return ratios make it a compelling long term bet.

- **Revenue growth remains solid:** Revenue for Q2 stood at Rs1.48bn, up 12.2% YoY, and up 4.7% QoQ. ORL's revenue growth was above our expectations and growth momentum was led by i) strong traction in exports as ORL could ramp up its sales through RHI and ii) continuation of strong business from small mills and ORL's increasing market share in the domestic market.
- **EBITDA surpasses estimates, margins remain strong:** EBITDA was above expectations at Rs292mn (Est: Rs278mn), with strong margins of 19.7% (up 70bps YoY). Gross margins were higher 90bps QoQ at 44% and there was no reversal of provisioning of ~Rs33mn towards receivables from stressed steel accounts made earlier in Q1 (NCLT cases). Management pointed out that recovery of past dues from stressed steel companies has been progressing gradually and prudence is being followed in incremental supplies.
- **Outlook – Growth prospects remain solid led by exports:** Steady revenue growth remains a key positive and we expect it to continue led by higher steel production, expansion of ISO products capacity by Q1FY19 & increased export sales through RHI group. We expect provisioning charges (against receivables) to increase if more steel accounts (particularly the mid-sized plants where ORL has higher exposure) are referred to NCLT. However, we expect ORL to recover these amounts in normal course of business and hence reverse the provisioning made in due course. Debtor days are expected to come down led by accelerated recovery efforts. ORL has been ahead of competition in maintaining strong growth with superlative margins (well above the industry average). We keep our earnings estimates unchanged.
- **Valuation and risk:** We expect EBITDA/PAT CAGR of 14.1%/16.1% for FY17-19E on the back of higher market penetration, increased sales in exports markets through RHI network and operating leverage benefits for margins. We increase our fair value FY19E P/E multiple of 24x for ORL as it continues to outperform the peers and boasts of highest return ratios and highest margins in the industry with a strong growth outlook. Reiterate Buy with a TP of Rs185. Key downside risk is lower production at mini mills and increase in bad debtors.

Y/E Mar-Cons (Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	Var. (%)
<b>Net sales</b>	<b>1,484</b>	<b>1,322</b>	<b>12.2</b>	<b>1,417</b>	<b>4.7</b>	<b>1,500</b>	<b>(1.1)</b>
Raw materials	832	726	14.6	807	3.1	870	(4.4)
Employee costs	114	106	7.4	122	(6.7)	120	(5.2)
Other expenses*	247	239	3.2	250	(1.4)	233	6.0
<b>EBITDA</b>	<b>292</b>	<b>252</b>	<b>16.0</b>	<b>238</b>	<b>22.6</b>	<b>278</b>	<b>5.3</b>
<b>EBITDA margin (%)</b>	<b>19.7</b>	<b>19.0</b>		<b>16.8</b>		<b>18.5</b>	
Depreciation	17	16	11.2	16	7.0	16	9.4
Other income	30	22	38.7	25	22.3	25	22.0
<b>PBT</b>	<b>305</b>	<b>258</b>	<b>18.3</b>	<b>247</b>	<b>23.6</b>	<b>287</b>	<b>6.5</b>
Tax	104	89	17.1	84	24.5	97	7.1
<b>PAT</b>	<b>201</b>	<b>169</b>	<b>18.9</b>	<b>163</b>	<b>23.2</b>	<b>189</b>	<b>6.2</b>

Source: Company, Centrum Research Estimates, \*including provisioning of Rs33mn in Q1FY18 for NCLT accounts

Target Price	Rs185	Key Data	
CMP*	Rs155	Bloomberg Code	ORIENT IN
Upside	19.1%	Curr Shares O/S (mn)	120.1
Previous Target	Rs170	Diluted Shares O/S(mn)	120.1
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	18.7/286.3
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	166.9/105
		5 Year H / L (Rs)	166.9/22.8
ORIENT IN	3.0 8.0 19.5	Daily Vol. (3M NSE Avg.)	95983
NIFTY	3.0 9.7 21.1		

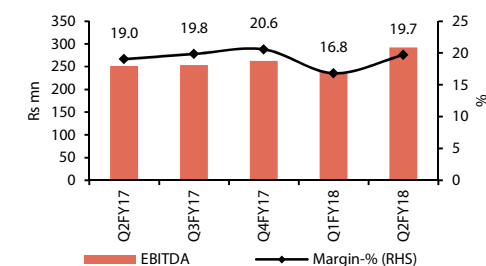
\*as on 10 November 2017; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Sep-17	Jun-17	Mar-17	Dec-16
Promoter	69.6	69.6	69.6	69.6
FII's	5.3	5.6	5.7	5.1
Dom. Inst.	5.1	5.0	4.9	6.3
Public & Others	20.0	19.8	19.8	18.9

Source: BSE, \*as on 10 November 2017

### EBITDA and margin trend



Source: Company, Centrum Research

### Earnings Revision (No change)

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	5,962	5,962	-	7,000	7,000	-
EBITDA	1,130	1,130	-	1,340	1,340	-
EBITDA Margin (%)	18.9	18.9	-	19.1	19.1	-
PAT	775	775	-	925	925	-

Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rsmn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Net Sales	5,962	5,851	1.9	7,000	6,805	2.9
EBITDA	1,130	1,142	(1.0)	1,340	1,357	(1.2)
PAT	775	765	1.3	925	907	2.0

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
6	0	1	174	185	6.3

\*as on 10 November 2017; Source: Bloomberg, Centrum Research Estimates

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Y/E Mar(Rs mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	4,514	11.9	805	17.8	528	0.0	4.4	34.4	30.7	20.1	13.0
FY16	4,589	1.7	852	18.6	558	5.6	4.6	29.8	27.5	17.9	10.9
FY17	5,194	13.2	1,030	19.8	686	22.9	5.7	28.7	24.7	17.9	10.8
FY18E	5,962	14.8	1,130	18.9	775	12.9	6.4	26.0	23.1	24.1	15.1
FY19E	7,000	17.4	1,340	19.1	925	19.4	7.7	26.2	23.1	20.2	12.5

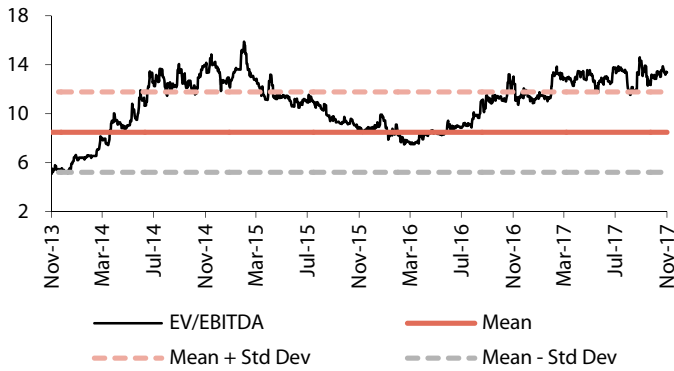
Source: Company, Centrum Research Estimates; All ratios based on average mcap for year

### Exhibit 1: Sensitivity Analysis (FY18E)

1% change	% Chg in EBITDA	% Chg in PAT
Realizations	1.2	1.1
Volumes	1.1	1.1

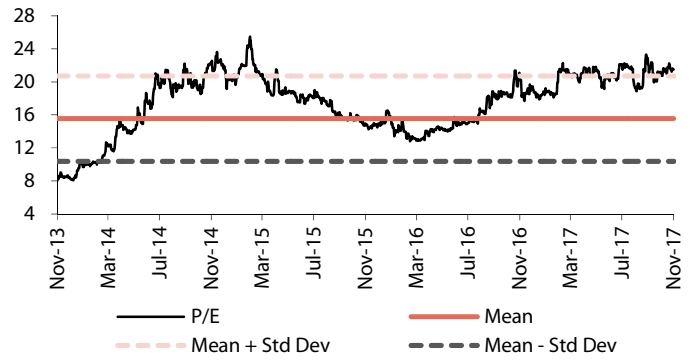
Source: Company, Centrum Research Estimates

### Exhibit 2: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 3: 1 year forward P/E chart



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
<b>Orient Refractories*#</b>	<b>286</b>	<b>16.1</b>	<b>14.1</b>	<b>16.1</b>	<b>19.8</b>	<b>18.9</b>	<b>19.1</b>	<b>17.9</b>	<b>24.1</b>	<b>20.2</b>	<b>10.8</b>	<b>15.1</b>	<b>12..5</b>	<b>28.7</b>	<b>26.0</b>	<b>26.2</b>	<b>2.5</b>	<b>1.2</b>	<b>1.5</b>
IFGL Refractories#	148	9.1	13.4	18.0	12.4	12.9	13.4	11.5	21.4	16.4	5.5	9.1	7.4	8.3	6.7	8.3	1.4	0.9	1.2
Vesuvius India	389	13.3	12.7	16.9	18.3	18.0	18.1	20.5	24.4	21.0	10.8	13.4	11.3	16.7	17.1	17.5	0.7	0.8	1.0
<b>Global Peers</b>																			
RHI AG	1,664	2.5	7.9	17.2	11.4	11.6	12.7	11.4		14.0	6.3		7.9	14.3	15.3	16.8	3.6		2.4
Vesuvius PLC	2,012	8.6	17.7	20.8	11.8	13.0	13.8	14.3	15.4	13.5	8.3	8.8	8.5	8.4	9.1	9.8	4.3	3.1	3.3
Cie de St-Gobain	31412	3.7	7.8	17.7	10.2	10.5	11.0	16.8	16.6	14.3	6.9	7.6	7.4	6.8	8.2	9.2	3.1	2.7	2.8

Source: Bloomberg consensus estimates,\*Centrum Research Estimates, #CY16=FY17 for Orient, IFGL; All ratios based on average mcap for year

### Exhibit 5: Quarterly Financials

Y/E Mar (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
<b>Net sales</b>	<b>1,145</b>	<b>1,228</b>	<b>1,319</b>	<b>1,322</b>	<b>1,281</b>	<b>1,278</b>	<b>1,417</b>	<b>1,484</b>
Other Operating Income	6	0	0	0	0	0	0	0
<b>Total Income</b>	<b>1,151</b>	<b>1,228</b>	<b>1,319</b>	<b>1,322</b>	<b>1,281</b>	<b>1,278</b>	<b>1,417</b>	<b>1,484</b>
Accretion to Stocks in trade & work in progress	(2)	42	(15)	(40)	(71)	(7)	13	57
Cost of Raw Materials consumed	461	452	513	535	490	501	537	554
Purchase of traded goods	162	200	250	231	285	235	256	221
Staff Cost	103	90	104	106	117	100	122	114
Other Operational expenses	201	189	203	239	206	186	250	247
<b>Operating Profit (Core EBITDA)</b>	<b>225</b>	<b>254</b>	<b>263</b>	<b>252</b>	<b>254</b>	<b>263</b>	<b>238</b>	<b>292</b>
Depreciation	16	15	15	16	17	15	16	17
<b>EBIT</b>	<b>210</b>	<b>239</b>	<b>248</b>	<b>236</b>	<b>237</b>	<b>248</b>	<b>222</b>	<b>275</b>
Interest	0	0	0	0	0	0	0	0
Other Revenue/Income	12	14	19	22	20	22	25	30
Exceptional items	0	0	0	0	0	0	0	0
<b>Profit Before Tax</b>	<b>222</b>	<b>253</b>	<b>267</b>	<b>258</b>	<b>256</b>	<b>269</b>	<b>247</b>	<b>305</b>
Tax	72	90	92	89	89	92	84	104
<b>Profit After Tax</b>	<b>149</b>	<b>163</b>	<b>175</b>	<b>169</b>	<b>167</b>	<b>177</b>	<b>163</b>	<b>201</b>
<b>Growth (YoY %)</b>								
Revenue	(2.0)	13.8	20.3	19.8	11.9	4.1	7.4	12.2
EBITDA	11.0	27.2	52.1	31.9	12.7	3.4	(9.4)	16.0
PAT	13.3	26.5	45.9	33.8	12.0	8.5	(6.6)	18.9
<b>Margin (%)</b>								
EBITDA	19.6	20.7	19.9	19.0	19.8	20.6	16.8	19.7
EBIT	18.2	19.5	18.8	17.9	18.5	19.4	15.7	18.5
PAT	13.0	13.3	13.2	12.8	13.0	13.8	11.5	13.5

Source: Company, Centrum Research

### Exhibit 1: Key Performance Indicators

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Shaped Refractories	3,522	3,541	3,765	4,416	5,313
Unshaped Refractories	517	497	535	563	580
Total Manufacturing Sales	4,039	4,038	4,300	4,979	5,893
Trading Sales	755	809	1,135	1,306	1,502
Sale of Services	54	67	76	79	83
Exports	736	901	1,065	1,331	1,664
Exports - % share	15.1	18.2	19.1	20.8	22.1

Source: Company, Centrum Research Estimates

## Financials

### Exhibit 2: Income Statement

Y/E Mar(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Revenues</b>	<b>4,514</b>	<b>4,589</b>	<b>5,194</b>	<b>5,962</b>	<b>7,000</b>
Materials cost	2,503	2,539	2,906	3,390	3,973
% of revenues	55.4	55.3	56.0	56.9	56.8
Employee cost	383	394	430	489	567
% of revenues	8.5	8.6	8.3	8.2	8.1
Others	823	804	828	954	1,120
% of revenues	18.2	17.5	15.9	16.0	16.0
<b>EBITDA</b>	<b>805</b>	<b>852</b>	<b>1,030</b>	<b>1,130</b>	<b>1,340</b>
EBITDA margin (%)	17.8	18.6	19.8	18.9	19.1
Depreciation & Amortisation	55	59	64	68	75
<b>EBIT</b>	<b>750</b>	<b>793</b>	<b>966</b>	<b>1,062</b>	<b>1,265</b>
Interest expenses	0	0	-	-	-
<b>PBT from operations</b>	<b>750</b>	<b>793</b>	<b>966</b>	<b>1,062</b>	<b>1,265</b>
Other income	46	54	83	112	137
<b>PBT</b>	<b>796</b>	<b>847</b>	<b>1,049</b>	<b>1,174</b>	<b>1,401</b>
Taxes	268	288	363	399	476
Effective tax rate (%)	33.6	34.1	34.6	34.0	34.0
<b>Adj. PAT</b>	<b>528</b>	<b>558</b>	<b>686</b>	<b>775</b>	<b>925</b>

Source: Company data, Centrum Research Estimates

### Exhibit 3: Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
<b>Growth Ratio (%)</b>					
Revenue	11.9	1.7	13.2	14.8	17.4
EBITDA	1.7	5.8	20.9	9.7	18.6
Adjusted PAT	0.0	5.6	22.9	12.9	19.4
<b>Margin Ratios (%)</b>					
EBITDA	17.8	18.6	19.8	18.9	19.1
PBT from operations	16.6	17.3	18.6	17.8	18.1
Adjusted PAT	11.7	12.2	13.2	13.0	13.2
<b>Return Ratios (%)</b>					
ROE	34.4	29.8	28.7	26.0	26.2
ROCE	30.7	27.5	24.7	23.1	23.1
ROIC	33.7	41.0	39.0	43.0	44.6
<b>Turnover Ratios (days)</b>					
Gross block turnover ratio (x)	7.8	6.8	6.8	7.0	7.4
Debtors	91	94	80	80	80
Inventory	58	51	57	55	55
Creditors	42	57	55	50	50
Cash conversion cycle	107	88	83	85	85
<b>Solvency Ratio (x)</b>					
Net debt-equity	(0.1)	(0.4)	(0.4)	(0.5)	(0.5)
Debt-equity	0.0	-	-	-	-
Interest coverage ratio	0.0	0.0	-	-	-
Gross debt/EBITDA	0.1	-	-	-	-
Current Ratio	2.6	2.7	3.8	3.4	3.5
<b>Per share Ratios (Rs)</b>					
Adjusted EPS	4.4	4.6	5.7	6.4	7.7
BVPS	14.1	17.0	22.7	26.9	31.9
CEPS	4.9	5.1	6.2	7.0	8.3
DPS	1.4	1.5	2.5	1.9	2.3
Dividend payout %	32	31	44	30	30
<b>Valuation (x)*</b>					
P/E (adjusted)	20.1	17.9	17.9	24.1	20.2
P/BV	6.3	4.9	4.5	5.8	4.9
EV/EBITDA	13.0	10.9	10.8	15.1	12.5
Dividend yield %	2.0	1.7	2.5	1.2	1.5
5 Yr Avg AOCF/EV yield %	3.0	4.5	4.3	3.3	3.8

Source: Company data, Centrum Research Estimates; \*All ratios based on average mcap for year

### Exhibit 4: Balance Sheet

Y/E Mar(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	120	120	120	120	120
Reserves & surplus	1,578	1,926	2,613	3,115	3,716
Shareholders' fund	1,698	2,047	2,733	3,236	3,836
Total Debt	52	-	-	-	-
Def tax liab. (net)	(8)	(7)	(4)	(4)	(4)
<b>Total Liabilities</b>	<b>1,742</b>	<b>2,040</b>	<b>2,729</b>	<b>3,232</b>	<b>3,832</b>
Gross Block	623	725	807	903	999
Less: Acc. Depreciation	291	342	399	467	542
Net Block	332	383	408	437	458
Capital WIP	40	16	47	71	95
Net Fixed Assets	372	399	455	507	552
Investments	0	0	0	0	0
Inventories	716	642	814	898	1,055
Sundry debtors	1,127	1,185	1,140	1,307	1,534
Cash	261	765	1,108	1,601	1,960
Loans & Advances	38	31	41	42	50
Other assets	15	31	40	41	48
Total Current Asset	2,157	2,655	3,143	3,889	4,647
Trade payables	515	719	776	817	959
Other current Liab.	41	53	57	62	73
Provisions	230	241	37	286	336
Net Current Assets	1,371	1,641	2,274	2,724	3,280
<b>Total Assets</b>	<b>1,742</b>	<b>2,040</b>	<b>2,729</b>	<b>3,232</b>	<b>3,832</b>

Source: Company data, Centrum Research Estimates

### Exhibit 5: Cash Flow

Y/E Mar(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Operating profit bef working capital changes	829	886	1,054	1,130	1,340
Changes in working capital	(210)	192	(78)	42	(196)
<b>Cash flow from operations</b>	<b>338</b>	<b>802</b>	<b>604</b>	<b>772</b>	<b>668</b>
Adj. OCF (OCF - Interest)	338	802	604	772	668
Net Capex	107	88	(115)	120	120
Adj. FCF	230	714	719	652	548
<b>Cash flow from investments</b>	<b>(96)</b>	<b>(42)</b>	<b>(62)</b>	<b>(8)</b>	<b>17</b>
<b>Cash flow from financing</b>	<b>(176)</b>	<b>(250)</b>	<b>(205)</b>	<b>(272)</b>	<b>(325)</b>
<b>Net change in cash</b>	<b>65</b>	<b>511</b>	<b>337</b>	<b>492</b>	<b>360</b>

Source: Company data, Centrum Research Estimates

## Appendix A

### Disclaimer

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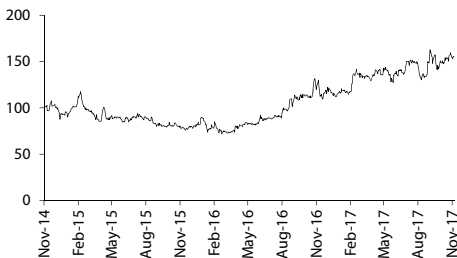
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### Orient Refractories price chart



Source: Bloomberg, Centrum Research

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<b>Hold</b>	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
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