

Strong domestic show saves the day, retain Hold

We maintain our Hold rating on IFGL Refractories as we see limited scope for further re-rating after stock's large outperformance to MNC peers in line with our view in last one year. Q2 performance was a mixed bag with domestic operations delivering strong results largely negated by weak results across all overseas subs. 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 but believe that valuations fully discount these.

- **India operations deliver excellent show but overseas disappoint:** Domestic operations delivered strong performance with revenue growth of ~23% YoY and EBITDA growth of 90% YoY to Rs219mn. EIC (US) delivered weak performance due to loss of a key customer and EBITDA dropped ~47% YoY to US\$0.43mn. European operations at both Monocon and Hoffmann had weak performance on both YoY and QoQ basis due to lower offtake and higher raw material costs.
- **Consolidated EBITDA marginally below estimates, higher tax provisioning suppresses PAT:** Consolidated EBITDA was down 9% YoY to Rs268mn and stood 3.6% below our estimates. Gross margins were under pressure due to higher RM costs and declined 380bps YoY to 50.2% and EBITDA margins stood at 13.4%. EBITDA margins were supported by strong margin performance at India operations. PAT remained suppressed by goodwill write-off and higher deferred tax provisioning.
- **Earnings revised marginally downwards:** We lower our EBITDA estimates to account for headwinds at overseas operations and revise our PAT estimates downwards to account for higher deferred tax provisioning; however we note that cash flow impact remains positive from goodwill write-off and tax benefits on the same. Our FY18E/19E EBITDA/PAT estimates are revised downwards by 1.6%/0.9% and 7.7%/6.3% respectively.
- **Valuation and risks:** We expect EBITDA/PAT CAGR of 13.0%/14.2% 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 Rs323, trades at FY19E valuations of 20.2x P/E, 8.7x EV/EBITDA and 5 year FCF yield of 6.6% and further re-rating scope is limited in our view. We retain Hold with a revised TP of Rs310 based on 14x FY19E P/E applied to EPS adjusted for goodwill write-off. We have ascribed 30% discount 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)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	Var. (%)
Net sales	1,992	1,929	3.3	1,978	0.7	1,994	(0.1)
Raw materials	992	888	11.7	1,008	(1.6)	997	(0.5)
Employee costs	310	309	0.4	326	(4.9)	319	(2.9)
EBITDA	268	294	(9.0)	246	8.6	277	(3.6)
EBITDA margin (%)	13.4	15.2		12.5		13.9	
Depreciation	107	105	1.7	107	0.2	110	(2.6)
Interest	9	10	(6.1)	11	(14.0)	11	(16.4)
PBT	158	195	(18.7)	136	16.7	166	(4.8)
Tax	64	18	262.1	23	173.9	33	92.6
PAT	94	177	(46.8)	112	(16.0)	133	(29.1)

Source: Company, Centrum Research Estimates

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
FY17	7,656	6.8	948	12.4	442	5.8	12.3	8.3	6.3	11.5	5.5
FY18E	7,981	4.2	1,024	12.8	436	5.5	12.1	6.2	6.0	26.7	10.8
FY19E	8,887	11.4	1,210	13.6	576	6.5	16.0	7.8	7.4	20.2	8.7

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

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs310	Key Data	
CMP*	Rs323	Bloomberg Code	IFGLRF IN
Downside	4.1%	Curr Shares O/S (mn)	34.6
Previous Target	Rs320	Diluted Shares O/S(mn)	34.6
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	11.8/183.8
Price Performance (%)*		52 Wk H / L (Rs)	354/154.5
	1M 6M 1Yr	5 Year H / L (Rs)	354/23.5
IFGLRF IN	0.0 32.0 83.4	Daily Vol. (20d NSE Avg.)	23334
NIFTY	(0.8) 6.5 25.3		

*as on 12 December 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Jun-17	Mar-17	Dec-16	Sept-16
Promoter	71.3	71.3	71.3	71.3
FIIs	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 12 December 2017

Subsidiary-wise quarterly key financials

(Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Standalone merged					
Revenue	1,094	887	23.3	1,060	3.2
EBITDA	219	115	90.9	169	29.5
Margin %	20.0	12.9		16.0	
EI Ceramics (\$ mn)					
Revenue	3.63	4.40	(17.5)	4.53	(19.9)
EBITDA	0.43	0.81	(47.2)	0.70	(38.6)
Margin %	11.8	18.5		15.5	
Monocon (GBP mn)					
Revenue	6.20	6.41	(3.2)	6.14	1.0
EBITDA	0.37	1.00	(62.9)	0.43	(14.0)
Margin %	6.0	15.6		7.0	
Hoffmann (Euro mn)					
Revenue	2.15	2.47	(13.0)	2.68	(19.8)
EBITDA	(0.01)	0.22	NA	0.01	NA
Margin %	(0.5)	9.0		0.4	

Source: Company, Centrum Research

Earnings Revision (Cons)

Particulars* (Rs mn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	7,981	8,077	(1.2)	8,887	9,111	(2.5)
EBITDA	1,024	1,040	(1.6)	1,210	1,220	(0.9)
EBITDA Margin (%)	12.8	12.9		13.6	13.4	
PAT	436	472	(7.7)	576	615	(6.3)

Source: Centrum Research Estimates, *Merger factored in estimates

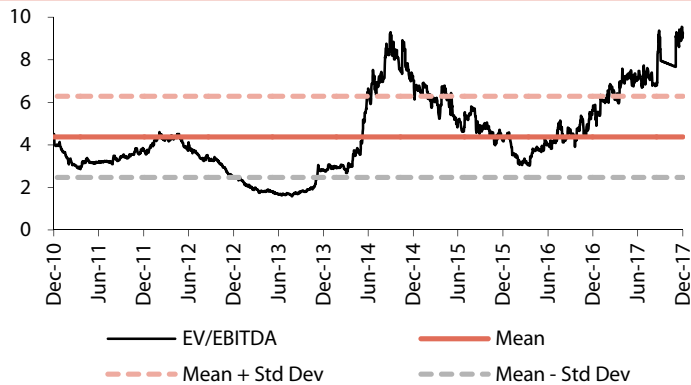
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Exhibit 1: Sensitivity Analysis (FY18E)

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

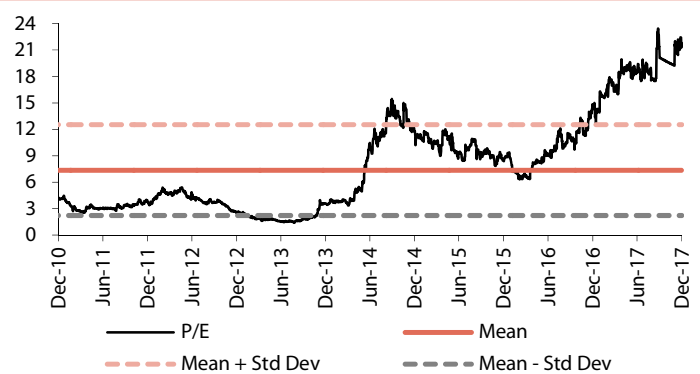
Source: Company, Centrum Research Estimates

Exhibit 2: 1 year EV/EBITDA chart



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
IFGL Refractories*#	184	7.7	13.0	14.2	12.4	12.8	13.6	11.5	26.7	20.2	5.5	10.8	8.7	8.3	6.2	7.8	1.4	0.7	1.0
Vesuvius India	386	12.6	11.0	15.2	19.0	18.1	18.5	23.4	24.4	20.2	12.9	14.8	11.5	16.8	16.8	17.7	0.8	0.7	0.9
Orient Refractories#	298	13.4	14.1	15.7	19.5	19.5	19.7	18.6	25.0	21.1	12.5	16.9	13.8	28.8	25.3	24.8	1.7	1.4	1.6
Global Peers																			
Rhi Magnesita NV	2,530	(0.5)	3.9	(7.5)	14.0	14.7	15.2		16.0	14.0		5.6	5.3	17.8	17.1	16.3		1.6	1.8
Vesuvius PLC	2,026	9.2	19.2	23.2	11.8	13.0	14.0	14.3	15.0	13.1	8.3	8.7	8.2	8.4	9.1	10.1	4.3	3.2	3.3
Cie de St-Gobain	30,570	3.7	7.7	17.5	10.2	10.5	11.0	16.8	16.1	13.8	6.9	7.4	7.1	6.8	8.2	9.2	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)	Q3FY16	Q4FY16	Q1FY17*	Q2FY17*	Q3FY17	Q4FY17	Q1FY18*	Q2FY18*
Net sales	1,709	1,765	1,806	1,929	1,830	2,084	1,978	1,992
Accretion to Stocks in trade & work in progress	83	28	(42)	(60)	(49)	1	11	15
Cost of Raw Materials consumed	615	662	735	880	713	767	962	937
Purchase of traded goods	168	184	199	68	205	200	34	40
Staff Cost	286	323	310	309	309	323	326	310
Other Operational expenses	365	387	397	438	441	510	398	423
Operating Profit (Core EBITDA)	191	181	208	294	211	283	246	268
Depreciation	40	36	106	105	41	55	107	107
EBIT	151	145	101	189	171	228	139	160
Interest	11	11	11	10	10	14	11	9
Other Revenue/Income	9	14	16	16	3	7	7	7
Profit Before Tax	149	148	107	195	163	221	136	158
Tax	42	32	17	18	36	60	23	64
Profit After Tax	107	116	90	177	127	162	112	94
Minority Interest	5	10	0	0	20	25	0	0
Profit after minority interest	102	106	90	177	106	137	112	94
Growth (YoY %)								
Revenue	(10.9)	(8.4)	(2.2)	4.3	7.1	18.1	9.5	3.3
EBITDA	(15.0)	11.1	(17.1)	111.7	10.7	56.2	18.6	(9.0)
PAT	(17.7)	26.8	(40.8)	199.8	4.3	28.9	24.6	(46.8)
Margin (%)								
EBITDA	11.2	10.3	11.5	15.2	11.6	13.6	12.5	13.4
EBIT	8.8	8.2	5.6	9.8	9.3	11.0	7.0	8.1
PAT	6.0	6.0	5.0	9.2	5.8	6.6	5.7	4.7
Segment Revenue (Net Sales/ Income from ops)								
India	824	731	823	937	930	1,038	1,036	1,070
Asia (excl. India)	124	26	25	19	19	24	22	34
Europe	615	607	550	574	484	560	542	521
Americas	334	402	455	448	397	461	418	368
Segment EBIT								
India	76	67	52	35	102	162	78	126
Asia (excl. India)	13	14	15	13	21	23	11	9
Europe	70	52	12	70	21	-9	17	13
Americas	14	35	39	86	30	60	41	20

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	FY17	FY18E	FY19E
Revenues	7,868	7,170	7,656	7,981	8,887
Materials cost	4,061	3,652	3,620	3,988	4,416
% of revenues	51.6	50.9	47.3	50.0	49.7
Employee cost	1,179	1,196	1,254	1,304	1,408
% of revenues	15.0	16.7	16.4	16.3	15.8
Others	1,706	1,562	1,834	1,665	1,853
% of revenues	21.7	21.8	24.0	20.9	20.9
EBITDA	922	760	948	1,024	1,210
EBITDA margin (%)	11.7	10.6	12.4	12.8	13.6
Depreciation & Amortisation	143	156	442	450	465
EBIT	779	604	507	573	745
Interest expenses	59	48	45	21	9
PBT from operations	720	557	461	552	735
Other income	67	51	27	30	33
Exceptional items	-	-	-	-	-
PBT	787	608	488	582	768
Taxes	254	157	46	145	192
Effective tax rate (%)	32	26	10	25	25
PAT	533	451	442	436	576
Minority/Associates	2	32	-0	-	-
Adjusted PAT	531	418	442	436	576

Source: Company data, Centrum Research Estimates

Exhibit 7: Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Growth Ratio (%)					
Revenue	1.2	(8.9)	6.8	4.2	11.4
EBITDA	(15.9)	(17.5)	24.7	8.0	18.2
Adjusted PAT	(17.0)	(21.2)	5.6	(1.3)	32.1
Margin Ratios (%)					
EBITDA	11.7	10.6	12.4	12.8	13.6
PBT from operations	9.2	7.8	6.0	6.9	8.3
Adjusted PAT	6.7	5.8	5.8	5.5	6.5
Return Ratios (%)					
ROE	15.8	11.4	8.3	6.2	7.8
ROCE	11.9	9.8	6.3	6.0	7.4
ROIC	12.2	10.4	6.5	6.5	8.5
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	12.1	16.0
BVPS	99.6	111.7	189.9	199.2	211.4
CEPS	19.5	16.6	24.5	24.6	28.9
DPS	2.0	2.0	2.0	2.4	3.2
Dividend payout %	13.0	16.5	16.3	20.0	20.0
Valuation (x)*					
P/E (adjusted)	9.5	9.1	11.5	26.7	20.2
P/BV	1.5	1.0	0.7	1.6	1.5
EV/EBITDA	6.2	5.2	5.5	10.8	8.7
Dividend yield %	1.4	1.8	1.4	0.7	1.0
5 Yr Avg AOCF/EV yield %	6.2	11.9	8.2	5.7	6.6

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	FY17	FY18E	FY19E
Equity Share Capital	346	346	360	360	360
Reserves & surplus	3,102	3,521	6,484	6,818	7,259
Shareholders' fund	3,448	3,867	6,844	7,179	7,620
Total Debt	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	7,599	7,840
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	918	1,023
Sundry debtors	1,803	1,803	2,283	2,077	2,313
Cash	479	557	560	896	1,182
Loans & Advances	104	136	237	153	170
Other assets	39	33	36	36	36
Total Current Asset	3,427	3,301	4,053	4,081	4,724
Trade payables	1,000	990	1,192	1,093	1,217
Other current Liab.	30	27	61	22	24
Provisions	108	22	6	87	97
Net Current Assets	2,288	2,262	2,794	2,878	3,385
Total Assets	4,814	4,942	7,714	7,599	7,840

Source: Company data, Centrum Research Estimates

Exhibit 9: Cash Flow

Y/E Mar(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Operating profit bef working capital changes	1,022	820	1,071	1,024	1,210
Changes in working capital	(119)	180	(600)	251	(221)
Cash flow from operations	635	830	275	1,130	797
Adj. OCF (OCF - Interest)	577	783	230	1,108	787
Net Capex	198	167	130	250	200
Adj. FCF	379	615	100	858	587
Cash flow from investments	(165)	(222)	(2)	(220)	(167)
Cash flow from financing	(275)	(549)	(41)	(573)	(344)
Net change in cash	176	70	140	336	285

Source: Company data, Centrum Research Estimates

Appendix A

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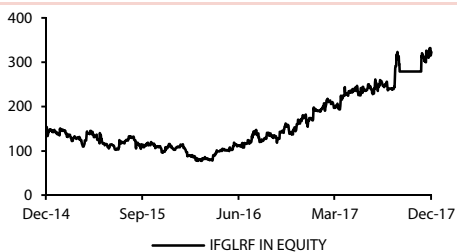
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IFGL Refractories price chart



Source: Bloomberg, Centrum Research

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