



RESULT UPDATE

ORIENT REFRACTORIES

Exports strong; domestic revives

India Equity Research | Miscellaneous



Orient Refractories' (ORL) Q4FY18 revenue soared ~41% YoY (20% above estimate) led by jump in both exports and domestic segments. EBITDA margin expanded ~200bps YoY to an all-time high of 22.9%. For FY18, sales grew 21% YoY (~50% YoY growth in exports and 10% plus in domestic). ORL guided for ~12-15% YoY sales growth in FY19 on exports growth of ~25%, riding commissioning of Isostatic plant, and domestic growth of ~10%, following revival in steel production. We raise FY19/20E PAT by ~5%/4% (15% CAGR over FY18-20) on strong exports & domestic markets. Maintain 'BUY' with a revised TP of INR208 (INR198 earlier).

Robust export growth sustains; domestic demand driven by bricks

Revenue grew ~41% YoY, led by spurt in exports and domestic segments. Exports jumped to ~INR460mn (vs. INR430mn in Q3FY18). For FY18, exports grew ~50% YoY on outsourcing from parent & RHI (~45% of exports) and strong direct exports to Bangladesh and Indonesia (~55% of exports). **Management guided for export growth of ~25% YoY in FY19, riding recent commissioning of the Isostatic plant.** For FY18, domestic grew by strong ~10% plus YoY, led by bricks (imported from parent, ~INR250mn revenue pa), lining material and demand revival from Bhushan Steel, Sunflag & Mukand). **Management guided for ~10% YoY domestic growth on expected revival in steel production.** For Q4FY18, EBITDA surged ~50% YoY (23% growth for full year), led by price hikes, better inventory management and favourable currency.

Key growth drivers

For FY18, while revenue grew 21% YoY (exports up ~50%, domestic up ~10% plus YoY), EBITDA spurted ~23% YoY. **Management guided for strong overall growth of ~12-15% YoY led by:** i) strong exports to RHI led by **commissioning of Isostatic plant** - with the products already approved by customers, ORL expects to operate at ~200 tonne per month and generate ~INR500mn incremental sales over FY19-20; and ii) growing opportunity in domestic market with expected revival in domestic steel production (up ~7%) and positive outcome from NCLT proceedings.

Outlook and valuations: Positive; maintain 'BUY'

Factoring in improving domestic market share and strong exports opportunity (on increasing sourcing by the parent, RHI and additional capacities), we maintain **'BUY'** with TP of INR208 (22x FY20E EPS). At CMP, the stock trades at 19.2x FY20E EPS

Financials

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net rev. (INR mn)	1,789	1,267	41.1	1,578	13.3	6,268	7,203	8,311
EBITDA (INR mn)	409	264	55.0	331	23.6	1,270	1,411	1,660
Adj. PAT (INR mn)	275	178	54.5	220	24.9	858	960	1,133
Adj. Dil. EPS (INR)	2.3	1.5	54.5	1.8	24.9	7.1	8.0	9.4
Diluted P/E (x)							22.6	19.2
EV/EBITDA (x)							14.3	12.0
ROAE (%)							27.6	28.1

EDELWEISS RATINGS	
Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: ORRE.BO, B: ORIENT IN)	
CMP	: INR 180
Target Price	: INR 208
52-week range (INR)	: 187 / 124
Share in issue (mn)	: 120.1
M cap (INR bn/USD mn)	: 22 / 284
Avg. Daily Vol. BSE/NSE ('000)	: 72.6

SHARE HOLDING PATTERN (%)			
	Current	Q3FY18	Q2FY18
Promoters *	69.6	69.6	69.6
MF's, FI's & BKs	5.2	5.1	5.1
FII's	5.1	4.9	5.3
Others	20.0	20.3	20.0
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)			
	BSE Midcap Index	Stock	Stock over Index
1 month	(5.2)	10.3	15.5
3 months	(4.3)	5.6	9.9
12 months	7.8	32.1	24.4

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May 18, 2018

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	1,789	1,267	41.1	1,578	13.3	6,268	7,203	8,311
Raw material	981	729	34.6	851	15.3	3,471	4,114	4,748
Staff costs	119	88	34.6	118	0.8	473	568	642
Other expenses	279	186	49.8	278	0.4	1,054	1,111	1,261
Total expenditure	1,380	1,004	37.5	1,247	10.6	4,997	5,792	6,651
EBITDA	409	264	55.0	331	23.6	1,270	1,411	1,660
Depreciation	17	15	13.1	17	(1.9)	68	74	86
EBIT	392	249	57.6	314	25.0	1,202	1,337	1,574
Interest			(100.0)					
Other income	29	22	34.9	21	37.3	106	117	143
Add: Prior period items								
Add: Exceptional items								
Profit before tax	421	271	55.7	335	25.8	1,308	1,454	1,717
Provision for taxes	147	93	58.1	115	27.6	450	494	584
Minority interest								
Associate profit share								
Reported net profit	275	178	54.5	220	24.9	858	960	1,133
Adjusted Profit	275	178	54.5	220	24.9	858	960	1,133
Diluted shares (mn)	120	120		120		120	120	120
Adjusted Diluted EPS	2.3	1.5	54.5	1.8	24.9	7.1	8.0	9.4
Diluted P/E (x)							22.6	19.2
EV/EBITDA (x)							14.3	12.0
ROAE (%)							27.6	28.1
As % of net revenues								
Raw material	54.9	57.5		53.9		55.4	57.1	57.1
Employee cost	6.7	7.0		7.5		7.5	7.9	7.7
Other expenses	15.6	14.7		17.6		16.8	15.4	15.2
EBITDA	22.9	20.8		21.0		20.3	19.6	20.0
Reported net profit	15.4	14.0		13.9		13.7	13.3	13.6

Company Description

The RHI Group holds about 69.6% of ORL India's share capital. ORL is now part of the RHI Group of Austria, globally the number two player in the design, engineering, manufacture and delivery of refractory products, systems and services for high-technology industrial applications. The parent clocked revenues of Euro1.75bn and EBIT of Euro111mn, as of CY13. In India, ORL is the second largest player in the steel flow control process segment, with market share of ~30%.

Strong technological prowess and rich product portfolio enables the company to partner with a steel company right from the capacity formulation stage. It has a technology licence agreement with parent, but pays meager royalty and technical fees of INR1.75lakh.

The company clocked 84% of overall gross sales from manufactured sales in FY15. Within overall sales, 73% comprise shaped and balance 11% unshaped. ORL also generated 16% of overall revenue from trading of refractories.

Investment Theme

Global refractory major RHI's (No.2) strong focus on emerging markets and profitability was vindicated by its acquisition of 69.6% in Orient Refractories (ORL), a leading player in India's profitable steel flow control segment. ORL clocked strong non-cyclical 12% sales and 7% EBIT CAGR along with 16.5% EBIT margin and average RoE of 40% over FY13-15. Considering 27% gross block expansion, robust fixed asset turnover of over 6x, ~60% unoccupied land and parent's robust portfolio approach which will expand clientele, the company is well placed to capitalise the parent's target of doubling ORL's sales to tap the emerging markets opportunity and make it an exports hub.

Key Risks

Delay in recovery in key segment

The industry is dependent on imports of key raw materials like high grade alumina, bauxite, magnesite, silicon carbide, etc. China is a major supplier of imports and has imposed heavy taxes on export of raw material of refractories. This has resulted in sharp increase in imported raw material costs. Imports constitute ~11% of net sales. This also includes currency headwinds on ~25% of raw material costs which are imported. Also, the company exports ~16% of sales, making it a net exporter.

Currently, royalty, trademark and service fees, as a percentage of overall sales, stand at mere INR 1.75lakh, whereas some others have received an average 1.3-1.7% of net sales for in case of Vesuvius India.

International players like Vesuvius Plc. which have a strong leadership position in steel flow control process globally, Krosaki Harima which bought 51% in Tata Refractories, Calderys, part of Imerys of France which acquired ACE Refractories are all setting up base in India through the acquisition route. This will heighten competition in the refractories industry going ahead.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Raw Material (% net rev)	56.0	55.4	54.4	57.1
Shaped volume growth	10.8	15.4	15.0	12.0
Unshaped volume growth	9.4	25.0	18.0	11.0
Export revenue growth	30.0	30.0	30.0	30.0
Spray Mass sales growth	15.0	15.0	15.0	15.0
Others sales growth	94.4	30.0	10.0	23.0
Manufactured	79.1	78.6	86.0	77.5
Traded	20.9	21.4	14.0	22.5
Mfg. gross margin (%)	0.5	48.3	51.5	48.5
Traded gross margin (%)	24.1	24.0	12.2	23.0
Employee (% of net rev)	8.2	7.5	8.8	7.7
Admin exp(as % of rev)	4.9	6.0	5.5	4.6

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	5,194	6,266	7,203	8,311
Materials costs	2,906	3,471	4,114	4,748
Gross profit	2,288	2,796	3,089	3,563
Employee costs	425	473	568	642
Other Expenses	829	1,054	1,111	1,261
Operating expenses	1,254	1,527	1,678	1,903
Total operating expenses	4,160	4,997	5,792	6,651
EBITDA	1,034	1,269	1,411	1,660
Depreciation	63	68	74	86
EBIT	971	1,201	1,337	1,574
Less: Interest Expense	-	-	-	-
Add: Other income	82.63	106.22	117.3	143.3
Profit Before Tax	1,053	1,307	1,454	1,717
Less: Provision for Tax	364	450	494	584
Reported Profit	689	857	960	1,133
Adjusted Profit	689	857	960	1,133
Shares o /s (mn)	120	120	120	120
Adjusted Basic EPS	5.7	7.1	8.0	9.4
Diluted shares o/s (mn)	120	120	120	120
Adjusted Diluted EPS	5.7	7.1	8.0	9.4
Adjusted Cash EPS	6.3	7.6	8.6	10.1
Dividend per share (DPS)	2.5	2.5	3.2	3.7
Dividend Payout Ratio(%)	52.2	42.0	47.5	47.6

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Gross margin	44.0	44.6	42.9	42.9
Operating expenses	24.1	24.4	23.3	22.9
EBITDA margins	19.9	20.2	19.6	20.0
EBIT margins	18.7	19.2	18.6	18.9
Interest Expense	-	-	-	-
Net Profit margins	13.3	13.7	13.3	13.6

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	13.2	20.6	15.0	15.4
EBITDA	21.3	22.8	11.2	17.6
PBT	24.4	24.1	11.3	18.1
Adjusted Profit	23.4	24.3	12.0	18.1
EPS	23.4	24.3	12.0	18.1

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	120	120	120	120	
Reserves & Surplus	2,613	3,109	3,613	4,206	
Shareholders' funds	2,733	3,229	3,733	4,327	
Long Term Liabilities	39	9	9	9	
Def. Tax Liability (net)	(4)	(15)	-	-	
Sources of funds	2,768	3,224	3,742	4,336	
Gross Block	807	866	1,016	1,196	
Net Block	408	399	475	569	
Capital work in progress	47	140	80	80	
Intangible Assets	4	3	3	3	
Total Fixed Assets	459	542	558	651	
Non current investments	-	-	-	-	
Cash and Equivalents	1,108	1,207	1,509	1,772	
Inventories	814	911	1,081	1,262	
Sundry Debtors	1,140	1,594	1,447	1,667	
Loans & Advances	41	55	55	55	
Other Current Assets	40	167	167	167	
Current Assets (ex cash)	2,035	2,727	2,749	3,152	
Trade payable	776	1,046	779	910	
Other Current Liab	55	205	295	329	
Total Current Liab	831	1,250	1,074	1,239	
Net Curr Assets-ex cash	1,204	1,477	1,675	1,912	
Uses of funds	2,768	3,224	3,742	4,336	
BVPS (INR)	22.7	26.9	31.1	36.0	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	689	857	960	1,133	
Add: Depreciation	63	68	74	86	
Interest (Net of Tax)	-	-	-	-	
Others	(69)	(106)	(117)	(143)	
Less: Changes in WC	78	273	199	237	
Operating cash flow	604	546	718	839	
Less: Capex	115	151	90	180	
Free Cash Flow	490	395	628	659	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		604	546	718	839
Financing cash flow		(205)	(254)	(339)	(397)
Investing cash flow		(62)	(151)	(13)	(202)
Net cash Flow		337	141	366	240
Capex		(115)	(151)	(90)	(180)
Dividend paid		(205)	(360)	(456)	(540)

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROACE (%)		44.1	43.8	41.8	42.6
ROAE (%)		28.8	28.7	27.6	28.1
Inventory Days		91	91	88	90
ROA		28.5	28.6	27.6	28.1
Debtors Days		82	80	77	68
Payable Days		94	96	81	65
Cash Conversion Cycle		79	75	84	93
Current Ratio		3.8	3.1	4.0	4.0
Debt / Cap employed (%)		29.9	38.3	28.7	28.6

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		2.1	2.1	2.1	2.1
Fixed Asset Turnover		13.1	15.4	16.4	15.8
Equity Turnover		2.2	2.1	2.1	2.1

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		5.7	7.1	8.0	9.4
Y-o-Y growth (%)		23.4	24.3	12.0	18.1
Adjusted Cash EPS (INR)		6.3	7.6	8.6	10.1
Diluted P/E (x)		31.4	25.3	22.6	19.1
P/B (x)		7.9	6.7	5.8	5.0
EV / Sales (x)		4.0	3.3	2.8	2.4
EV / EBITDA (x)		19.9	16.1	14.3	12.0
Dividend Yield (%)		1.4	1.4	1.8	2.1

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Orient Refractories	284	22.6	19.1	14.3	12.0	27.6	28.1
Vesuvius India	390	22.9	19.6	12.4	10.5	16.5	16.8
Median	-	22.7	19.4	13.3	11.2	22.0	22.5
AVERAGE	-	22.7	19.4	13.3	11.2	22.0	22.5

Source: Edelweiss research

Additional Data

Directors Data

Dr. Vijay Sharma	Chairman	Parmod Sagar	Managing Director
R S Bajoria	Director	Verena Buzzi	Director
Erwin Jankovits	Director	Reinhold Steiner	Director

Auditors - M/s. Deloitte Haskins & Sells

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
Pinebridge Investment	5.83	ING Group	0.27
SBI Funds Management	4.25	Sundaram Asset Management	0.26
Birla Sunlife Asset Management	1.87	BOI Axa Investment Managers	0.22
Daiwa Asset Management (India)	1.58	Dimensional Fund Advisors	0.18
L & T Mutual Fund	1.05	HDFC Asset Management	0.01

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

AIA Engineering, Apar Industries Ltd, Aarti Industries, Agro Tech Foods, Balkrishna Industries, CCL Products India, Essel Propack, Orient Refractories, Supreme Industries, Solar Industries, SRF, Vesuvius India, VIP Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
16-May-18	AIA Engineering	Robust volume surge drives growth; <i>Result Update</i>	1510	Buy
15-May-18	Aarti Industries	All - round growth imminent; <i>Result Update</i>	1301	Buy
14-May-18	Solar Industries	Growth drivers intact; <i>Result Update</i>	1069	Buy

Distribution of Ratings / Market Cap

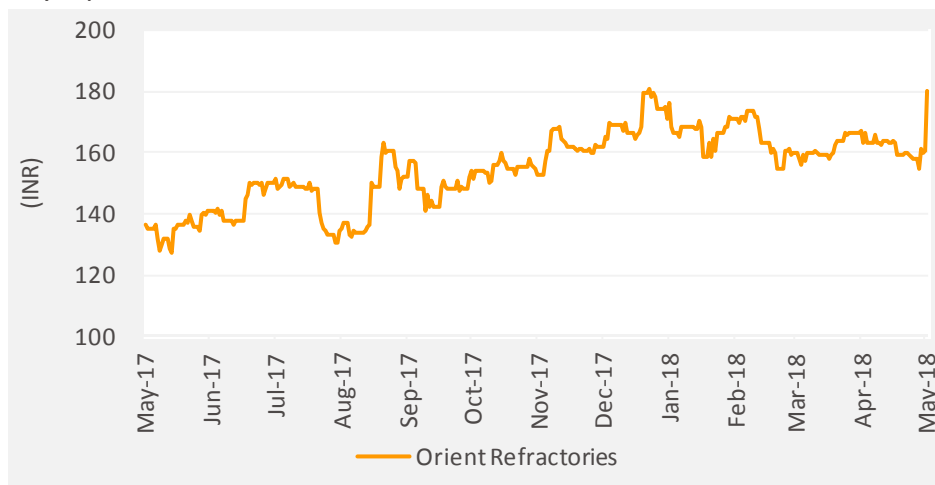
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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