

IFGL Refractories Ltd.

"Strong Fundamentals....."

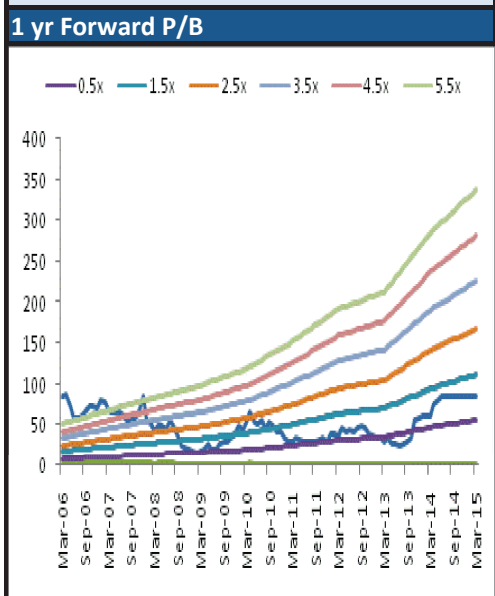
"Buy"
14th May' 14

Result update	Buy
CMP	91
Target Price	115
Previous	80
Upside	26%
Change from	30%

Market Data	
BSE Code	532133
NSE Symbol	IFGLREFRAC
52wk Range	24/90
Mkt Capital	309
Average Daily	6,366
Nifty	7,109

Stock Performance-%	1M	1yr	YTD
Absolute	21.1	169.6	47.0
Rel. to Nifty	16.2	152.5	41.0

Share Holding Pattern-%	4QFY14	3QFY14	2QFY14
Promoters	71.3	71.3	71.3
FII	0.0	0.0	0.0
DII	1.1	2.2	2.2
Others	27.7	26.5	26.5



Here is why:

- Revival in steel industry to benefit immensely for IFGL.
- Strong FY14 result gives confidence for its performance in coming fiscal.
- The stock is trading at considerable discount to its immediate competitor.

IFGL Refractories reported a top line of Rs 200.3 crore, which is a 21.8% yoy increase. The growth was mainly on account of a strong performance by UK & USA subsidiaries and the satisfactorily growth in Indian subsidiaries. EBITDA margin surge by 830 bps yoy and stands at 14.0% as on 4QFY14, which result in EBITDA of Rs 28.2 crore, 198.9% yoy Increase. Consequently a company reported a 629.2% yoy increase in profit after tax to Rs. 15.8 crore and 10.4% qoq increase.

During FY14, sales on consolidated basis advanced 15.9% to Rs 777.6 crore and net profit rose 126.8% to Rs 64.0 crore yoy. OPM and NPM stood at 14.5% and 8.5% compared to 9.3% and 3.8% respectively in FY13. FY14 EPS stands at Rs 18.5 Vs Rs 8.2 in FY13. A dividend of 17.5% has been proposed paid.

Low leverage balance sheet and attractive valuations augurs well :

IFGL reported debt equity ratio of 0.30x in Sep FY13, even after the series of acquisitions, and we expect it to gradually reduce over time to 0.28x in FY15E. Company having an uninterrupted dividend paying record for the past four years. Promoters holding more than 70 % stake (NIL pledged) in the company and another 7 % is held by large investors. At a time the steel industry is showing revival, We expect IFGL will report its best ever performance in this full year. Considering industry's improving prospects, stabilization of production from its newly built plant at Kandla SEZ and out performance of company in its financials, We don't expect any scope for deep correction, hence recommending a BUY.

Outlook

Continuous casting is gradually replacing conventional ingot route of production. In response to these new technologies, there has been an ongoing development of newer types of refractories. Amongst major expansions companies like SAIL, Tata Steel, RINL, JSW Steel, JSPL, Essar Steel and POSCO have opted for continuous casting route. To serve burgeoning prospects of concast products IFGL's new plant at Kandla has major focus on these products. Major business of refractory company is closely related to the growth in steel sector. As there are some signs of revival in steel sector, being a global player, IFGL is the first to get benefit from this revival.

Valuation :

At CMP of INR 89, IFGL is trading at P/E of 4.4x and 3.7x its FY15E and FY16E earnings. Company can post the EPS of Rs 20.2/23.8 in FY14/15E and RoE% of 17.9%/17.7% in FY14/15E . We continue to maintain our "BUY" rating on the stock with an 12 months price target price of Rs 115.0 at 5.7x FY15E earnings.

Financials	Rs, Crore				
	4QFY14	3QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	200.3	194.7	2.9%	164.5	21.8%
EBITDA	28.2	27.2	3.6%	9.4	198.9%
PAT	15.8	14.3	10.4%	2.2	629.2%
EBITDA Margin	14.1%	14.0%	10 bps	5.7%	840 bps
PAT Margin	8.2%	7.4%	80 bps	1.1%	710 bps

(Source: Company/ Eastwind Research)

(Consolidated)

IFGL Refractories Ltd.

Revival in steel industry to benefit immensely for IFGL

Steel industry is a major consumer of refractories (Consuming around 70% of total production), thus has decisive influence on R&D focus of refractory industry. Developments in MgO-C refractories, castables and refractories for continuous casting have replaced major portion of conventional alumina bricks. At present, steel ladle is the major consumer of refractories. China is a biggest consumer of refractories due to increasing steel production. However, China is able to suffice its domestic demand due to availability of raw materials and is not dependent on the imports.

IFGL trades in refractory based solutions and steel industry comprises the biggest group of its customers. Hence anything that affects the steel industry will have its one off effect on IFGL's business. India is set to emerge as the second largest producer and consumer of steel in the next few years and refractory being an essential requirement in steel industry will see increased demand. s topline.

IFGL now have manufacturing facilities in China, Czech Republic, Germany, India, UK and USA, an Indian Multinational Company from S K Bajoria Group. In India, the company has facilities in Rourkela, in Odhisa, and Kandla, in Gujarat. IFGL has three subsidiaries with 19 step down subsidiaries

Revival in steel industry to benefit immensely for IFGL

Market participants have started talking about upcoming market revival in the near future. The global markets are also trading at their all time highs. And as the market revival is expected, the steel industry will be one of the most benefited industries. Adding to this, one can clearly see some signs of recovery in steel industry also. There is consensus of 2.6 per cent CAGR for steel production by 2015. Further the demand for steel is expected to boost due to strong economic growth in emerging markets. To take the benefit of revival in steel industry, we are recommending IFGL Refractories to our reader in this issue's "Low Price Scrip" column. IFGL is a manufacturer of continuous casting and special grade refractories which are widely used in steel industry. Statistics showed that more than 75 per cent of the refractories produced worldwide are consumed by the single steel industry. Furthermore, the increased capital expenditure by steel majors across both in India and globally will have strong positive for the refractory industry.

IFGL Growth Story

Over the years, IFGL has become a global player with manufacturing capacities in Brazil, China, Czech Republic, Germany, India, UK and USA. The company has significantly expanded its product portfolio and scaled up its capacities through both inorganic and organic ways of expansions. In the last few years, it acquired various overseas capacities through its subsidiaries Monocon International and Hoffman Ceramics. This very fact has helped IFGL to spread its operations in six countries now. In India, IFGL has recently has recently set up Greenfield plant in Kandla export processing zone. In addition to these products for steel sector, IFGL has set up the manufacturing plant for of Bio Ceramic, which makes dental implants, bone implants, hip joints and widely used for dental and orthopedic applications. Vesuvius was traditionally the largest Indian refractory company in terms of revenues. However, IFGL has taken over Vesuvius and became the largest listed player in India in the refractory sector.

IFGL Refractories Ltd.

Key financials :

PARTICULAR	2009A	2010A	2011A	2012A	2013A	2014E	2014A	2015E	2015E
Performance									
Revenue	398	415	471	604	671	772	778	894	1028
Other Income	2	3	5	3	4	3	3	3	3
Total Income	401	419	476	607	676	776	781	898	1032
EBITDA	27	58	43	75	58	106	110	123	141
EBIT	20	50	34	62	45	89	94	106	124
Depreciation	7	8	9	13	13	17	15	17	17
Intrest Cost	10	5	6	7	8	7	7	7	7
PBT	13	49	33	58	41	85	89	102	120
TAX	7	15	8	18	16	27	25	32	38
Derrivative Loss	0	0	0	0	0	0	0	0	0
Reported PAT	6	34	24	40	25	58	64	70	82
Dividend	2	2	0	3	7	7	8	8	8
EPS	1.8	9.7	7.0	11.5	7.3	16.8	18.5	20.2	23.8
DPS	0.7	0.6	0.0	0.7	2.0	2.0	2.4	2.4	2.4
Yeild %									
EBITDA %	6.9%	13.9%	9.1%	12.3%	8.7%	13.7%	14.1%	13.8%	13.8%
NPM %	1.5%	8.0%	5.1%	6.6%	3.8%	7.5%	8.2%	7.8%	8.0%
Earning Yeild %	9.7%	17.6%	22.9%	29.2%	23.7%	27.2%	29.9%	22.2%	26.2%
Dividend Yeild %	3.7%	1.1%	0.0%	1.8%	6.6%	3.3%	3.9%	2.6%	2.6%
ROE %	5.3%	24.6%	15.0%	19.2%	11.0%	20.3%	19.5%	17.9%	17.7%
ROCE%	2.8%	15.6%	8.3%	11.9%	7.1%	14.6%	15.0%	14.2%	14.6%
Position									
Net Worth	114	137	161	207	231	287	329	391	465
Total Debt	100	79	129	127	129	110	98	100	100
Capital Employed	214	216	290	335	360	397	427	491	565
No of Share	3	3	3	3	3	3	3	3	3
CMP	18	55	31	39	31	62	62	91	91
Valuation									
Book Value	32.8	39.6	46.6	59.9	66.7	83.0	95.1	112.8	134.3
P/B	0.5	1.4	0.7	0.7	0.5	0.7	0.7	0.8	0.7
Int/Coverage	2.1	11.1	5.7	9.1	5.6	12.2	13.5	14.5	17.0
P/E	10.3	5.7	4.4	3.4	4.2	3.7	3.3	4.5	3.8

(Source: Company/ Eastwind Research)