

## Company Report

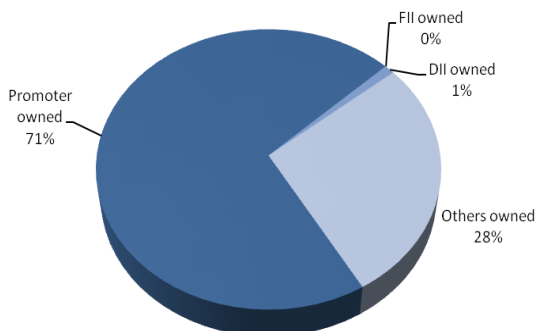
### IFGL Refractories Ltd.

27<sup>th</sup> May, 2014**BUY****CMP** **Rs.114.20****Target Price** **Rs.145.00**

BSE Code	532133
NSE Code	IFGLREFRAC
Market Cap (Rs Cr.)	395.13
52 Week High/Low	122.00/24.00
Industry	Other Industrial Goods
Face Value	Rs.10.00
Shares O/S	3.46 Cr.

EPS	18.25
Book Value	90.87
P/E	6.25
P/B	1.26

#### Shareholding Pattern



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- IFGL Refractories Ltd is a leading manufacturer of specialized Refractories having manufacturing facilities in China, Germany, India, UK and USA. Krosaki Harima Corporation (a subsidiary of Nippon Steel Corporation, Japan) is the technology provider. Also engaged in manufacture of foundry ceramics and bio ceramics.
- The company has registered robust results for the quarter ending March 2014. The revenues from operations grew by ~22% to Rs.200.33 crores vs. Rs.164.05 cr. in the corresponding quarter last year. Operating profit climbed sharply by ~216% at about Rs.28.22 crores as against Rs.8.92 crores in the previous year quarter. The adjusted net profit grew manifold at Rs.15.75 crore for the quarter as compared to Rs.2.16 crore. EPS for the quarter stood at Rs.4.55.
- Revenue from India grew by 13.46% at Rs.94.08 crores in Q4FY14 from Rs.82.92 crores y-o-y. Asia revenues excluding India degrew by 7.11% at Rs.15.55 crores. Europe revenues skyrocketed by 40.66% at Rs. 76.42 crores from Rs.54.33 crores y-o-y. Revenues from America grew by 12.43% at Rs.38.63 crores from Rs.34.36 crores y-o-y.
- IFGL Refractories is all set to expand capacity at Kandla in Gujarat and Ohio in the US, to two fold. The expansion will cost an around \$2 million and will be funded through internal accruals. The project is scheduled to be initiated this year.

### Valuation

With strong capacity expansion plans; increasing global presence; strong customer base; improved financial performance and effective cost rationalization measures; IFGL Refractories Ltd. growth prospects and profitability looks positive. We believe the company is trading at an attractive valuation at 5.10x and 4.19x of FY15EPS of Rs.22.38 and FY16EPS of Rs.27.24. We initiate a 'BUY' on the stock with a target price of Rs.145 (appreciation of about 27%) with the medium to long term investment horizon.

## Business Details

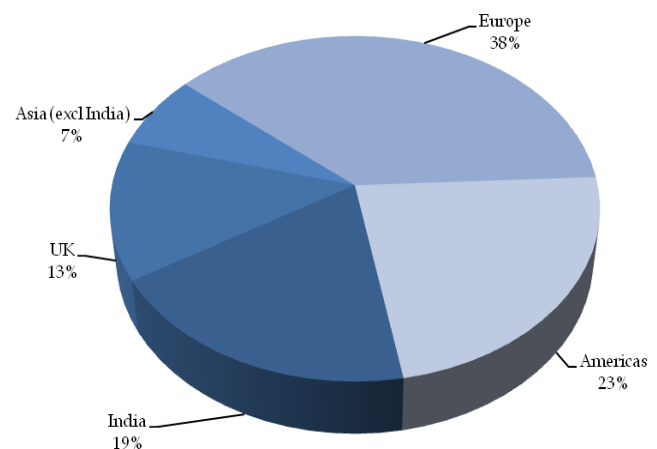
IFGL Refractories was established in 1989 and is the flagship company of S K Bajoria Group. It is engaged in the manufacture of specialized refractories and requisite operating systems for the Steel Industry. Headquartered at Kolkata, the Group has diverse business interests ' Special Refractories, Re-Insurance and Industrial Risk Management. IFGL Refractories is a leading manufacturer of specialized refractories and has manufacturing facilities in India, UK, US, China, Germany. Its technology partner of the Indian company is Krosaki Harima. It is a subsidiary of Nippon Steel Corporation, leading steel manufacturer in Japan. IFGL group manufactures specialized refractory for flow control of steel and treatment of quality thereof. Company is also engaged in manufacturing of foundry ceramic filters. It has a large pool of well trained engineers and application specialists to offer customers total solution in refractory needs for flow control in steel teeming and continuous casting of steel.

Its product range is isostatically pressed continuously casting refractories, slide gate, furnace gate and tundish gate refractories, refractories for purging in the ladle, precast refractories, monolithics and castables, tube changer mechanisms for slab caster, foundry ceramics namely foundry ceramic filters, feeders, silicon carbide chill plates and monoblock stoppers for foundry industry.

The company made its first overseas acquisition way back in September 2005 and thereafter it has done three more acquisitions, latest being in 2010 of our US company. In September 2005, IFGL acquired Monocon Group with production facilities in the Brazil, China, UK, USA and Taiwan. The group produces Tundish Spraying Mass, Refractory Dart, Monolithic Lances, Robotics for EAF, Ladle and Tundish lining maintenance, Monolithics for EAF, Ladle and Tundish. The company is now an Indian multinational and has 8 manufacturing facility as mentioned across UK, US, China, Germany and India. It has a distribution network spread over more than 50 countries and in the steel sector, it has working relationship with all the major global OEMs. IFGL is present in more than 50% of the global steel producing countries. Its major customers would include Arcelor Mittal, Gerdau group, Nucor group of US, Hyundai steel, Tata worldwide and various others.

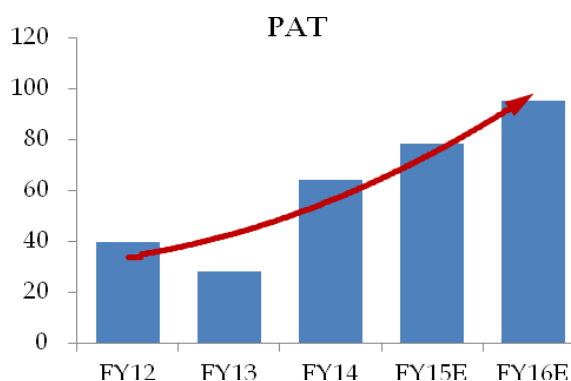
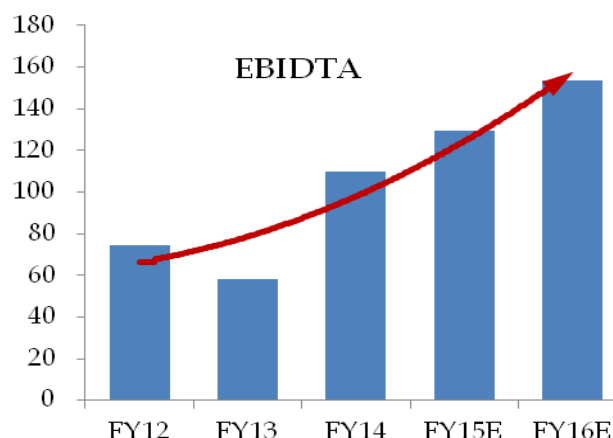
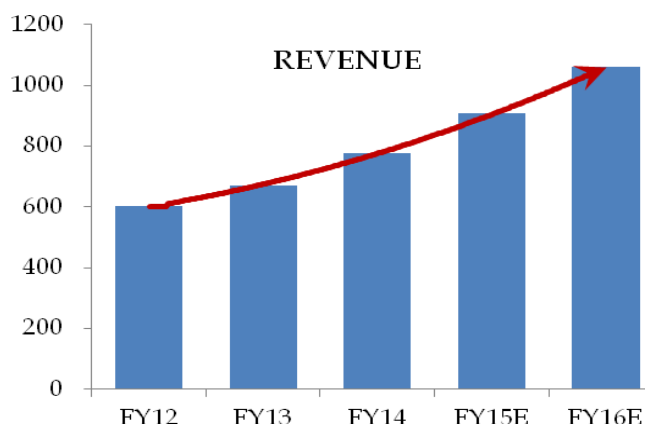
IFGL's subsidiary is IFGL Exports Limited - also engaged in manufacture of Continuous Casting Refractories at new area of Kandla Special Economic Zone, in the state of Gujarat (India). The company is also into manufacturing of bioceramic products for dentistry, orthopedic and ophthalmic segments as per the knowhow of CSIR Laboratories. This division is in nascent stage and is being nurtured further.

Revenues from various geographies FY14



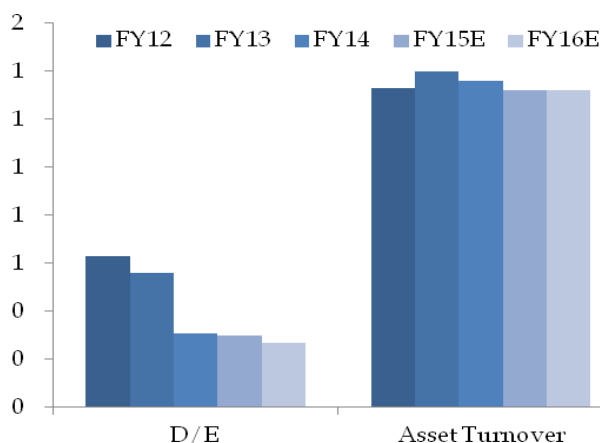
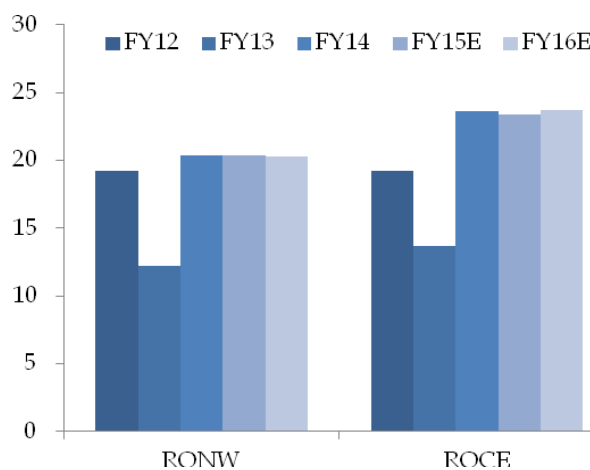
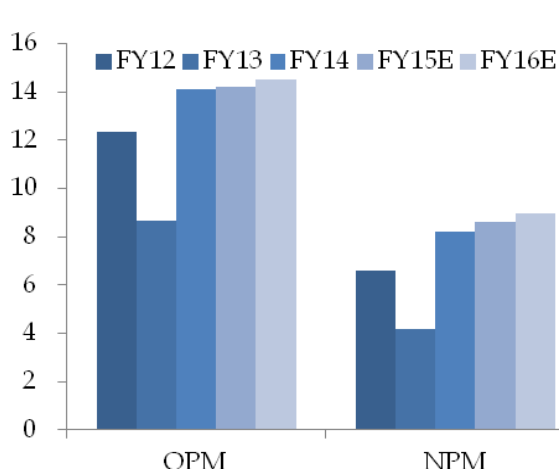
## Robust financial performance

IFGL Refractories has registered with excellent financials for the year ended March 2014. Net sales grew by about 16% at Rs. 777.64 crores from Rs.671.18 crores in FY13. Operating profit shoot up sharply by about 88% at Rs. 110 crores from Rs.58.20 crores a year ago. Net profit zoomed at Rs.64 crores as compared to Rs. 28.21 crores; depicting a growth of ~134%. EPS stood at Rs.18.25. Operating profit margins expanded sharply by 543 bps at 14.10% from 8.67% in FY13. Net profit margin too climbed sharply by 403 bps at 8.23% vs 4.20% last year. Company's export sales have increased by more than 20%. It is an all round good performance by the company including subsidiary companies helped by rationalization of raw material and major expenses together with more efficient management of working capital. The return to profit of the Kandla and cost rationalization measure across the company helped boost profits. During the FY14, subsidiaries of the company, particularly in UK and USA, performed strong. Total income and profit after tax of overseas operation increased by Rs.69 crores (18.1%) and Rs.24.4 crores (175.2%) respectively compared to that of the previous year. Indian subsidiary, IFGL Exports Ltd., also performed satisfactorily in as much as total income increased by Rs.30.9 crores (338.7%). The company has stabilized the production during the year there in this facility which has been very crucial and time consuming.



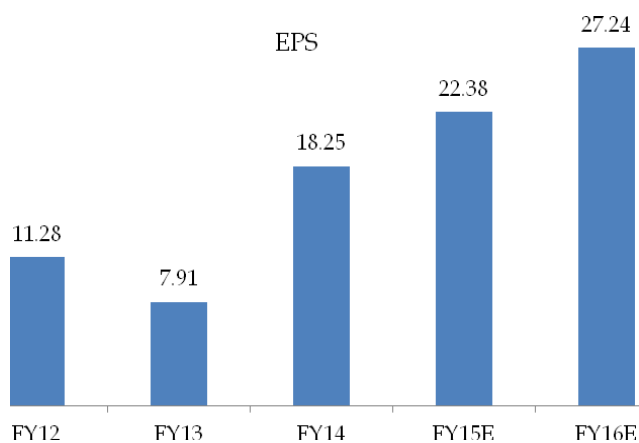
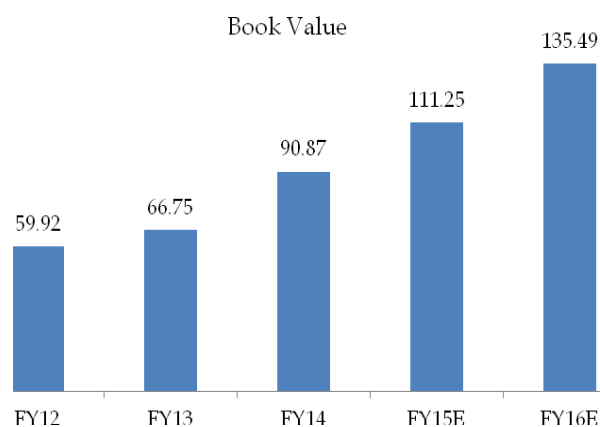
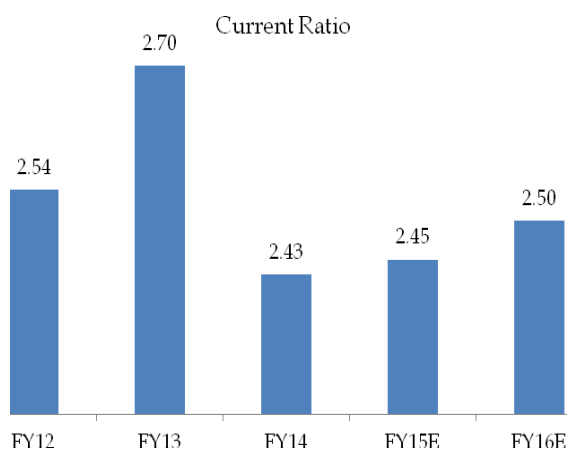
## Firm growth ahead

With the company's strong presence in the various developed markets in Europe, America and other markets and with fully established product, the company's management is confident to grow at much faster pace. The company can have 20%-30% revenue increase without going for capacity expansion and it can be slightly more as well. The company plans to maintain the current revenue and margin growth in the coming year. Further, there would be incremental revenue of about 50-60 crores from Gujarat and \$15 million from US. Currently, only about 20% of consolidated sales constitute Indian sales but going ahead the company plans to increase it substantially with political stability coming in, commissioning of steel capacities with big metal players like Steel Authority of India (SAIL) and with increased thrust on infrastructure. The company also plans to enter new markets with new products and technologies. It will also focus on inorganic growth through acquisitions going forward. The company has no plans to increase its debt to fund its expansion plans, in fact it sees a debt repayment on a ongoing process.



## Capacity expansion

IFGL Refractories has chalked out a plan to double capacity at Kandla in Gujarat and Ohio in the US, which it owns through a wholly-owned subsidiary to meet the growing demand of its products. Both the facilities produce continuous casting refractories, used mainly in steel plants. The expansion will cost an estimated \$2 million (a little over Rs.12 crores) and will be funded through internal accruals. The project is scheduled to be initiated this year. The capacity of the Kandla unit will stand at approx 1,44,000 pieces a year and it is expected to commission by March 2015. The annual capacity at the Ohio facility will touch 1,80,000 units. The Gujarat plant capacity will be further increased in another 2 years' time. In effect it will triple the capacities from the current to reach to the full planned capacities. Subsidiaries in the US which is EI ceramics and the Indian subsidiaries are taking steps to expand their production capacities. Efforts are being made towards further improving operations of the other facilities as well. The maintenance Capex is estimated to be at about Rs.10-15 crores on the global basis.



## Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Net sales	603.85	671.18	777.64	909.84	1059.96
Growth		11.15%	15.86%	17.00%	16.50%
Expenditure	529.28	612.99	668.00	780.64	906.27
EBITDA	74.57	58.20	109.64	129.20	153.69
Growth		-21.96%	88.39%	17.84%	18.96%
EBITDA margin	12.35%	8.67%	14.10%	14.20%	14.50%
Other income	3.25	4.48	3.36	4.55	5.30
Depreciation & Amortisation	12.91	13.40	15.48	17.06	18.17
EBIT	64.91	49.27	97.52	116.69	140.82
EBIT margin	10.75%	7.34%	12.54%	12.82%	13.29%
Interest	6.75	7.95	6.95	7.96	8.73
PBT	58.16	41.32	90.57	108.73	132.09
Tax	18.33	15.95	24.80	30.44	36.99
PAT	39.83	25.37	65.77	78.28	95.11
Minority interest	(0.04)	-2.84	1.76	0.00	0.00
Share of profits in Associates	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	39.87	28.21	64.01	78.28	95.11
Growth		29.24	126.89	22.30	21.49
Net Profit margins	6.60	4.20	8.23	8.60	8.97
Exceptional item	0.00	0.00	0.00	0.00	0.00
Reported PAT	39.87	28.21	64.01	78.28	95.11
Equity Capital	34.61	34.61	34.61	34.61	34.61
Res. & Surplus	172.78	196.41	279.88	350.44	434.34
Equity Shares	3.46	3.46	3.46	3.46	3.46
Adjusted EPS	11.28	7.91	18.25	22.38	27.24

## Ratios

Particulars	FY12	FY13	FY14	FY15E	FY16E
Return on Equity	19.22	12.21	20.35	20.33	20.28
Debt/Equity	0.63	0.56	0.31	0.30	0.27
Asset turnover	1.33	1.40	1.36	1.32	1.32
Current Ratio	2.54	2.70	2.43	2.45	2.50
Book value per share	59.92	66.75	90.87	111.25	135.49

## Balance Sheet

Rs. Crore

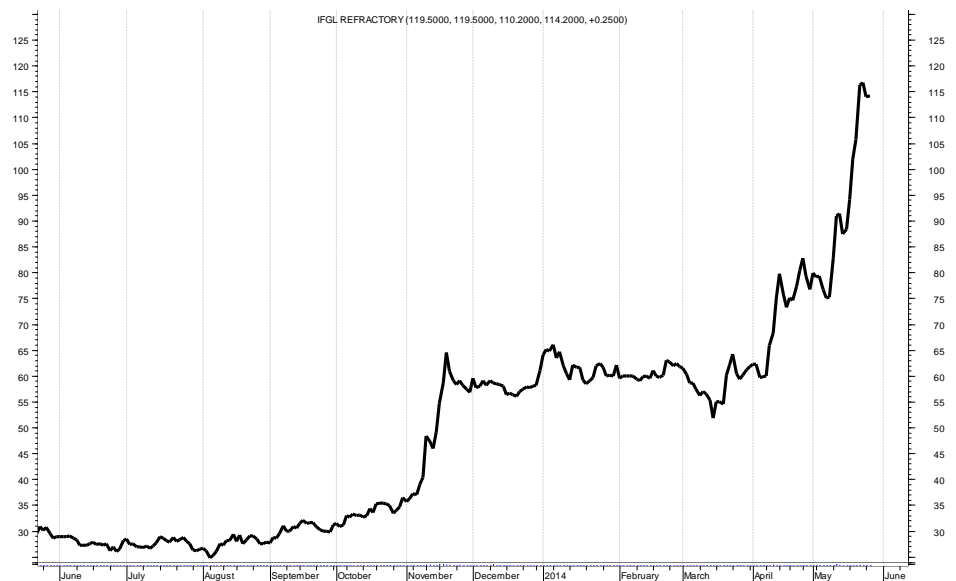
Particulars	FY12	FY13	FY14	FY15E	FY16E
Share Capital	34.61	34.61	34.61	34.61	34.61
Reserves & Surplus	172.78	196.41	279.88	350.44	434.34
Shareholders funds	207.40	231.02	314.49	385.05	468.95
Preference shares	14.50	14.50	14.50	14.50	14.50
Borrowings	130.32	128.70	98.22	113.73	124.70
Deferred tax liability	4.83	6.49	7.38	7.38	7.38
Minority Interest	6.98	7.83	9.48	9.48	9.48
<b>Sources of funds</b>	<b>364.03</b>	<b>388.54</b>	<b>444.07</b>	<b>530.14</b>	<b>625.01</b>
Gross block	223.82	247.40	267.59	293.50	311.75
Accumulated Depreciation	112.17	127.56	143.04	160.10	168.83
Net block	111.66	119.84	124.55	133.40	142.92
Capital work in progress	4.54	2.04	0.00	2.94	11.97
Investments	0.50	0.50	0.50	12.55	24.32
Deffered tax assets	0.00	0.00	0.00	0.00	0.00
Goodwill on consolidation	109.39	110.55	134.21	146.75	174.58
Inventories	85.46	84.80	103.40	130.75	149.17
Sundry debtors	113.41	142.68	165.82	210.00	239.58
Cash and bank balance	19.48	11.33	30.66	39.62	45.20
Other current assets	5.61	3.13	3.80	3.96	4.52
Loans and advances	3.83	5.14	10.74	11.89	13.56
Total current assets	227.79	247.08	314.42	396.23	452.04
Current liabilities and provisions	89.85	91.46	129.61	161.72	180.82
Net current assets	137.95	155.61	184.81	234.50	271.22
Misc exp	0.00	0.00	0.00	0.00	0.00
<b>Uses of funds</b>	<b>364.03</b>	<b>388.54</b>	<b>444.07</b>	<b>530.14</b>	<b>625.01</b>

## Quarterly Financial Highlights

Rs. Crore

Particulars	Q4FY14	Q4FY13	Q3FY14	YoY%	QoQ%
Revenues	200.33	164.05	194.74	22.12	2.87
Expenditures	172.11	155.13	167.51	10.95	2.75
Operating Profit	28.22	8.92	27.23	216.37	3.64
Adjusted Net Profit	15.75	2.16	14.26	629.17	10.45
OPM%	14.09	5.44	13.98	159.00	0.79
NPM %	7.86	1.32	7.32	495.45	7.37
Adjusted EPS	4.55	0.62	4.12	633.87	10.44

## Past Price movement of the stock





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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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